DELTA AIR LINES INC /DE/
Form S-4
May 21, 2008
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As filed with the Securities and Exchange Commission on May 20, 2008

Registration No. 333-

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form S-4

REGISTRATION STATEMENT

UNDER

THE SECURITIES ACT OF 1933

DELTA AIR LINES, INC.

(Exact name of registrant as specified in its charter)

Delaware	**4512**	**58-0218548**
(State or other jurisdiction of	**(Primary Standard Industrial**	**(I.R.S. Employer**

incorporation or organization)	Classification Code Number)	Identification No.)

1040 DELTA BOULEVARD

ATLANTA, GEORGIA 30354

(404) 715-2600

(Address, including zip code, and telephone number, including area code, of Registrant s principal executive offices)

KENNETH F. KHOURY, ESQ.

EXECUTIVE VICE PRESIDENT GENERAL COUNSEL

DELTA AIR LINES, INC.

POST OFFICE BOX 20706

ATLANTA, GEORGIA 30320-6001

(404) 715-2191

(Name, address, including zip code, and telephone number, including area code, of agent for service)

WITH COPIES TO:

STEPHANIE J. SELIGMAN, ESQ.	MICHAEL L. MILLER, ESQ.	WILSON S. NEELY, ESQ.
LAWRENCE S. MAKOW, ESQ.	VICE PRESIDENT	ANDREW W. SMITH, ESQ.
WACHTELL, LIPTON, ROSEN & KATZ	LAW & SECRETARY	SIMPSON THACHER & BARTLETT LLP
51 WEST 52ND STREET	NORTHWEST AIRLINES CORPORATION	425 LEXINGTON AVENUE
NEW YORK, NEW YORK 10019	2700 LONE OAK PARKWAY	NEW YORK, NEW YORK 10017
(212) 403-1000	EAGAN, MINNESOTA 55121	(212) 455-2000
	(612) 726-7135	

Approximate date of commencement of proposed sale to the public: As soon as practicable after the effectiveness of this Registration Statement and the effective time of the merger of Nautilus Merger Corporation, a direct, wholly-owned subsidiary of the Registrant, with and into Northwest Airlines Corporation, as described in the Agreement and Plan of Merger, dated as of April 14, 2008, included as Appendix A to the joint proxy statement/prospectus forming a part of this Registration Statement.

If the securities being registered on this Form are being offered in connection with the formation of a holding company and there is compliance with General Instruction G, check the following box. ¨

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer x	Accelerated filer ¨	Non accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company ¨

CALCULATION OF REGISTRATION FEE

Title of each Class of Securities to be Registered	Amount to be Registered (1)	Proposed Maximum Offering Price Per Share	Proposed Maximum Aggregate Offering Price (2)	Amount of Registration Fee (2)
Common Stock, par value $0.0001 per share	354,402,918	N/A	$2,348,982,537.19	$92,315.01

(1) The maximum number of shares of Delta common stock estimated to be issuable upon the completion of the merger described herein, including in respect of (i) shares of Northwest common stock to be issued pursuant to the reserve created under Northwest s plan of reorganization under Chapter 11 of the U.S. Bankruptcy Code and (ii) shares of Northwest common stock issuable upon the exercise of options and other stock-based awards with respect to Northwest common stock that will be converted into options and other stock-based awards with respect to Delta common stock.

(2) Estimated solely for purposes of calculating the registration fee required by Section 6(b) of the Securities Act, and calculated pursuant to Rules 457(f)(1) and 457(c) under the Securities Act, the proposed maximum aggregate offering price of the registrant s common stock was calculated based upon the market value of shares of Northwest common stock (the securities to be cancelled in the merger) in accordance with Rule 457(c) under the Securities Act as follows: the product of (1) $8.29, the average of the high and low prices per share of Northwest common stock on May 19, 2008, as quoted on the New York Stock Exchange, multiplied by (2) 283,522,334, the maximum number of shares of Northwest common stock which may be exchanged in the merger.

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the Registration Statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to Section 8(a), may determine.

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PRELIMINARY SUBJECT TO COMPLETION DATED May 20, 2008

Information contained herein is subject to completion or amendment. A registration statement relating to these securities has been filed with the Securities and Exchange Commission. These securities may not be sold nor may offers to buy be accepted prior to the time the registration statement becomes effective. This document shall not constitute an offer to sell or the solicitation of any offer to buy nor shall there be any sale of these securities in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such jurisdiction.

MERGER PROPOSED YOUR VOTE IS VERY IMPORTANT

Delta Air Lines, Inc. and Northwest Airlines Corporation entered into a merger agreement on April 14, 2008 under which they have agreed to a merger of a subsidiary of Delta with and into Northwest. As a result of the merger, Northwest will become a wholly-owned subsidiary of Delta. The boards of directors of Delta and Northwest are proposing the combination because they believe it will provide substantial benefits to the stockholders of both companies.

If the merger is completed, Northwest stockholders will have the right to receive 1.25 shares of Delta common stock for each share of Northwest common stock they hold. This exchange ratio is fixed and will not be adjusted to reflect stock price changes prior to closing of the merger. Based on the closing price of Delta common stock on the New York Stock Exchange (trading symbol DAL) on April 14, 2008, the last trading day before public announcement of the merger, the 1.25 exchange ratio represented approximately $13.10 in value for each share of Northwest common stock. Based on the closing price of Delta common stock on the New York Stock Exchange on , 2008, the latest practicable date before the date of this document, the 1.25 exchange ratio represented approximately $. in value for each share of Northwest common stock. Delta stockholders will continue to own their existing Delta shares after completion of the merger. **We urge you to obtain current market quotations of Delta and Northwest common stock.**

We intend for the merger to qualify as a reorganization for U.S. federal income tax purposes. Accordingly, Northwest stockholders are not expected to recognize any gain or loss for U.S. federal income tax purposes on the exchange of shares of Northwest common stock for Delta common stock in the merger, except with respect to any cash received in lieu of fractional shares of Delta common stock.

In connection with the merger, Delta also intends to issue to employees of the combined company shares of Delta common stock in an amount up to % of the fully-diluted shares outstanding of the combined company. We refer to this distribution as the employee equity issuance. To enable Delta to implement the employee equity issuance, Delta must amend its existing broad-based 2007 Performance Compensation Plan to increase the number of shares issuable under the plan.

At the special meeting of Delta stockholders, Delta stockholders will be asked to vote on the issuance of Delta common stock to Northwest stockholders in the merger and on the amendment to the Delta 2007 Performance Compensation Plan. Each of these proposals requires the affirmative vote of holders of a majority of the shares of Delta common stock present or represented and entitled to vote on the proposal, with holders of a majority of the total number of shares of Delta common stock entitled to vote actually voting on each proposal. While the closing of the merger is not conditioned upon approval of the amendment to the Delta 2007 Performance Compensation Plan, failure to approve this amendment could affect the ability of the combined company to achieve the expected synergies in the expected timeframe.

At the annual meeting of Northwest stockholders, Northwest stockholders will be asked to vote on the adoption of the merger agreement, as well as to elect directors of Northwest, to ratify the appointment of Northwest s independent auditor for 2008, to approve an amendment to the Northwest Airlines Corporation 2007 Stock Incentive Plan, which we refer to as the Northwest 2007 Stock Incentive Plan, and to transact such other business as may properly come before the Northwest annual meeting. In order to complete the merger, an affirmative vote of holders of a majority of the outstanding shares of Northwest common stock entitled to vote on the proposal must vote to adopt the merger agreement. Approval of the other Northwest annual meeting matters is not a condition to the merger.

The Delta board of directors unanimously recommends that Delta stockholders vote FOR the proposal to issue Delta shares in the merger and FOR the proposal to amend the Delta 2007 Performance Compensation Plan.

The Northwest board of directors unanimously recommends that Northwest stockholders vote FOR the proposal to adopt the merger agreement and FOR the other Northwest proposals described in this joint proxy statement/prospectus.

The obligations of Delta and Northwest to complete the merger are subject to several conditions set forth in the merger agreement. More information about Delta, Northwest, our respective meetings, the merger, the amendment to the 2007 Delta Performance Compensation Plan and the amendment to the Northwest 2007 Stock Incentive Plan and the other proposals for consideration at the Northwest annual meeting is contained in this joint proxy statement/prospectus. **Delta and Northwest encourage you to read this entire joint proxy statement/prospectus carefully, including the section entitled Risk Factors beginning on page 18.**

Sincerely,

Richard H. Anderson
Chief Executive Officer
Delta Air Lines, Inc.

Sincerely,

Douglas M. Steenland
Chief Executive Officer
Northwest Airlines Corporation

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of the securities to be issued under this joint proxy statement/prospectus or determined that this joint proxy statement/prospectus is accurate or complete. Any representation to the contrary is a criminal offense.

This joint proxy statement/prospectus is dated , 2008 and is first being mailed to the stockholders of Delta and Northwest on or about , 2008.

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Delta Air Lines, Inc.

P.O. Box 20706

Atlanta, Georgia 30320-6001

(404) 715-2191

NOTICE OF SPECIAL MEETING OF STOCKHOLDERS

To Be Held on , 2008

To the Stockholders of Delta Air Lines, Inc.:

We are pleased to invite you to attend the special meeting of stockholders of Delta Air Lines, Inc., a Delaware corporation, which will be held at the on , 2008 at : a.m., local time, for the following purposes:

- to consider and vote on a proposal to approve the issuance of Delta common stock, par value $0.0001 per share, in the merger contemplated by the Agreement and Plan of Merger, dated as of April 14, 2008, by and among Delta, Nautilus Merger Corporation, a direct, wholly-owned subsidiary of Delta, and Northwest Airlines Corporation, a copy of which is attached as Appendix A to the joint proxy statement/prospectus accompanying this notice;

- to consider and vote on a proposal to approve an amendment to the Delta 2007 Performance Compensation Plan to increase the number of shares of Delta common stock, par value $0.0001 per share, issuable under the plan by a number of shares equal to % of the fully-diluted shares outstanding of Delta (after giving effect to the shares of Delta common stock issued in connection with the merger), as described in the joint proxy statement/prospectus accompanying this notice beginning on page 84; and

- to vote upon an adjournment of the Delta special meeting, if necessary or appropriate, to solicit additional proxies if there are not sufficient votes to approve each of the foregoing proposals.

Please refer to the attached joint proxy statement/prospectus for further information with respect to the business to be transacted at the Delta special meeting.

The Delta board of directors has fixed the close of business on , 2008 as the record date for determination of the Delta stockholders entitled to receive notice of, and to vote at, the Delta special meeting or any adjournments or postponements thereof. Only holders of record of Delta common stock at the close of business on the record date are entitled to receive notice of, and to vote at, the Delta special meeting. Both the issuance of Delta common stock to Northwest stockholders in the merger and the amendment to the Delta 2007 Performance Compensation Plan require the affirmative vote of holders of a majority of the shares of Delta common stock present or represented and entitled to vote on the proposal, with holders of a majority of the total number of shares of Delta common stock entitled to vote actually voting on each proposal. A list of the names of Delta stockholders of record will be available at the Delta special meeting and for ten days prior thereof for any purpose germane to the Delta special meeting between the hours of 9:00 a.m. and 5:00 p.m., Eastern time, at Delta s Investor Relations Department, 1030 Delta Boulevard, Atlanta, Georgia 30354.

Your vote is important. Whether or not you expect to attend in person, we urge you to vote your shares as promptly as possible by (1) accessing the Internet website specified on your proxy card; (2) calling the toll-free number specified on your proxy card; or (3) signing and returning the enclosed proxy card in the postage-paid envelope provided, so that your shares may be represented and voted at the Delta special meeting. If your shares are held in a Delta plan or in the name of a bank, broker or other fiduciary, please follow the instructions on the voting instruction card furnished by the plan trustee or administrator, or record holder, as appropriate.

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The enclosed document provides a detailed description of the merger, the merger agreement and the amendment to the Delta 2007 Performance Compensation Plan. We urge you to read this document, including any documents incorporated in the document by reference, and its appendices carefully and in their entirety. If you have any questions concerning the merger or this document, would like additional copies of this document or need help voting your shares of Delta common stock, please contact Delta s proxy solicitor:

D.F. King & Co., Inc.

48 Wall Street

New York, NY 10005

(800) 487-4870

The Delta board of directors unanimously recommends that Delta stockholders vote FOR the proposal to approve the issuance of Delta common stock in the merger and FOR the proposal to amend the Delta 2007 Performance Compensation Plan.

By Order of the Board of Directors,

Leslie P. Klemperer
Secretary

Atlanta, Georgia

, 2008

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Northwest Airlines Corporation

2700 Lone Oak Parkway

Eagan, Minnesota 55121

(612) 726-2111

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

To Be Held on , 2008

To the Stockholders of Northwest Airlines Corporation:

We are pleased to invite you to attend the annual meeting of stockholders of Northwest Airlines Corporation, a Delaware corporation, which will be held at the on , 2008 at : a.m., local time, for the following purposes:

to consider and vote on a proposal to adopt the Agreement and Plan of Merger, dated as of April 14, 2008, by and among Delta Air Lines, Inc., Nautilus Merger Corporation, a direct, wholly-owned subsidiary of Delta, and Northwest, a copy of which is attached as Appendix A to the joint proxy statement/prospectus accompanying this notice;

to elect twelve directors to hold office until the 2009 Annual Meeting of Stockholders and until their respective successors have been elected and qualified, or if the merger is completed, until the effective time of the merger;

to ratify the appointment of Ernst & Young LLP as Northwest s independent registered public accounting firm for the fiscal year ending December 31, 2008;

to approve an amendment to the Northwest Airlines Corporation 2007 Stock Incentive Plan;

to vote upon an adjournment of the Northwest annual meeting, if necessary or appropriate, to solicit additional proxies if there are not sufficient votes to approve each of the foregoing proposals; and

to transact such other business as may properly come before the Northwest annual meeting or any adjournment or postponement thereof.

Please refer to the attached joint proxy statement/prospectus for further information with respect to the business to be transacted at the Northwest annual meeting.

The Northwest board of directors has fixed the close of business on , 2008 as the record date for determination of the Northwest stockholders entitled to receive notice of, and to vote at, the Northwest annual meeting or any adjournments or postponements thereof. Only holders of record of Northwest common stock at the close of business on the record date are entitled to receive notice of, and to vote at, the Northwest annual meeting. Adoption of the Agreement and Plan of Merger requires the affirmative vote of holders of a majority of the outstanding shares of Northwest common stock entitled to vote on the proposal. Approval of the other Northwest annual meeting matters is not a condition to the merger. A list of the names of Northwest stockholders of record will be available at the Northwest annual meeting and for ten days prior thereof for any purpose germane to the Northwest annual meeting between the hours of 9:00 a.m. and 5:00 p.m., Eastern time, at our headquarters, 2700 Lone Oak Parkway, Eagan, Minnesota 55121. To obtain directions to the Northwest annual meeting, you many contact Investor Relations at the address just listed, or by telephone at (612) 726-2111.

Your vote is important. Whether or not you expect to attend in person, we urge you to vote your shares as promptly as possible by (1) accessing the Internet website specified below and on your proxy card; (2) calling the toll-free number specified on your proxy card; or (3) signing and returning the enclosed proxy card in the postage-paid envelope provided, so that your shares may be represented and voted at the Northwest annual meeting. If your shares are held in the name of a bank, broker or other fiduciary, please follow the instructions on the voting instruction card furnished by the record holder.

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The enclosed document provides a detailed description of the merger, the merger agreement and the other matters to be considered at the Northwest annual meeting. We urge you to read this document, including any documents incorporated in the document by reference, and its appendices carefully and in their entirety. If you have any questions concerning the merger, the other annual meeting matters or this document, would like additional copies of this document or need help voting your shares of Northwest common stock, please contact Northwest s proxy solicitor:

Innisfree M&A Incorporated

501 Madison Avenue, 20th Floor

New York, NY 10022

(212) 750-5833

The Northwest board of directors unanimously recommends that Northwest stockholders vote FOR the proposal to adopt the merger agreement at the Northwest annual meeting and FOR the other Northwest proposals described in this joint proxy statement/prospectus.

By Order of the Board of Directors,

Michael L. Miller
Vice President Law and Secretary

Eagan, Minnesota

, 2008

NOTICE OF INTERNET AVAILABILITY OF PROXY MATERIALS

Important Notice Regarding the Availability of Proxy Materials for the

Stockholder Meeting to be Held on , 2008

Pursuant to new rules promulgated by the Securities and Exchange Commission, Northwest has elected to provide access to these joint proxy statement/prospectus materials and the Northwest 2007 Annual Report both by sending you the Northwest 2007 Annual Report and this full set of joint proxy statement/prospectus materials, including a Northwest proxy card, and by notifying you of the availability of such materials on the Internet.

This joint proxy statement/prospectus and the Northwest 2007 Annual Report are available at *http://www.* .

For (i) the date, time, location and information on how to obtain directions to attend the Northwest annual meeting and (ii) an identification of the matters to be voted upon at the Northwest annual meeting and the Northwest board of director s recommendations regarding those matters, please see the information contained in the Notice of Annual Meeting of Stockholders above. For information on how to vote in person at the Northwest annual meeting, please see the sections entitled Questions and Answers About Voting Procedures for the Meetings and The Northwest Annual Meeting below.

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REFERENCES TO ADDITIONAL INFORMATION

This document incorporates important business and financial information about Delta and Northwest from other documents that are not included in or delivered with this document. This information is available to you without charge upon your request. You can obtain the documents incorporated by reference into this document by requesting them in writing or by telephone from the appropriate company at the following addresses and telephone numbers:

Delta Air Lines, Inc.	**Northwest Airlines Corporation**
Post Office Box 20706	2700 Lone Oak Parkway
Dept. No. 829	Eagan, Minnesota 55121
Atlanta, Georgia 30320-6001	(612) 726-2111
(866) 715-2170	Attn: Investor Relations
Attn: Investor Relations	
Or	Or
D.F. King & Co., Inc.	Innisfree M&A Incorporated
48 Wall Street	501 Madison Avenue, 20th Floor
New York, NY 10005	New York, NY 10022
(800) 487-4870	(212) 750-5833

Investors may also consult Delta s or Northwest s websites for more information concerning the merger described in this document. Delta s website is *www.delta.com*. Northwest s website is *www.nwa.com*. In addition, Delta and Northwest have created a website at *www.newglobalairline.com* with information about the merger. Information included on any of these websites is not incorporated by reference into this document.

If you would like to request any documents, please do so by , 2008 in order to receive them before the meetings.

For more information, see Where You Can Find More Information beginning on page 166.

You should rely only on the information contained or incorporated by reference into this document. No one has been authorized to provide you with information that is different from that contained in, or incorporated by reference into, this document. This document is dated , 2008. You should not assume that the information contained in, or incorporated by reference into, this document is accurate as of any date other than that date. Neither the mailing of this document to Delta stockholders or Northwest stockholders, the issuance by Delta of Delta common stock in connection with the merger nor the amendment to the Delta 2007 Performance Compensation Plan will create any implication to the contrary.

This document does not constitute an offer to sell, or a solicitation of an offer to buy, any securities, or the solicitation of a proxy, in any jurisdiction to or from any person to whom it is unlawful to make any such offer or solicitation in such jurisdiction. Information contained in this document regarding Delta has been provided by Delta and information contained in this document regarding Northwest has been provided by Northwest.

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QUESTIONS AND ANSWERS ABOUT VOTING PROCEDURES FOR THE MEETINGS

The following are some questions that you, as a stockholder of Delta or Northwest, may have regarding the merger and the other matters being considered at the stockholders meetings and the answers to those questions. Delta and Northwest urge you to read carefully the remainder of this document because the information in this section does not provide all the information that might be important to you with respect to the merger, the amendment to the Delta 2007 Performance Compensation Plan and the other matters being considered at the stockholders meetings. Additional important information is also contained in the appendices to and the documents incorporated by reference in this document.

Q: Why am I receiving this document and proxy or voting instruction card?

A: Delta and Northwest have agreed to the combination of Northwest with Delta under the terms of a merger agreement that is described in this document. A copy of the merger agreement is attached to this document as Appendix A. In order to complete the merger, Delta stockholders must vote to approve the issuance of shares of Delta common stock to Northwest stockholders in the merger, and Northwest stockholders must vote to adopt the merger agreement.

Additionally, Delta is seeking approval to amend the Delta 2007 Performance Compensation Plan to increase the number of shares of Delta common stock issuable under the plan by a number of shares equal to % of the fully-diluted shares outstanding of Delta (after giving effect to the shares of Delta common stock issued in connection with the merger). The Delta 2007 Performance Compensation Plan, as amended, governs the employee equity issuance and is described in this document beginning on page 84. In order to complete the employee equity issuance, Delta stockholders must vote to approve the amendment to the Delta 2007 Performance Compensation Plan. While the closing of the merger is not conditioned upon approval of the amendment to the Delta 2007 Performance Compensation Plan, failure to approve this amendment could affect the ability of the combined company to achieve the expected synergies in the expected timeframe.

Along with adoption of the merger agreement, Northwest is seeking to elect directors of Northwest, to ratify the appointment of Northwest s independent auditor for 2008, to approve an amendment to the Northwest 2007 Stock Incentive Plan, and to transact such other business as may properly come before the Northwest annual meeting. These other Northwest annual meeting matters are described in this document beginning on page 115. Approval of these other Northwest annual meeting matters is not a condition to the merger.

Delta and Northwest will hold separate stockholders meetings to obtain these approvals. This document, including its appendices, contains and incorporates by reference, important information about Delta and Northwest, the merger and the meetings of the respective stockholders of Delta and Northwest, and you should read all of the available information carefully. The enclosed voting materials allow you to vote your shares without attending your respective stockholders meeting.

Your vote is important. We encourage you to vote as soon as possible.

Q: When and where will the stockholders meetings be held?

A: The special meeting of Delta stockholders, which we refer to as the Delta special meeting, will be held at the on , 2008 at : a.m., local time.

The annual meeting of Northwest stockholders, which we refer to as the Northwest annual meeting, will be held at the on , 2008 at : a.m., local time.

Q: How do I attend the stockholders meetings?

A:

If you wish to attend the Delta special meeting, you will need to show that you are either a Delta stockholder as of the record date, or hold a valid proxy from a Delta stockholder:

- if your shares of Delta common stock are registered in street name, or are held in your Pilot Plan account (as described below), please bring evidence of your stock ownership, such as your most recent account statement.

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if you own unvested restricted Delta common stock, please bring your Delta identification card; Delta will have a list of holders of unvested restricted Delta common stock at the Delta special meeting.

Because space is limited, admission will be on a first-come, first-serve basis. All Delta stockholders should also bring valid picture identification; Delta employees may use their Delta identification card. If you do not have valid picture identification and proof that you own Delta common stock as of the Delta record date, you may not be admitted to the Delta special meeting.

If you wish to attend the Northwest annual meeting, you will need to show that you are either a Northwest stockholder as of the record date, or hold a valid proxy from a Northwest stockholder:

if your shares of Northwest common stock are registered in street name, or are held in your Northwest Retirement Savings Plan account (as described below), please bring evidence of your stock ownership, such as your most recent account statement.

All Northwest stockholders should also bring valid picture identification; Northwest employees may use their Northwest identification card. If you do not have valid picture identification and proof that you owned Northwest common stock as of the Northwest record date, you may not be admitted to the Northwest annual meeting.

Q: Who is entitled to vote at the stockholders meetings?

A: The record date for the Delta special meeting is , 2008. Only holders of shares of Delta common stock as of the close of business on the record date are entitled to notice of, and to vote at, the Delta special meeting or any adjournment or postponement of the Delta special meeting. As of the record date, there were approximately shares of Delta common stock outstanding and entitled to vote at the Delta special meeting.

The record date for the Northwest annual meeting is , 2008. Only holders of shares of Northwest common stock as of the close of business on the record date are entitled to notice of, and to vote at, the Northwest annual meeting or any adjournment or postponement of the Northwest annual meeting. As of the record date, there were approximately shares of Northwest common stock outstanding and entitled to vote at the Northwest annual meeting.

Q: What constitutes a quorum for the stockholders meeting?

A: The presence, in person or by proxy, of holders of shares of Delta common stock or Northwest common stock, as applicable, entitled to cast a majority of the votes entitled to be cast at the Delta special meeting or Northwest annual meeting, as applicable, is necessary to constitute a quorum at each meeting. Abstentions and broker non-votes, if any, which are described below, will be treated as present for the purposes of determining the presence or absence of a quorum for each meeting.

Q: How do I vote if I am a stockholder of record?

A: If you are a stockholder of record of Delta as of the record date for the Delta special meeting or a stockholder of record of Northwest as of the record date for the Northwest annual meeting, you may vote in person by attending your stockholders meeting or, to ensure your shares are represented at the meeting, you may vote by:

accessing the Internet website specified on your proxy card;

calling the toll-free number specified on your proxy card; or

signing and returning the enclosed proxy card in the postage-paid envelope provided.

Proxies regarding registered shares of Delta common stock must be received by 5:00 p.m., Eastern time, on , 2008.

Proxies regarding registered shares of Northwest common stock must be received by 5:00 p.m., Eastern time, on , 2008.

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If you hold shares of Delta common stock or Northwest common stock in the name of a bank or broker, please follow the voting instructions provided by your bank or broker to ensure that your shares are represented at your stockholders meeting.

Q: How do I vote shares held in Delta Plans?

A: If you are a participant in the Delta Pilots Savings Plan, which we refer to as the Pilot Plan, and have shares of Delta common stock allocated to your account under the Pilot Plan or own shares of unvested restricted Delta common stock granted under the Delta 2007 Performance Compensation Plan, you will receive a voting instruction card representing these shares of Delta common stock. Your submission of voting instructions will instruct the trustee of the Pilot Plan or the administrator of the Delta 2007 Performance Compensation Plan, as applicable, how to vote those shares, but it will not result in the appointment of a proxy. You may deliver voting instructions for these shares of Delta common stock by:

accessing the Internet website specified on your voting instruction card;

calling the toll-free number specified on your voting instruction card; or

signing and returning the enclosed voting instruction card in the postage-paid envelope provided.

To be effective, instructions regarding shares of Delta common stock held in the Pilot Plan account must be received by 5:00 p.m., Eastern time, on , 2008. Instructions regarding unvested restricted stock must be received by 5:00 p.m., Eastern time, on , 2008. Please note that you may not vote shares held in your Pilot Plan account or shares of unvested restricted Delta common stock in person at the meeting. If you do not submit voting instructions regarding these shares, they will not be voted.

Q: How do I vote shares held in the Northwest Retirement Savings Plan?

A: Participants in the Northwest Retirement Savings Plan who have shares of Northwest common stock allocated to their account are entitled to provide voting instructions on each proposal to be voted on at the Northwest annual meeting with respect to shares of Northwest common stock allocated to their account. Any allocated shares of Northwest common stock held in the Northwest Retirement Savings Plan for which participant voting instructions are not timely received by the trustee will be voted by the trustee in the same proportion as the shares for which voting instructions have been received. Participants may provide voting instructions either on the internet or by mail. If you choose to provide voting instructions on the internet, follow the procedures and instructions on your enclosed voting instruction card. If you choose to provide voting instructions by mail, simply mark your enclosed voting instruction card, date and sign it, and return it in the postage paid envelope provided. The trustee under the Northwest Retirement Savings Plan will vote the shares of Northwest common stock allocated to a participant s account in accordance with the participant s instructions timely received. The deadline for providing voting instructions is 5:00 p.m., Eastern time, on , 2008.

Q: If my shares are held in street name by my broker, will my broker vote my shares for me?

A: If you hold your shares in a stock brokerage account or if your shares are held by a bank or nominee (that is, in street name), you must provide the record holder of your shares with instructions on how to vote your shares. Please follow the voting instructions provided by your bank or broker. Please note that you may not vote shares held in street name by returning a proxy card directly to Delta or Northwest or by voting in person at your stockholders meeting unless you provide a legal proxy, which you must obtain from your bank or broker.

Under the listing requirements of the New York Stock Exchange, which we refer to as the NYSE, brokers who hold shares in street name for a beneficial owner of those shares typically have the authority to vote in their discretion on routine proposals when they have not received instructions from beneficial owners. However, brokers are not allowed to exercise their voting discretion with respect to the approval of matters that the NYSE determines to be non-routine, such as approval of the issuance of shares of Delta common stock pursuant to the merger agreement, the approval of the amendment to the Delta 2007 Performance

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Compensation Plan, the adoption of the merger agreement by Northwest stockholders or the approval of the amendment to the Northwest 2007 Stock Incentive Plan, without specific instructions from the beneficial owner. Broker non-votes are shares held by a broker or nominee that are represented at the stockholders meetings, but with respect to which the broker or nominee is not instructed by the beneficial owner of such shares to vote on the particular proposal and the broker does not have discretionary voting power on such proposal.

If you are a Delta stockholder and you do not instruct your broker on how to vote your shares:

- your broker may not vote your shares on the proposal to approve the issuance of shares of Delta common stock in the merger, which will have no effect on the vote on this proposal, assuming a quorum is present and a majority of the shares of Delta common stock entitled to vote actually vote on the proposal; and

- your broker may not vote your shares on the proposal to approve the amendment to the Delta 2007 Performance Compensation Plan, which will have no effect on the vote on this proposal, assuming a quorum is present and a majority of the shares of Delta common stock entitled to vote actually vote on the proposal.

If you are a Northwest stockholder and you do not instruct your broker on how to vote your shares:

- your broker may not vote your shares on the proposal to adopt the merger agreement, which broker non-votes will have the same effect as votes against the proposal and against the merger;

- your broker may not vote your shares on the approval of the amendment to the Northwest 2007 Stock Incentive Plan, which broker non-votes will not count as votes for or against the proposal and will have no effect on the outcome of the proposal, assuming a majority of the outstanding shares of Northwest common stock entitled to vote are voted on the proposal; and

- your broker may vote your shares on the other Northwest annual meeting matters.

Q: What will happen if I abstain from voting or do not vote?

A: For purposes of the Delta special meeting, an abstention, which occurs when a stockholder attends the meeting, either in person or by proxy, but abstains from voting, will have the same effect as a vote against both the proposal to approve the issuance of shares of Delta common stock in the merger and the proposal to approve the amendment to the Delta 2007 Performance Compensation Plan. The failure of a Delta stockholder to vote his or her shares of Delta common stock for which he or she is the record holder or to instruct his or her broker to vote his or her shares of Delta common stock that are held in street name, may have a negative effect on Delta s ability to obtain the number of votes cast necessary for both proposals in accordance with the listing requirements of the NYSE.

For purposes of the Northwest annual meeting, an abstention, which occurs when a stockholder attends the meeting, either in person or by proxy, but abstains from voting, will have the same effect as a vote against the proposal to adopt the merger agreement and the merger. For the election of directors, ratification of the appointment of the independent auditor, and adjournment of the Northwest annual meeting, if necessary or appropriate, to solicit additional proxies if there are not sufficient votes to approve each of the Northwest proposals, an abstention or withhold vote, as applicable, will not count as a vote for or against the proposal and will have no effect on the outcome of the proposal. For approval of the amendment to the Northwest 2007 Stock Incentive Plan, under NYSE rules abstentions are considered votes cast on the proposal and thus will have the effect of a vote against the proposal. In addition, the failure of a Northwest stockholder to vote his or her shares of Northwest common stock for which he or she is the record holder or to instruct his or her broker to vote his or her shares of Northwest common stock that are held in street name may have a negative effect on Northwest s ability to obtain the number of votes cast necessary for approval of the amendment to the Northwest 2007 Stock Incentive Plan in accordance with the listing requirements of the NYSE.

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Q: What will happen if you return your proxy or voting instruction card without indicating how to vote?

A: If you sign and return your proxy or voting instruction card without indicating how to vote on any particular proposal, the Delta common stock represented by your proxy will be voted in favor of that proposal or the Northwest common stock represented by your proxy will be voted as recommended by the Northwest board of directors.

Q: Can I change my vote after I have returned a proxy or voting instruction card?

A: Yes. You can change your vote at any time before your shares are voted at your stockholders meeting. You can do this in one of three ways:

- if you are a holder of record, you can revoke your proxy at any time before your shares are voted by sending written notice to the Secretary of Delta or Northwest, as applicable, at the address set forth in the section above entitled References to Additional Information ;

- you can deliver a new, valid proxy or voting instruction card bearing a later date by submitting instructions through the Internet, by telephone or by mail as described on the proxy or voting instruction card; or

- if you are a holder of record, you can attend your stockholders meeting and vote in person, which will automatically cancel any proxy previously delivered, or you may revoke your proxy in person, but your attendance alone will not revoke any proxy that you have previously given.

If you have shares of Delta common stock allocated to your account under the Pilot Plan, revocation of instructions through the Internet, by telephone or by mail must be received by 5:00 p.m., Eastern time, on , 2008 to be effective. If you are a holder of record, or hold shares of unvested restricted Delta common stock, revocation of your proxy or voting instructions through the Internet, by telephone or by mail must be received by 5:00 p.m., Eastern time, on , 2008. As noted above, if you are a holder of record you may also revoke your proxy by attending the meeting and voting in person or revoking your proxy in person. If your shares are held in street name by your bank or broker, you should follow the instructions provided by your bank or broker to change your vote.

If you are a holder of record of your shares of Northwest common stock, revocation of your proxy or voting instructions through the Internet, by telephone or by mail must be received by 5:00 p.m., Eastern time, on , 2008. If you hold shares of Northwest common stock in a Northwest Retirement Savings Plan account, revocation of instructions through the Internet, by telephone or by mail must be received by 5:00 p.m., Eastern time, on , 2008 to be effective. If your shares are held in street name by your bank or broker, you should follow the instructions provided by your bank or broker to change your vote.

Q: Should I send in my Northwest stock certificates now?

A: No. Northwest stockholders should not send in any stock certificates now. After the merger is completed, Delta s exchange agent will send former Northwest stockholders a letter of transmittal explaining what they must do to exchange their Northwest stock certificates for the merger consideration payable to them.

If you are a Delta stockholder, you are not required to take any action with respect to your shares of Delta common stock.

Q: Who can help answer my questions?

A: Delta or Northwest stockholders who have questions about the merger or the other matters to be voted on at the stockholders meetings or desire additional copies of this document or additional proxy cards should contact:

if you are a Delta stockholder	**if you are a Northwest stockholder**
D.F. King & Co., Inc.	Innisfree M&A Incorporated
48 Wall Street	501 Madison Avenue, 20th Floor
New York, NY 10005	New York, NY 10022
(800) 487-4870	(212) 750-5833

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SUMMARY

This summary highlights selected information contained elsewhere in this document and may not contain all the information that is important to you. Delta and Northwest urge you to read carefully the remainder of this document, including the attached appendices, and the other documents to which we have referred you because this section does not provide all the information that might be important to you with respect to the merger and the other matters being considered at the applicable stockholders meeting. See also the section entitled Where You Can Find More Information beginning on page 166. We have included page references to direct you to a more complete description of the topics presented in this summary.

The Merger

A copy of the merger agreement is attached as Appendix A to this document. Delta and Northwest encourage you to read the entire merger agreement carefully because it is the principal document governing the merger. For more information on the merger agreement, see the section entitled The Merger Agreement beginning on page 67.

Form of Merger (See page 35)

Subject to the terms and conditions of the merger agreement, at the effective time of the merger, Nautilus Merger Corporation, a direct, wholly-owned subsidiary of Delta formed for the purposes of the merger, will be merged with and into Northwest. As a result, Northwest will become a direct, wholly-owned subsidiary of Delta. References in this document to the combined company are to Delta following the completion of the merger.

Consideration to be Received in the Merger (See page 35)

Northwest stockholders will have the right to receive 1.25 shares of Delta common stock for each share of Northwest common stock they hold. The exchange ratio is fixed and will not be adjusted for changes in the market value of the common stock of Northwest or Delta. Because of this, the implied value of the consideration to Northwest stockholders will fluctuate between now and the completion of the merger. Based on the closing price of Delta common stock on the NYSE, on April 14, 2008, the last trading day before public announcement of the merger, the 1.25 exchange ratio represented approximately $13.10 in value for each share of Northwest common stock. Based on the closing price of Delta common stock on the NYSE on , 2008, the latest practicable date before the date of this document, the 1.25 exchange ratio represented approximately $. in value for each share of Northwest common stock.

Material U.S. Federal Income Tax Consequences of the Merger (See page 92)

The merger has been structured to qualify as a reorganization under Section 368(a) of the Internal Revenue Code of 1986, as amended, which we refer to as the Code. Assuming the merger qualifies as such a reorganization, holders of Northwest common stock whose shares of Northwest common stock are exchanged in the merger for shares of Delta common stock will not recognize gain or loss for U.S. federal income tax purposes, except with respect to any cash received in lieu of fractional shares of Delta common stock. It is a condition to the completion of the merger that Delta and Northwest receive written opinions from their respective counsel to the effect that the merger will qualify as a reorganization under Section 368(a) of the Code. Neither Delta nor Northwest intends to waive this closing condition. In the event that either Delta or Northwest waives receipt of such opinion from its counsel, however, Delta and Northwest will resolicit the approval of its stockholders after providing appropriate disclosure.

Tax matters are very complicated, and the tax consequences of the merger to each Northwest stockholder will depend on such stockholder s particular facts and circumstances. **Northwest stockholders should consult their tax advisors to understand fully the tax consequences to them of the merger.**

Recommendations of the Boards of Directors

Delta (See page 39)

After careful consideration, the Delta board of directors unanimously approved the merger agreement and the amendment to the Delta 2007 Performance Compensation Plan. For the factors considered by the Delta board of directors in reaching its decision to approve the merger agreement, see the section entitled The Merger Delta s Reasons for the Merger; Recommendation of the Stock Issuance of Delta Common Stock in the Merger and the Amendment to the Delta 2007 Performance Compensation Plan by the Delta Board of Directors beginning on page 39. **The Delta board of directors unanimously recommends that Delta stockholders vote FOR the proposal to approve the issuance of Delta common stock in the merger and FOR the proposal to amend the Delta 2007 Performance Compensation Plan at the Delta special meeting.**

Northwest (See page 48)

After careful consideration, the Northwest board of directors unanimously approved and adopted the merger agreement. For the factors considered by the Northwest board of directors in reaching its decision to approve and adopt the merger agreement, see the section entitled The Merger Northwest s Reasons for the Merger; Recommendation of the Merger by the Northwest Board of Directors beginning on page 48. **The Northwest board of directors unanimously recommends that Northwest stockholders vote FOR the proposal to adopt the merger agreement and FOR the other Northwest proposals described in this joint proxy statement/prospectus at the Northwest annual meeting.**

Opinions of Financial Advisors

Delta (See page 41)

The Delta board of directors received oral opinions, subsequently confirmed in writing, from Greenhill & Co., LLC, who we refer to as Greenhill, and Merrill Lynch, Pierce, Fenner & Smith Incorporated, who we refer to as Merrill Lynch, that based upon and subject to the various considerations and assumptions described in the written opinions, the exchange ratio to be paid by Delta in the merger was fair from a financial point of view to Delta.

The full text of the written opinions of Greenhill and Merrill Lynch, each dated April 14, 2008, which set forth, among other things, the assumptions made, procedures followed, matters considered and limits on the opinions and the review undertaken in connection with rendering the opinions, are attached as Appendix C and D, respectively, to this joint proxy statement/prospectus and are incorporated herein by reference. Stockholders are urged to read these opinions in their entirety, but should note that they are not a recommendation as to how Delta stockholders should vote with respect to the issuance of shares of Delta common stock pursuant to the merger or any other matter.

Northwest (See page 51)

The Northwest board of directors received an oral opinion, subsequently confirmed in writing, from Morgan Stanley & Co. Incorporated, who we refer to as Morgan Stanley, that, as of April 14, 2008, based upon and subject to the various considerations set forth in the opinion, the exchange ratio pursuant to the merger agreement was fair from a financial point of view to the holders of shares of Northwest common stock.

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The full text of the written opinion of Morgan Stanley, dated April 14, 2008, which sets forth the assumptions made, procedures followed, matters considered and limitations on the opinion and the review undertaken in connection with rendering the opinion, is attached as Appendix E to this joint proxy statement/prospectus and is incorporated herein by reference. Northwest stockholders are urged to read the opinion in its entirety, but should note that the Morgan Stanley opinion is not a recommendation as to how Northwest stockholders should vote on, or take any action with respect to, the merger or any other matter.

Interests of Directors and Officers in the Merger (See page 57)

Some of the members of Delta s and Northwest s management and the non-employee directors on their boards of directors have interests in the merger that are in addition to, or different from, the interests of Delta and Northwest stockholders generally. Some of the executive officers of Delta and Northwest have agreements with Delta or Northwest, as applicable, that provide for severance benefits if their employment is terminated under certain circumstances in connection with a change in control of Delta or Northwest. Some of Delta s and Northwest s compensation and benefits plans provide for payment or accelerated vesting or distribution of the rights or benefits thereunder upon a change in control of Delta or Northwest, as applicable. The merger would be a change in control under such plans. In addition, as detailed below, the board of directors of the combined company will be made up of thirteen members, consisting of (1) seven members of the Delta board of directors, (2) five members of the Northwest board of directors and (3) one representative designated by the Delta Master Executive Council, which we refer to as the Delta MEC, the governing body of the Delta unit of the Air Line Pilots Association, International, which we refer to as ALPA.

The Delta and Northwest boards of directors were aware of these interests and considered them, among other matters, in approving the merger agreement and the transactions contemplated by the merger agreement.

Directors and Management Following the Merger (See page 63)

Board of Directors. Upon completion of the merger, the board of directors of the combined company will be made up of thirteen members, consisting of (1) seven members of the Delta board of directors (which will include Daniel A. Carp, the current chairman of the board of directors of Delta, who will serve as non-executive chairman of the board of the combined company, and Richard H. Anderson, the current chief executive officer of Delta), (2) five members of the Northwest board of directors (which will include Roy J. Bostock, the current chairman of the Northwest board of directors, who will serve as a non-executive vice chairman of the board of directors of the combined company, and Douglas M. Steenland, the current chief executive officer of Northwest) and (3) one representative designated by the Delta MEC. The Delta MEC has designated Mr. Kenneth C. Rogers, a Delta pilot who is a current member of the Delta board of directors, to serve on the board of directors of the combined company.

Executive Officers. Upon completion of the merger, Richard H. Anderson will serve as chief executive officer of the combined company and Edward H. Bastian will serve as president and chief financial officer of the combined company.

Treatment of Northwest Stock Options and Other Equity Based Awards (See page 65)

Stock Options; Stock Appreciation Rights. At the effective time of the merger, each outstanding option to purchase shares of Northwest common stock and each stock appreciation right in respect of Northwest common stock, whether or not exercisable, will be assumed by Delta and converted into an option to purchase Delta common stock or a stock appreciation right in respect of Delta common stock subject to, and in accordance with, the same terms and conditions applicable to the corresponding Northwest stock option or stock appreciation right, except that the number of shares of Delta common stock subject to each such converted option or in respect

of each such converted stock appreciation right will be equal to the product, rounded down to the nearest whole number of shares of Delta common stock, of (x) the number of shares of Northwest common stock subject to the corresponding Northwest stock option or in respect of the corresponding Northwest stock appreciation right and (y) the exchange ratio. The exercise price for converted options and stock appreciation rights will equal the applicable per share exercise price for the shares of Northwest common stock divided by the exchange ratio (rounded up to the nearest whole cent). Because the merger is a change in control for purposes of the Northwest 2007 Stock Incentive Plan, each outstanding option to purchase shares of Northwest common stock and each stock appreciation right in respect of Northwest common stock will become fully vested at the effective time of the merger.

Restricted Stock Units; Restricted Shares. At the effective time of the merger, each Northwest restricted stock unit and right to receive shares of Northwest common stock or an amount in cash measured by the value of a number of shares of Northwest common stock that is outstanding immediately prior to the effective time of the merger will, subject to and in accordance with the terms of the Northwest 2007 Stock Incentive Plan, be converted into the right to receive the number of shares of Delta common stock (or an amount in respect thereof for such cash-settled awards) equal to the product of (x) the number of shares of Northwest common stock subject to each such award and (y) the exchange ratio (rounded down to the nearest whole number of shares of Delta common stock). Because the merger is a change in control for purposes of the Northwest 2007 Stock Incentive Plan, all Northwest restricted stock units and rights to receive shares of Northwest common stock or an amount in cash measured by the value of a number of shares of Northwest common stock will become fully vested at the effective time of the merger.

Regulatory Approvals Required for the Merger (See page 64)

Delta and Northwest have each agreed to use their reasonable best efforts in order to obtain regulatory clearance required to consummate the merger. Regulatory clearance includes antitrust filings with the Antitrust Division of the U.S. Department of Justice, which we refer to as the Antitrust Division, and expiration or termination of the required waiting periods, as well as clearance under applicable merger laws of the European Commission. Specifically, under the Hart-Scott-Rodino Antitrust Improvement Act of 1976, as amended, and the rules and regulations promulgated thereunder, which we refer to as the HSR Act, the merger may not be completed until notification and report forms have been filed, and the applicable waiting period has expired or been terminated. On April 21, 2008, each of Delta and Northwest filed its notification and report form under the HSR Act. We also expect to file notices with antitrust and competition authorities in other jurisdictions. In addition, in order to complete the merger, Delta and Northwest must also receive approvals from and make filings with various federal, state and local regulatory and transportation agencies, including the U.S. Department of Transportation, which we refer to as the DOT, and Federal Aviation Administration, which we refer to as the FAA, as well as certain foreign regulatory authorities. While Delta and Northwest expect to obtain all required regulatory approvals, we cannot assure you that these regulatory approvals will be obtained or that the granting of these regulatory approvals will not involve the imposition of additional conditions on the completion of the merger, including the requirement to divest assets, or require changes to the terms of the merger agreement. These conditions or changes could result in the conditions to the merger not being satisfied.

Expected Timing of the Merger

We currently expect to complete the merger in the fourth quarter of 2008, subject to receipt of required stockholder approvals and regulatory clearance.

Conditions to Completion of the Merger (See page 69)

The obligations of Delta and Northwest to complete the merger are subject to the satisfaction of the following conditions:

- adoption of the merger agreement by a majority of the outstanding shares of Northwest common stock;
- approval of the issuance of shares of Delta common stock in the merger by a majority of the shares of Delta common stock present or represented and entitled to vote at the special meeting, with the holders of a majority of the shares of Delta common stock entitled to vote actually voting on the proposal;
- absence of any judgment, order, injunction (whether temporary, preliminary or permanent), decree, statute, law, ordinance, rule or regulation, or other legal restraint or prohibition by a court or other governmental entity that makes illegal or prohibits the consummation of the merger or the other transactions contemplated by the merger agreement;
- effectiveness of the registration statement of which this joint proxy statement/prospectus forms a part and the absence of a stop order or proceedings threatened or initiated by the SEC for that purpose;
- authorization of the listing on the NYSE of the shares of Delta common stock to be issued in the merger, subject to official notice of issuance; and
- the waiting period (and any extension thereof) applicable to the merger under the antitrust laws of the United States and the European Union will have expired or been terminated and all exemptive authority required to be obtained from the DOT for any de facto route transfers will have been obtained; provided, however, this condition will not be deemed satisfied if the terms of any such permits, consents, approvals, expirations or terminations of waiting periods or authorizations would, individually or in the aggregate, have a material adverse effect on Delta, Northwest or the combined company.

In addition, each of Delta s and Northwest s obligation to complete the merger is subject to the satisfaction or waiver of the following additional conditions:

- the representations and warranties of the other party, other than the representation related to the absence of any event or occurrence having a material adverse effect on the other party since January 1, 2008, will be true and correct (without giving effect to any materiality qualifications contained in such representations and warranties) when made and at and as of the effective time of the merger (other than those representations and warranties that were made only as of a specified date, which need only be true and correct as of such specified date), provided that such representations will be deemed to be true unless the individual or aggregate impact of the failure to be so true would have or would reasonably be expected to have a material adverse effect on the other party;
- the representation and warranty of the other party relating to the absence of any event or occurrence having a material adverse effect on the other party since January 1, 2008 will be true and correct when made and at and as of the effective time of the merger;
- the other party will have performed, or complied with, in all material respects, all of its respective obligations under the merger agreement at or prior to the consummation of the merger;

receipt of a certificate executed by the other party s chief executive officer and chief financial officer as to the satisfaction of the conditions described in the preceding three bullets;

receipt of a legal opinion of that party s counsel to the effect that the merger will be treated as a reorganization within the meaning of Section 368(a) of the Code; and

no proceeding under any law relating to bankruptcy, insolvency or reorganization will have been instituted and not dismissed against the other party.

No Solicitations by Delta or Northwest (See page 74)

Subject to exceptions, the merger agreement precludes Delta and Northwest from soliciting or engaging in discussions or negotiations with a third party with respect to a proposal for an alternative transaction, including the acquisition of a significant interest in Delta s or Northwest s equity or assets. Notwithstanding such restrictions, the merger agreement provides that, under specified circumstances and prior to the applicable approval by their respective stockholders, if Delta or Northwest receives an unsolicited proposal from a third party for an alternative transaction that its board of directors determines in good faith is reasonably likely to lead to a proposal that is superior to the merger, Delta or Northwest, as applicable, may furnish nonpublic information to that third party and engage in negotiations regarding an alternative transaction with that third party.

Termination of the Merger Agreement (See page 81)

Delta and Northwest can jointly agree to terminate the merger agreement at any time. Either company may also terminate the merger agreement if the merger is not completed by April 14, 2009 (with each party being able to extend this date until October 14, 2009 under specified circumstances) or under other circumstances described in this document. See the section entitled The Merger Agreement Termination of the Merger Agreement beginning on page 81 for a discussion of these and other rights of each of Delta and Northwest to terminate the merger agreement.

Expenses and Termination Fees (See page 82)

Generally, all fees and expenses incurred in connection with the merger agreement and the transactions contemplated by the merger agreement will be paid by the party incurring those expenses, subject to the specific exceptions discussed in this document where Delta or Northwest, as the case may be, may be required to pay a termination fee of $165 million. See the section entitled The Merger Agreement Termination Fees and Expenses beginning on page 82 for a discussion of the circumstances under which the termination fee will be required to be paid.

Accounting Treatment (See page 92)

Delta prepares its financial statements in accordance with accounting principles generally accepted in the United States of America, which is referred to as GAAP. The merger will be accounted for using the purchase method of accounting.

Appraisal Rights (See page 164)

Under Delaware law, neither the holders of Northwest common stock nor the holders of Delta common stock are entitled to appraisal rights in connection with the merger.

Comparison of Stockholder Rights and Corporate Governance Matters (See page 109)

Northwest stockholders receiving merger consideration will have different rights once they become Delta stockholders due to differences between the governing documents of Delta and Northwest. These differences are described in detail under the section entitled Comparison of Rights of Delta Stockholders and Northwest Stockholders beginning on page 109.

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The Meetings

The Delta Special Meeting (See page 25)

The Delta special meeting will be held at the at : a.m., local time, on , 2008. At the Delta special meeting, Delta stockholders will be asked to:

- approve the issuance of Delta common stock in the merger;
- approve the amendment to the Delta 2007 Performance Compensation Plan; and
- to vote upon an adjournment of the Delta special meeting, if necessary or appropriate, to solicit additional proxies if there are not sufficient votes to approve the foregoing proposals.

You may vote at the Delta special meeting if you owned shares of Delta common stock at the close of business on , 2008. On that date there were shares of Delta common stock outstanding and entitled to vote at the Delta special meeting, less than % of which were owned and entitled to be voted by Delta directors and executive officers and their affiliates. We currently expect that Delta s directors and executive officers will vote their shares in favor of both the merger and the amendment to the Delta 2007 Performance Compensation Plan, although none of them have entered into any agreements obligating them to do so.

You can cast one vote for each share of Delta common stock you own. Each of the proposals to be considered at the Delta special meeting requires the affirmative vote of holders of a majority of the shares of Delta common stock present or represented and entitled to vote on the proposal. In addition, under NYSE rules, the total votes cast on each proposal must represent a majority of the shares of Delta common stock entitled to vote on the proposal.

The Northwest Annual Meeting (See page 29)

The Northwest annual meeting will be held at the at : a.m., local time, on , 2008. At the Northwest annual meeting, Northwest stockholders will be asked to:

- adopt the merger agreement;
- elect twelve directors to hold office until the 2009 Annual Meeting of Stockholders and until their respective successors have been elected and qualified, or if the merger is completed, until the effective time of the merger;
- ratify the appointment of Ernst & Young LLP as Northwest s independent registered public accounting firm for the fiscal year ending December 31, 2008;
- approve an amendment to the Northwest 2007 Stock Incentive Plan;
- vote upon an adjournment of the Northwest annual meeting, if necessary or appropriate, to solicit additional proxies if there are not sufficient votes to approve each of the foregoing proposals; and

transact such other business as may properly come before the Northwest annual meeting or any adjournment or postponement thereof.

You may vote at the Northwest annual meeting if you owned shares of Northwest common stock at the close of business on , 2008. On that date there were shares of Northwest common stock outstanding and entitled to vote at the Northwest annual meeting, less than % of which were owned and entitled to be voted by Northwest directors and executive officers and their affiliates. We currently expect that Northwest s directors and executive officers will vote their shares in favor of the merger and the other Northwest proposals described in this joint proxy statement/prospectus, although none of them have entered into any agreements obligating them to do so.

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You can cast one vote for each share of Northwest common stock you own. Each of the proposals to be considered at the Northwest annual meeting requires certain percentages of votes in order to approve them:

Adoption of the merger agreement requires the affirmative vote of holders of a majority of the outstanding shares of Northwest common stock entitled to vote on the proposal.

The twelve nominees for election to the Northwest board of directors receiving the greatest number of affirmative votes cast by holders of Northwest common stock will be elected as directors.

Ratification of the appointment of Ernst & Young LLP as Northwest s independent registered public accounting firm for the fiscal year ending December 31, 2008 requires the affirmative vote of a majority of the votes cast on the proposal at the Northwest annual meeting.

Approval of the amendment to the Northwest 2007 Stock Incentive Plan requires the affirmative vote of a majority of the votes cast on the proposal at the Northwest annual meeting, provided that a majority of the outstanding shares of Northwest common stock entitled to vote are voted on the proposal.

Adjournment of the Northwest annual meeting, if necessary or appropriate, to solicit additional proxies if there are not sufficient votes to approve each of the foregoing proposals, requires the affirmative vote of a majority of the votes cast on the proposal at the Northwest annual meeting.

The Companies

Delta (See page 34)

Delta Air Lines, Inc.

1040 Delta Boulevard

Atlanta, Georgia 30354

Telephone: (404) 715-2600

Delta Air Lines, Inc. is a major air carrier that provides scheduled air transportation for passengers and cargo throughout the United States and around the world. Delta offered customers service to more destinations than any other global airline, with Delta and Delta Connection carrier service to 305 destinations in 58 countries in May 2008. Delta has added more international capacity than any other major U.S. airline during the last two years and is the leader across the Atlantic with flights to 38 trans-Atlantic markets. To Latin America and the Caribbean, Delta offered more than 478 weekly flights to 58 destinations in May 2008. Delta is a founding member of SkyTeam, a global airline alliance that provides customers with extensive worldwide destinations, flights and services. Delta and Air France recently implemented a joint venture to share revenues and costs on transatlantic routes that is expected to increase customer travel choices on key routes across the Atlantic. Including its SkyTeam and worldwide codeshare partners, Delta offered flights to 474 worldwide destinations in 104 countries in May 2008.

Delta is a Delaware corporation headquartered in Atlanta, Georgia. Delta s website is *www.delta.com*. Delta has provided this website address as an inactive textual reference only and the information contained on Delta s website is not a part of this joint proxy statement/prospectus.

Northwest (See page 34)

Northwest Airlines Corporation

2700 Lone Oak Parkway

Eagan, Minnesota 55121

(612) 726-2111

Northwest Airlines, Inc., the wholly-owned subsidiary of Northwest Airlines Corporation, operates the world s sixth largest airline, as measured by 2006 revenue passenger miles, and is engaged in the business of transporting passengers and cargo. Northwest began operations in 1926. Northwest Airlines, Inc. s business focuses on the operation of a global airline network through its strategic assets that include: (1) domestic hubs at Detroit, Minneapolis/St. Paul and Memphis, (2) an extensive Pacific route system with a hub in Tokyo, (3) a transatlantic joint venture with KLM Royal Dutch Airlines, which operates through a hub in Amsterdam, (4) a domestic and international alliance with Continental Airlines, Inc. and Delta, (5) membership in SkyTeam, a global airline alliance with KLM, Continental, Delta, Air France, Alitalia, Aeroméxico, CSA Czech Airlines, Korean Air and Aeroflot, (6) agreements with three domestic regional carriers, including Pinnacle Airlines, Inc., Mesaba Aviation, Inc., a wholly-owned subsidiary, and Compass Airlines, Inc., a wholly-owned subsidiary, each of which operates as Northwest Airlink and (7) a cargo business that operates a dedicated freighter fleet of aircraft through hubs in Anchorage and Tokyo.

Northwest is a Delaware corporation headquartered in Eagan, Minnesota. Northwest s website is *www.nwa.com*. Northwest has provided this website address as an inactive textual reference only and the information contained on Northwest s website is not a part of this joint proxy statement/prospectus.

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SELECTED HISTORICAL AND PRO FORMA COMBINED FINANCIAL DATA

Selected Consolidated Historical Financial Data of Delta

The following statements of operations data for the eight months ended December 31, 2007, the four months ended April 30, 2007 and the years ended December 31, 2006 and 2005 and the balance sheet data as of December 31, 2007 and 2006 have been derived from the audited consolidated financial statements of Delta contained in its Annual Report on Form 10-K for the fiscal year ended December 31, 2007, which is incorporated into this document by reference. The statements of operations data for the years ended December 31, 2004 and 2003 and the balance sheet data as of December 31, 2005, 2004 and 2003 have been derived from Delta s audited consolidated financial statements for such years, which have not been incorporated into this document by reference.

The statements of operations data for the three months ended March 31, 2008 and 2007 and the balance sheet data as of March 31, 2008 have been derived from Delta s unaudited consolidated financial statements, which are incorporated into this document by reference. The balance sheet data as of March 31, 2007 have been derived from Delta s unaudited consolidated financial statements, which have not been incorporated into this document by reference.

You should read this selected historical financial data together with the financial statements that are incorporated by reference into this document and their accompanying notes and management s discussion and analysis of operations and financial condition of Delta contained in such reports.

Upon emergence from Chapter 11, Delta adopted fresh start reporting in accordance with American Institute of Certified Public Accountants Statement of Position 90-7, Financial Reporting by Entities in Reorganization under the Bankruptcy Code, which we refer to as SOP 90-7. The adoption of fresh start reporting resulted in Delta becoming a new entity for financial reporting purposes. Accordingly, Delta s Consolidated Financial Statements on or after May 1, 2007 are not comparable to Delta s Consolidated Financial Statements prior to that date.

Due to Delta s adoption of fresh start reporting on April 30, 2007, the following table includes selected summary financial data for (1) the three months ended March 31, 2008 and the eight months ended December 31, 2007 of the successor entity and (2) the four months ended April 30, 2007, the three months ended March 31, 2007 and the years ended December 31, 2006, 2005, 2004 and 2003 of the predecessor entity.

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Summary of Operations Data

	Successor	Predecessor	Successor		Predecessor			
	Three Months Ended March 31,		Eight Months Ended December 31,	Four Months Ended April 30,	Year Ended December 31,			
(in millions, except per share data)	2008[1]	2007	2007[2]	2007[3]	2006[4][10]	2005[5][10]	2004[6]	2003[7]
Operating revenue	$ 4,766	$ 4,241	$ 13,358	$ 5,796	$ 17,532	$ 16,480	$ 15,235	$ 14,308
Operating expense	11,027	4,086	12,562	5,496	17,474	18,481	18,543	15,093
Operating (loss) income	(6,261)	155	796	300	58	(2,001)	(3,308)	(785)
Interest expense, net[8]	(120)	(190)	(276)	(248)	(801)	(973)	(787)	(721)
Miscellaneous, net[9]	(9)	29	5	27	(19)	(1)	94	317
Gain on extinguishment of debt, net							9	
(Loss) income before reorganization items, net	(6,390)	(6)	525	79	(762)	(2,975)	(3,992)	(1,189)
Reorganization items, net		(124)		1,215	(6,206)	(884)		
(Loss) income before income taxes	(6,390)	(130)	525	1,294	(6,968)	(3,859)	(3,992)	(1,189)
Income tax (provision) benefit			(211)	4	765	41	(1,206)	416
Net (loss) income	(6,390)	(130)	314	1,298	(6,203)	(3,818)	(5,198)	(773)
Preferred stock dividends					(2)	(18)	(19)	(17)
Net (loss) income attributable to common shareowners	(6,390)	(130)	314	1,298	(6,205)	(3,836)	(5,217)	(790)
Basic (loss) earnings per share	$ (16.15)	$ (0.66)	$ 0.80	$ 6.58	$ (31.58)	$ (23.75)	$ (41.07)	$ (6.40)
Diluted (loss) earnings per share	$ (16.15)	$ (0.66)	$ 0.79	$ 4.63	$ (31.58)	$ (23.75)	$ (41.07)	$ (6.40)
Dividends declared per common share	$	$	$	$	$	$	$	$ 0.05

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Other Financial Data

	Successor	Predecessor	Successor	Predecessor			
	March 31,		December 31,	December 31,			
	2008[(1)]	2007	2007[(2)]	2006[(4)(10)]	2005[(5)(10)]	2004[(6)]	2003[(7)]
Cash, cash equivalents and short-term investments	$ 2,595	$ 2,883	$ 2,786	$ 2,648	$ 2,008	$ 1,799	$ 2,710
Total assets (millions)	$ 26,755	$ 19,811	$ 32,423	$ 19,622	$ 20,039	$ 21,801	$ 25,939
Long-term debt and capital leases (excluding current maturities) (millions)	$ 8,387	$ 4,792	$ 7,986	$ 6,509	$ 6,557	$ 13,005	$ 11,538
Shareowners equity (deficit) (millions)	$ 3,951	$ (13,676)	$ 10,113	$ (13,593)	$ (9,895)	$ (5,796)	$ (659)
Common stock outstanding	292,169,861	197,335,938	292,225,696	197,335,938	189,343,018	139,830,443	123,544,945
Full-time equivalent employees, end of period	55,382	52,260	55,044	51,322	55,650	69,148	70,600

(1) Includes a $6.1 billion non-cash charge or $15.42 diluted loss per share for goodwill impairment (see Delta s March 31, 2008 Form 10-Q).

(2) Includes a $211 million income tax provision or $0.53 diluted loss per share (see Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations in Delta s 2007 Form 10-K).

(3) Includes a $1.2 billion non-cash gain or $5.20 diluted earnings per share for reorganization items; and a $4 million income tax benefit or $0.02 diluted earnings per share (see Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations in Delta s 2007 Form 10-K).

(4) Includes a $6.2 billion non-cash charge or $31.58 diluted loss per share for reorganization items; a $310 million non-cash charge or $1.58 diluted loss per share associated with certain accounting adjustments; and a $765 million income tax benefit or $3.89 diluted earnings per share (see Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations in Delta s 2007 Form 10-K).

(5) Includes an $888 million charge or $5.49 diluted loss per share for restructuring, asset writedowns, pension settlements and related items, net and an $884 million non-cash charge or $5.47 diluted loss per share for reorganization items (see Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations in Delta s 2007 Form 10-K).

(6) Includes a $1.9 billion charge or $14.76 diluted loss per share related to the impairment of intangible assets; a $1.2 billion charge or $9.51 diluted loss per share for deferred income tax valuation; a $123 million gain, or $0.97 diluted earnings per share from the sale of investments; and a $41 million gain or $0.33 diluted earnings per share from restructuring, asset writedowns, pension settlements and related items, net.

(7) Includes a $268 million charge ($169 million net of tax, or $1.37 diluted loss per share) for restructuring, asset writedowns, pension settlements and related items, net; a $398 million gain ($251 million net of tax, or $2.03 diluted earnings per share) for compensation received under the Emergency Wartime Supplemental Appropriations Act; and a $304 million gain ($191 million net of tax, or $1.55 diluted earnings per share) for certain other income and expense items.

(8) Includes interest income.

(9) Includes (losses) gains from the sale of investments and fair value adjustments of derivatives.

(10) The 2006 and 2005 Consolidated Summary of Operations and Financial and Statistical Data above have been updated to conform to current period presentation for certain reclassifications made upon emergence from bankruptcy (see Note 2 of the Notes to the Consolidated Financial Statements in Delta s 2007 Form 10-K).

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Selected Consolidated Historical Financial Data of Northwest

The following statements of operations data for the seven months ended December 31, 2007, the five months ended May 31, 2007 and the years ended December 31, 2006 and 2005 and the balance sheet data as of December 31, 2007 and 2006 have been derived from Northwest s audited consolidated financial statements contained in its Annual Report on Form 10-K for the fiscal year ended December 31, 2007, which is incorporated into this document by reference. The statements of operations data for the years ended December 31, 2004 and 2003 and the balance sheet data as of December 31, 2005, 2004 and 2003 have been derived from Northwest s audited consolidated financial statements for such years, which have not been incorporated into this document by reference.

The statements of operations data for each of the three months ended March 31, 2008 and 2007 and the balance sheet data as of March 31, 2008 have been derived from Northwest s unaudited consolidated financial statements, which are incorporated into this document by reference. The balance sheet data as of March 31, 2007 have been derived from Northwest s unaudited consolidated financial statements, which have not been incorporated into this document by reference.

You should read this selected historical financial data together with the financial statements that are incorporated by reference into this document and their accompanying notes and management s discussion and analysis of operations and financial condition of Northwest contained in such reports.

Upon emergence from Chapter 11, Northwest adopted fresh start reporting in accordance with SOP 90-7. The adoption of fresh start reporting resulted in Northwest becoming a new entity for financial reporting purposes. Accordingly, Northwest s Consolidated Financial Statements on or after June 1, 2007 are not comparable to Northwest s Consolidated Financial Statements prior to that date.

Due to Northwest s adoption of fresh start reporting on May 31, 2007, the following table includes selected summary financial data for (1) the three months ended March 31, 2008 and the seven months ended December 31, 2007 of the successor entity and (2) the five months ended May 31, 2007, the three months ended March 31, 2007 and the years ended December 31, 2006, 2005, 2004 and 2003 of the predecessor entity.

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Summary of Operations Data

	Successor	Predecessor	Successor		Predecessor			
	Three Months Ended March 31,		Seven Months Ended December 31,	Five Months Ended May 31,	Year Ended December 31,			
(in millions, except per share data)	2008[(1)]	2007	2007	2007	2006	2005	2004	2003
Operating revenues								
Passenger	$ 2,239	$ 2,202	$ 5,660	$ 3,768	$ 9,230	$ 8,902	$ 8,432	$ 7,632
Regional carrier	410	292	884	521	1,399	1,335	1,083	860
Cargo	198	189	522	318	946	947	830	752
Other	280	190	538	317	993	1,102	934	833
Total operating revenues	3,127	2,873	7,604	4,924	12,568	12,286	11,279	10,077
Operating expenses	7,180	2,672	6,863	4,561	11,828	13,205	11,784	10,342
Operating (loss) income	(4,053)	201	741	363	740	(919)	(505)	(265)
Operating margin	-129.6%	7.0%	9.7%	7.4%	5.9%	-7.5%	-4.5%	-2.6%
Net (loss) income before cumulative effect of accounting change	(4,139)	(292)	342	1,751	(2,835)	(2,464)	(862)	248
Cumulative effect of accounting change						(69)		
Net (loss) income	(4,139)	(292)	342	1,751	(2,835)	(2,533)	(862)	248
(Loss) earnings per common share:								
Basic	$ (15.78)	$ (3.34)	$ 1.30	$ 20.03	$ (32.48)	$ (29.36)	$ (10.32)	$ 2.75
Diluted	$ (15.78)	$ (3.34)	$ 1.30	$ 14.28	$ (32.48)	$ (29.36)	$ (10.32)	$ 2.62

Other Financial Data

	Successor	Predecessor	Successor		Predecessor		
	March 31,		December 31,		December 31,		
(in millions)	2008	2007	2007	2006	2005	2004	2003
Cash, cash equivalents and unrestricted short-term investments	$ 3,227	$ 2,426	$ 3,034	$ 2,058	$ 1,262	$ 2,459	$ 2,757
Total assets	21,032	13,742	24,517	13,215	13,083	14,042	14,008
Long-term debt, including current maturities	7,123	4,456	6,961	4,112	1,159	8,411	7,866
Long-term obligations under capital leases, including current obligations	125		127		11	361	419
Long-term pension and postretirement health care benefits, including current obligations	3,727	90	3,720	185	264	4,095	3,756
Liabilities subject to compromise		13,633		13,572	14,328		
Preferred redeemable stock subject to compromise		275		277	280	263	236
Common stockholders equity (deficit)	3,286	(8,280)	7,377	(7,991)	(5,628)	(3,087)	(2,011)

(1) Includes a $3.9 billion non-cash charge or $14.94 diluted loss per share for goodwill impairment (see Northwest s March 31, 2008 Form 10-Q).

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Selected Unaudited Pro Forma Combined Financial Data of Delta and Northwest

The following table presents selected unaudited pro forma combined financial information about Delta s consolidated balance sheet and statements of operations, after giving effect to the merger with Northwest and certain issuances of common stock by Delta to Delta pilots and non-pilot employees of the combined company. The information under Summary of Operations Data in the table below gives effect to the merger as if it had occurred at the beginning of each period presented. The information under Other Financial Data in the table below assumes the merger had been consummated on March 31, 2008. This unaudited pro forma combined financial information assumes that the merger is accounted for using the purchase method of accounting with Delta treated as the acquiring entity and represents a current estimate of the combined financial information based on available financial information of Delta and Northwest. See Accounting Treatment on page 92. Historical results for Delta and Northwest for the year ended December 31, 2007 have been adjusted to reflect (1) the impact of fresh start reporting as if the emergence from bankruptcy for both companies occurred on January 1, 2007 and (2) changes in accounting principles as if adoption had occurred on January 1, 2007.

In addition, the unaudited pro forma combined financial information includes adjustments, which are preliminary and may be revised. The unaudited pro forma combined financial information is presented for illustrative purposes only and does not indicate the financial results of the combined company.

The information presented below should be read in conjunction with the historical consolidated financial statements of Delta and Northwest, including the related notes, filed by each of them with the SEC, and with the pro forma condensed combined financial statements of Delta and Northwest, including the related notes, appearing elsewhere in this document. See Where You Can Find More Information beginning on page 166 and Unaudited Pro Forma Condensed Combined Financial Statements beginning on page 95. The unaudited pro forma condensed combined financial data are not necessarily indicative of results that actually would have occurred or that may occur in the future had the merger been completed on the dates indicated.

Summary of Operations Data

(in millions, except per share data)	Three Months Ended March 31, 2008[1]	Year Ended December 31, 2007
Operating revenue	$ 7,893	$ 31,781
Operating expense	18,224	29,466
Operating (loss) income	(10,331)	2,315
(Loss) income before income taxes	(10,548)	1,487
Income taxes		(586)
Net (loss) income	(10,548)	901
Basic and diluted (loss) earnings per share	$ (13.14)	$ 1.12

Other Financial Data

(in millions)	March 31, 2008
Cash and cash equivalents	$ 5,679
Total assets	47,988
Long-term debt and capital leases, excluding current maturities	14,879
Shareowners equity	7,173

(1) Includes a $10.0 billion non-cash charge or $12.45 diluted loss per share for goodwill impairment.

Unaudited Comparative Per Share Data

Presented below are Delta s historical financial data for (1) the three months ended March 31, 2008 and the eight months ended December 31, 2007 of the successor entity and (2) the four months ended April 30, 2007 of the predecessor entity and Northwest s historical financial information for (1) the three months ended March 31, 2008 and the seven months ended December 31, 2007 of the successor entity and (2) the five months ended May 31, 2007 of the predecessor entity. The unaudited pro forma combined and the Northwest pro forma equivalent per share financial data are presented for the three months ended March 31, 2008 and the year ended December 31, 2007. This information should be read together with the consolidated financial statements and related notes of Delta and Northwest that are incorporated by reference in this document and with the unaudited pro forma combined financial data included under Unaudited Pro Forma Condensed Combined Financial Information beginning on page 95. The pro forma information is presented for illustrative purposes only and is not necessarily indicative of the operating results or financial position that would have occurred if the merger had been completed as of the beginning of the periods presented, nor is it necessarily indicative of the future operating results or financial position of the combined company. The historical book value per share is computed by dividing total shareowners equity by the number of shares of common stock outstanding, including shares issuable pursuant to the plan of reorganization at the end of the period. The pro forma (loss) earnings per share of the combined company is computed by dividing the pro forma (loss) earnings by the pro forma weighted average number of shares outstanding. The pro forma book value per share of the combined company is computed by dividing total pro forma shareowners equity by the pro forma number of shares of common stock outstanding, including shares issuable pursuant to the plan of reorganization at the end of the period. The Northwest pro forma equivalent per share is computed by dividing Northwest s (loss) earnings by 339.7 million, the estimated shares of Delta common stock to be issued to Northwest shareowners. The Northwest pro forma equivalent book value per share is computed by dividing Northwest s shareowners equity by 339.7 million, the estimated shares of Delta common stock to be issued to Northwest shareowners.

(in millions, except per share data)	Three Months Ended March 31, 2008	Eight Months Ended December 31, 2007	Four Months Ended April 30, 2007
Delta historical data			
Basic (loss) earnings per share	$ (16.15)	$ 0.80	$ 6.58
Diluted (loss) earnings per share	$ (16.15)	$ 0.79	$ 4.63
Book value per share[(1)]	$ 9.86		
		Seven Months Ended December 31, 2007	**Five Months Ended May 31, 2007**
Northwest historical data			
Basic (loss) earnings per share	$ (15.78)	$ 1.30	$ 20.03
Diluted (loss) earnings per share	$ (15.78)	$ 1.30	$ 14.28
Book value per share[(1)]	$ 12.53		

	Three Months Ended March 31, 2008	Year Ended December 31, 2007
Unaudited pro forma combined		
Basic and diluted (loss) earnings per share	$ (13.14)	$ 1.12
Pro forma book value per share	$ 8.93	
Northwest pro forma equivalent per share data		
Basic and diluted (loss) earnings per share	$ (12.18)	$ 1.47
Book value per share	$ 9.67	

(1) Book value per share is not presented for (1) Delta for the eight months ended December 31, 2007 and the four months ended April 30, 2007 and (2) Northwest for the seven months ended December 31, 2007 and the five months ended May 31, 2007 as an unaudited pro forma condensed combined balance sheet is not presented as of the end of each of these periods.

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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This document (including information included or incorporated by reference herein) includes forward-looking statements within the meaning of the safe harbor provisions of the United States Private Securities Litigation Reform Act of 1995. Words such as expect, estimate, project, budget forecast, anticipate, intend, plan, may, will, could, should, believes, predicts, potential, continue, and similar expression such forward-looking statements. These forward-looking statements include, without limitation, Delta s and Northwest s expectations with respect to the synergies, costs and charges, capitalization and anticipated financial impacts of the merger transaction and related transactions; approval of the merger transaction and related transactions by stockholders; the satisfaction of the closing conditions to the merger transaction and related transactions; and the timing of the completion of the merger transaction and related transactions.

These forward-looking statements involve significant risks and uncertainties that could cause the actual results to differ materially from the expected results. Most of these factors are outside Delta s and Northwest s control and difficult to predict. Factors that may cause such differences include, but are not limited to:

- the possibility that the expected synergies will not be realized, or will not be realized within the expected time period;
- the airline pricing environment;
- competitive actions taken by other airlines;
- general economic conditions;
- changes in jet fuel prices;
- actions taken or conditions imposed by the United States and foreign governments;
- the willingness of customers to travel;
- difficulties in integrating the operations of the two airlines;
- the impact of labor relations; and
- fluctuations in foreign currency exchange rates.

Other factors include the possibility that the merger does not close, including due to the failure to receive required stockholder or regulatory approvals, or the failure of other closing conditions.

Delta and Northwest caution that the foregoing list of factors is not exclusive. Additional information concerning these and other risk factors discussed under the heading Risk Factors and elsewhere in this document and in documents incorporated by reference in this joint proxy statement/prospectus, including Delta s and Northwest s most recently filed Forms 10-K and any amendments thereto. All subsequent written and oral forward-looking statements concerning Delta, Northwest, the merger, the amendment to the Delta 2007 Performance Compensation Plan, the related transactions or other matters and attributable to Delta or Northwest or any person acting on their behalf are expressly qualified in their entirety by the cautionary statements above. Delta and Northwest do not undertake any obligation to update any forward-looking statement,

whether written or oral, relating to the matters discussed in this document.

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RISK FACTORS

In addition to the other information included and incorporated by reference in this document, including the matters addressed in the section entitled Cautionary Statement Regarding Forward-Looking Statements, you should carefully consider the following risks before deciding whether to vote for adoption of the merger agreement, in the case of Northwest stockholders, or for the issuance of shares of Delta common stock in the merger and the amendment to the Delta 2007 Performance Compensation Plan, in the case of Delta stockholders. In addition, you should read and consider the risks associated with each of the businesses of Delta and Northwest because these risks will also affect the combined company. These risks can be found in the respective Annual Reports on Form 10-K for the fiscal year ended December 31, 2007, and any amendments thereto, for each of Delta and Northwest, which are filed with the SEC and incorporated by reference into this document. You should also read and consider the other information in this document and the other documents incorporated by reference in this document. See the section entitled Where You Can Find More Information beginning on page 166.

The exchange ratio is fixed and will not be adjusted in the event of any change in either Delta s or Northwest s stock price.

Upon closing of the merger, each share of Northwest common stock will be converted into the right to receive 1.25 shares of Delta common stock. This exchange ratio will not be adjusted for changes in the market price of either Delta common stock or Northwest common stock. Changes in the price of Delta common stock prior to the merger will affect the value of Delta common stock that Northwest common stockholders will receive on the date of the merger.

The prices of Delta common stock and Northwest common stock at the closing of the merger may vary from their respective prices on the date the merger agreement was executed, on the date of this document and on the date of the respective stockholder meetings. As a result, the value represented by the exchange ratio will also vary. For example, based on the range of closing prices of Delta common stock during the period from April 14, 2008, the last trading day before public announcement of the merger, through , 2008, the latest practicable date before the date of this document, the exchange ratio represented a value ranging from a high of $. to a low of $. for each share of Northwest common stock.

These variations could result from changes in the business, operations or prospects of Delta or Northwest prior to or following the merger, regulatory considerations, general market and economic conditions and other factors both within and beyond the control of Delta or Northwest. We will likely complete the merger a considerable period after the date of the Delta special meeting and the Northwest annual meeting. As such, at the time of the stockholders meetings, Northwest stockholders will not know with certainty the value of the shares of Delta common stock that they will receive upon completion of the merger.

The issuance of shares of Delta common stock in the merger and the employee equity issuance will dilute the ownership position of current Delta stockholders.

If the merger is completed, based on the number of shares of Northwest common stock (i) issued and outstanding or (ii) to be issued pursuant to the reserve created under Northwest s plan of reorganization under Chapter 11 of the U.S. Bankruptcy Code, as of the record date for the Northwest annual meeting, Delta expects that approximately shares of Delta common stock will be issued to Northwest stockholders. Furthermore, if the employee equity issuance is fully implemented, a number of shares of Delta common stock equal, in the aggregate, to % of the fully-diluted shares outstanding of Delta (after giving effect to the shares of Delta common stock issued in connection with the merger) will be issued to the employees of the combined company upon completion of the merger. The issuance of shares of Delta common stock in both the merger and the employee equity issuance will therefore dilute the ownership position of the current Delta stockholders and, after giving effect to these transactions, existing Delta stockholders will own approximately % of the outstanding common stock of the combined company.

The merger is subject to the receipt of consents and approvals from domestic and foreign regulatory authorities that may impose conditions that could have an adverse effect on Delta or Northwest or the combined company or, if not obtained, could prevent completion of the merger.

Before the merger may be completed, applicable waiting periods must expire or terminate under antitrust or competition laws and various approvals or consents must be obtained from regulatory entities. In deciding whether to grant antitrust or regulatory approvals, the relevant governmental entities will consider the effect of the merger on competition within their relevant jurisdiction. The terms and conditions of the approvals that are granted may impose requirements, limitations or costs or place restrictions on the conduct of the combined company s business. The merger agreement may require us to accept conditions from regulatory entities before either of us may refuse to close the merger on the basis of those regulatory conditions. There can be no assurance that regulators will not impose conditions, terms, obligations or restrictions and that such conditions, terms, obligations or restrictions will not have the effect of delaying completion of the merger or imposing additional material costs on or materially limiting the revenues of the combined company following the merger. In addition, we can provide no assurance that these conditions, terms, obligations or restrictions will not result in the delay or abandonment of the merger. For a more detailed description of the regulatory review process, see the section entitled The Merger Agreement Agreement to Take Further Action and to Use Reasonable Best Efforts beginning on page 77.

Any delay in completing the merger may reduce or eliminate the benefits expected.

In addition to the required regulatory approvals, the merger is subject to a number of other conditions beyond Delta s and Northwest s control that may prevent, delay or otherwise materially adversely affect its completion. We cannot predict whether and when these other conditions will be satisfied. Further, the requirements for obtaining the required clearances and approvals could delay the completion of the merger for a significant period of time or prevent it from occurring. Any delay in completing the merger could cause us not to realize some or all of the synergies that we expect to achieve if the merger is successfully completed within its expected timeframe. See The Merger Agreement Conditions to Completion of the Merger beginning on page 69.

The combined company may be unable to integrate successfully the businesses of Delta and Northwest and realize the anticipated benefits of the merger.

The merger involves the combination of two companies which currently operate as independent public companies. The combined company will be required to devote significant management attention and resources to integrating its business practices and operations. Potential difficulties the combined company may encounter in the integration process include the following:

- if we are unable to successfully combine the businesses of Delta and Northwest in a manner that permits the combined company to achieve the revenue and cost synergies anticipated to result from the merger, such anticipated benefits of the merger may not be realized fully or at all or may take longer to realize than expected;

- complexities associated with managing the combined businesses, including the challenge of integrating complex systems, technology, aircraft fleets, networks and other assets of each of our companies in a seamless manner that minimizes any adverse impact on customers, suppliers, employees and other constituencies;

- integrating the workforces of the two airlines while maintaining focus on providing consistent, high quality customer service;

- potential unknown liabilities and unforeseen increased expenses or delays associated with the merger, including one-time costs to integrate the two airlines that may exceed the more than $1 billion total that Delta management anticipated at the time the merger agreement was entered into; and

- mergers or other strategic alliances of other air carriers may be announced and/or occur, which may change the competitive landscape in which the combined company will operate.

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In addition, Delta and Northwest have operated and, until the completion of the merger, will continue to operate, independently. It is possible that the integration process could result in the loss of key employees, diversion of each company s management s attention, the disruption or interruption of, or the loss of momentum in, each company s ongoing businesses or inconsistencies in standards, controls, procedures and policies, any of which could adversely affect each company s ability to maintain relationships with customers and employees or Delta s and Northwest s ability to achieve the anticipated benefits of the merger, or could reduce each company s earnings or otherwise adversely effect the business and financial results of the combined company.

The failure of Delta stockholders to approve the amendment to the Delta 2007 Performance Compensation Plan may delay and/or prevent the combined company from fully achieving the revenue synergies that are expected to result from the merger.

If the Delta stockholders fail to approve the amendment to the Delta 2007 Performance Compensation Plan at the Delta special meeting, the combined company will not be able to undertake the employee equity issuance, including the issuance of Delta common stock to Delta pilots. The transaction framework agreement among Delta, the Delta MEC and ALPA, among other things, provides that if Delta stockholders do not approve the issuance to eligible Delta pilots on the Delta seniority list as of the date of the closing of the merger of shares of Delta common stock equal to 3.5% of the outstanding equity capitalization of Delta (after giving effect to the shares of Delta common stock issued in connection with the merger), ALPA will be able to terminate the transaction framework agreement, which, in turn, will result in the proposed amendment to the Delta pilots existing collective bargaining agreement not becoming effective. Among other things, this amendment modifies the existing collective bargaining agreement to allow Delta to place its code on all flights operated by Northwest Airlines, Inc., which we refer to as NWA. Under the current collective bargaining agreement, there are certain limitations on Delta s ability to place its code on NWA flights. Therefore, failure to approve the amendment of the Delta 2007 Performance Compensation Plan could affect the ability of the combined company to achieve the expected synergies in the expected timeframe.

The integration of the Delta and Northwest workforces following the merger will present significant challenges, including the possibility of labor-related disagreements that may adversely affect the combined company s operations.

The successful integration of Delta and Northwest and achievement of the anticipated benefits of the combination depend significantly on integrating Delta s and Northwest s employee groups and on maintaining productive employee relations. The integration of Delta and Northwest workforces following the merger will be challenging in part because over 80% of the Northwest employees are represented by labor unions while only the Delta pilots and flight dispatchers (who combined constitute approximately 17% of the total Delta employees) are represented by labor unions. The integration of the workforces of the two airlines will require the resolution of potentially difficult issues relating to representation of various work groups and the relative seniority of the work groups at each carrier. Unexpected delay, expense or other challenges to integrating the workforces could impact the expected synergies from the combination of Delta and Northwest and affect the financial performance of the combined company.

Relations between air carriers and labor unions in the U.S. are governed by the Railway Labor Act, under which a collective bargaining agreement between an airline and a labor union generally does not expire, but instead becomes amendable as of a stated date. The Railway Labor Act generally prohibits strikes or other types of self-help actions both before and after a collective bargaining agreement becomes amendable, unless and until the collective bargaining processes required by the Railway Labor Act have been exhausted.

Under procedures established by the National Mediation Board, which we refer to as the NMB, the representation status, together with the existing collective bargaining agreements, of each of the respective work groups at Delta and Northwest following the closing of the merger will generally remain in place pending a determination by the NMB that the carriers have combined or will combine to form a single carrier. If the NMB

determines that Delta and Northwest have combined or will combine to form a single carrier, the NMB has established the following procedures to address and resolve representation issues arising from the merger:

- Where employees in the same craft or class at the two carriers are represented by the same union, that union will be certified to represent the combined group, without an election.

- Where employees in the same craft or class at the two carriers have different representation status either they are represented by different unions or one group is represented by a union and the other is not the NMB s rules provide for a representation election among the combined employee groups if the groups are comparable in size. In general, the NMB has considered two groups to be comparable in size if the smaller group is at least 35% of the combined group. If the representation election results in the combined group not being represented by a union, the collective bargaining agreement covering the group that had previously been unionized will terminate.

- If the two groups are not comparable in size, the smaller group will be folded into and have the same representation status as the larger group. Even where the two groups are not comparable in size, the smaller group can still obtain an election if, within 14 days after the NMB s single carrier determination, the smaller group submits a showing of interest from at least 35% of the combined group. The showing of interest can consist of authorization cards as well as the seniority list of the smaller group, if the smaller group had been represented by a union.

Using these procedures, we expect that representation elections will occur in several combined employee groups. Under the NMB s usual rules, a labor union generally will be certified as the representative of the employees in a craft or class only if more than 50% of those employees vote for union representation. A certified labor union then enters into negotiations toward a collective bargaining agreement with the employer. Given the number of work groups involved in the combined company, completing agreements with work groups that choose to be represented by a labor union could take significant time, which could delay or impede the combined company s ability to achieve expected synergies.

With respect to integration of seniority lists, where the two employee groups in a craft or class have different representation status, federal law requires that seniority integration be governed by the procedures first issued by the Civil Aeronautics Board in the Allegheny-Mohawk merger known as the Allegheny-Mohawk Labor Protective Provisions. In general, Allegheny-Mohawk Labor Protective Provisions require that seniority be integrated in a fair and equitable manner and that any disputes not resolved by negotiations may be submitted to binding arbitration by a neutral arbitrator. This requirement is consistent with the seniority protection policy that has been adopted by the Delta board of directors. Where both groups are represented by the same union, seniority integration is governed by the union s bylaws and policies.

In particular, the successful integration of the pilot workgroups of Delta and Northwest, both of whom are represented by ALPA, will require that the combined company reach an agreement covering Delta and Northwest pilots and that the pilot workgroups reach a resolution on the integration of their respective seniority lists. Many of the factors involved in such matters are fully or partially beyond Delta s and Northwest s control. As a result, there can be no certainty as to whether or when such integration will occur, which could have an effect on the combined company s ability to achieve the synergies expected through the combination of the airlines.

Prior to the closing of the merger, labor-related litigation may arise that could affect the closing of the merger. For example, unions, individual employees or groups of employees may seek to delay or halt the transaction, may seek monetary damages, either in court or in grievance arbitration, may seek to compel Delta or Northwest to engage in collective bargaining processes where neither airline believes it has any such obligation or may seek to assert rights to participate in corporate governance, including through board representation. One or more unions, individual employees or groups of employees may pursue such judicial or arbitral avenues in the context of the merger, and if successful, could delay or halt the merger or create additional costs that we did not anticipate.

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In addition to judicial or arbitral challenges to the merger, some employees could engage in slow-downs, work stoppages, partial work stoppages, sick-outs or other action short of a lawful strike either prior to or after the closing of the merger. These actions may be unlawful and could individually or collectively harm the operations of the airlines and impair their financial performance.

Uncertainties associated with the merger may cause a loss of management personnel and other key employees which could adversely affect the future business and operations of the combined company.

Delta and Northwest are dependent on the experience and industry knowledge of their respective officers and other key employees to execute their respective business plans. The combined company s success after the merger will depend in part upon the ability of Delta and Northwest to retain key management personnel and other key employees. Furthermore, current and prospective employees of Delta and Northwest may experience uncertainty about their post-merger roles within the combined company. This uncertainly may have an adverse effect on the ability of each of Delta and Northwest to retain key management and other key personnel. In addition, key management personnel and other key employees may depart because of issues relating to the uncertainty and difficulty of integration or a desire not to remain with the combined company following the merger. Accordingly, no assurance can be given that the combined company will be able to attract or retain key management personnel and other key employees of Delta and Northwest to the same extent that Delta and Northwest have previously been able to attract or retain their own employees.

Failure to complete the merger could negatively impact the stock prices and the future business and financial results of Northwest and Delta.

If the merger is not completed, the ongoing businesses of Northwest or Delta may be adversely affected and Northwest and Delta will be subject to several risks, including the following:

- being required, under certain circumstances under the merger agreement, to pay a termination fee of $165 million;
- having to pay certain costs relating to the merger, such as legal, accounting, financial advisor and printing fees; and
- the focus of management of each of the companies on the merger instead of on pursuing other opportunities that could be beneficial to the companies.

If the merger is not completed, Northwest and Delta cannot ensure their stockholders that these risks will not materialize and will not materially adversely affect the business, financial results and stock prices of Northwest or Delta.

The fairness opinions obtained by Delta and Northwest from their respective financial advisors will not reflect changes in circumstances between signing the merger agreement and the completion of the merger.

Neither Delta nor Northwest has obtained an updated fairness opinion as of the date of this document from Greenhill or Merrill Lynch, Delta s financial advisors, or Morgan Stanley, Northwest s financial advisor. Changes in the operations and prospects of Delta or Northwest, general market and economic conditions and other factors that may be beyond the control of Delta and Northwest, and on which the fairness opinions were based, may alter the value of Delta or Northwest or the prices of shares of Delta common stock or Northwest common stock by the time the merger is completed. The opinions do not speak as of the time the merger will be completed or as of any date other than the dates of such opinions. Because neither Delta nor Northwest anticipates asking its respective financial advisors to update their opinions, the April 14, 2008 opinions do not address the fairness of the exchange ratio or merger consideration, from a financial point of view, at the time the merger is completed. The opinions are included as Appendix C, D and E to this document. For a description of the opinions that Delta received from its financial advisors and a summary of the material financial analyses they provided to the Delta board of directors in connection with rendering such opinions, please refer to The

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Merger Opinion of Delta s Financial Advisors beginning on page 41. For a description of the opinion that Northwest received from its financial advisor and a summary of the material financial analysis it provided to the Northwest board of directors in connection with rendering such opinion, please refer to The Merger Opinion of Northwest s Financial Advisor beginning on page 51. For a description of the other factors considered by the board of directors of Delta in determining to approve the merger, please refer to The Merger Delta s Reasons for the Merger; Recommendation of the Issuance of Delta Common Stock in Merger and the Amendment to the Delta 2007 Performance Compensation Plan by the Delta Board of Directors beginning on page 39. For a description of the other factors considered by the board of directors of Northwest in determining to approve the merger, please refer to The Merger Northwest s Reasons for the Merger; Recommendation of the Northwest Board of Directors beginning on page 48.

Certain of Delta s and Northwest s executive officers and directors have interests in the merger that are different from, or in addition to, the interests of Delta and Northwest stockholders generally.

Delta s executive officers and Northwest s executive officers negotiated the terms of the merger agreement. Some of Delta s and Northwest s executive officers and directors have interests in the merger that are different from, or in addition to, the interests of Delta and Northwest stockholders generally. The Delta and Northwest boards of directors approved the merger agreement, the Delta board of directors recommended that Delta stockholders vote to approve both the issuance of Delta common stock in the merger and the amendment to the Delta 2007 Performance Compensation Plan, and the Northwest board of directors recommended that Northwest stockholders vote to adopt the merger agreement and to approve the other Northwest proposals described in this joint proxy statement/prospectus. In considering these facts and the other information in this joint proxy statement/prospectus, you should be aware that certain Delta and Northwest executive officers and directors have interests in the merger other than their interests as stockholders. Some of the executive officers of Delta and Northwest have arrangements with Delta or Northwest, as applicable, that provide for severance benefits if their employment is terminated under certain circumstances in connection with a change in control of Delta or Northwest. In addition, certain of Delta s and Northwest s respective compensation and benefits plans and arrangements provide for payment or accelerated vesting or distribution of the rights or benefits thereunder upon a change in control of Delta or Northwest, as applicable, which the merger would be. Executive officers and directors of Northwest also have rights to indemnification and directors and officers liability insurance that will survive completion of the merger.

Upon completion of the merger, Daniel A. Carp will serve as non-executive chairman of the board of directors of the combined company, Roy J. Bostock will serve as a non-executive vice chairman of the board of the combined company, Richard H. Anderson will serve as chief executive officer of the combined company and Edward H. Bastian will serve as president and chief financial officer of the combined company. In addition, upon completion of the merger, the board of directors of the combined company will be made up of thirteen members, consisting of (1) seven members of the Delta board of directors (which will include Daniel A. Carp, the current chairman of the board of directors of Delta, and Richard H. Anderson, the current chief executive officer of Delta), (2) five members of the Northwest board of directors (which will include Roy J. Bostock, the current chairman of the Northwest board of directors, and Douglas M. Steenland, the current chief executive officer of Northwest) and (3) one representative designated by the Delta MEC. The Delta MEC has designated Mr. Kenneth C. Rogers, a Delta pilot who is a current member of the Delta board of directors, to serve on the board of directors of the combined company.

The Delta and Northwest boards of directors were aware of these interests at the time each approved the merger and the transactions contemplated by the merger agreement. These interests may cause Delta s and Northwest s directors and executive officers to view the merger proposal differently and more favorably than you may view it. See The Merger Interests of Directors and Officers in the Merger beginning on page 57 for more information.

Delta s and Northwest s ability to use net operating loss carryforwards to offset future taxable income for U.S. federal income tax purposes is subject to limitation and may be limited further as a result of the merger and the employee equity issuance.

In general, under Section 382 of the Code, a corporation that undergoes an ownership change is subject to limitations on its ability to utilize its pre-change net operating losses, which we refer to as NOLs, to offset future taxable income. In general, an ownership change occurs if the aggregate stock ownership of certain stockholders increases by more than 50 percentage points over such stockholders lowest percentage ownership during the testing period (generally three years). The amount of the annual limitation generally is equal to the value of the stock of the corporation immediately prior to the ownership change multiplied by the adjusted federal tax-exempt rate, set by the Internal Revenue Service.

As of December 31, 2007, Northwest had approximately $3.6 billion of federal and state NOL carryforwards, and Delta had approximately $9.1 billion of federal and state NOL carryforwards. Northwest and Delta both experienced an ownership change in 2007 as a result of their respective plans of reorganization under Chapter 11 of the U.S. Bankruptcy Code. Pursuant to the merger agreement, Northwest and Delta will elect out of Section 382(l)(5) of the Code, in which case Section 382(l)(6) of the Code will be applicable to the ownership changes that occurred pursuant to their respective plans of reorganization. Under Section 382(l)(6) of the Code, the determination of the value of the corporation, for purposes of determining the Section 382 limitation, includes any increase in the value of the corporation resulting from the surrender or cancellation of creditors claims in the reorganization. Nonetheless, a second ownership change could further limit each company s ability to utilize its NOL carryforwards for taxable years including or following the subsequent ownership change.

It is presently anticipated that the merger and the employee equity issuance, would result in a second ownership change of Northwest for purposes of Section 382 of the Code. Similarly, the merger and the employee equity issuance, together with certain other transactions involving the sale of Delta common stock within the testing period, currently are expected to result in a second ownership change of Delta. Even if the merger and the employee equity issuance did not result in an ownership change of Delta or Northwest, the merger and the employee equity issuance would increase the risk that there would be an additional ownership change in the future (which ownership change could occur as a result of transactions involving Delta stock that are outside of our control).

The occurrence of a second ownership change of Delta or Northwest could limit the ability to utilize pre-change Delta and Northwest NOLs that are not currently subject to limitation, and could further limit the ability to utilize Delta and Northwest NOLs that are currently subject to limitation. Limitations imposed on the ability to use NOLs to offset future taxable income could cause U.S. federal income taxes to be paid earlier than otherwise would be paid if such limitations were not in effect and could cause such NOLs to expire unused, in each case reducing or eliminating the benefit of such NOLs. Similar rules and limitations may apply for state income tax purposes.

In connection with the merger, we may need to refinance a substantial amount of indebtedness.

In connection with the merger, Delta and/or Northwest will be required to seek waivers or amendments under, or refinance, one or more of their existing credit facilities. There can be no assurance that the lenders under such facilities will agree to any such waivers or amendments on terms favorable to the combined company or at all. If either Delta, Northwest or the combined company is required to repay or refinance any existing indebtedness, the combined company may use available cash (which could significantly reduce available liquidity), incur additional or replacement debt, or issue preferred or common stock (or a combination of such sources) and, due to prevailing conditions in the credit markets and capital markets, such financing may not be available on terms as favorable to the combined company as the terms of the existing credit facilities or at all.

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THE DELTA SPECIAL MEETING

Date, Time and Place

The special meeting of Delta stockholders will be held at the on , 2008 at : a.m., local time.

Purpose of the Delta Special Meeting

At the Delta special meeting, stockholders will be asked to:

- consider and vote on a proposal to approve the issuance of Delta common stock, par value $0.0001 per share, in the merger contemplated by the Agreement and Plan of Merger, dated as of April 14, 2008, by and among Delta, Nautilus Merger Corporation, a direct, wholly-owned subsidiary of Delta, and Northwest Airlines Corporation, a copy of which is attached as Appendix A to the joint proxy statement/prospectus accompanying this notice;

- consider and vote on a proposal to approve an amendment to the Delta 2007 Performance Compensation Plan to increase the number of shares of Delta common stock, par value $0.0001 per share, issuable pursuant to the plan by a number of shares equal to % of the fully-diluted shares outstanding of Delta (after giving effect to the shares of Delta common stock issued in connection with the merger), as described in this document beginning on page 84; and

- vote upon an adjournment of the Delta special meeting, if necessary or appropriate, to solicit additional proxies if there are not sufficient votes to approve each of the foregoing proposals.

Delta Record Date; Stock Entitled to Vote

Only Delta stockholders of record at the close of business on , 2008, the Delta record date for the Delta special meeting, will be entitled to notice of, and to vote at, the Delta special meeting or any adjournments or postponements thereof.

On the Delta record date, there were shares of Delta common stock outstanding and entitled to vote at the Delta special meeting. Delta stockholders will have one vote for each share of Delta common stock they owned on the Delta record date, in person or through the Internet or by telephone or by a properly executed and delivered proxy with respect to the Delta special meeting.

On the Delta record date, directors and executive officers of Delta and their affiliates owned and were entitled to vote shares of Delta common stock, or approximately % of the shares of Delta common stock outstanding on that date. We currently expect that Delta s directors and executive officers will vote their shares in favor of the issuance of Delta common stock in connection with the merger and the amendment to the Delta 2007 Performance Compensation Plan, although none of them have entered into any agreements obligating them to do so.

Quorum

The holders of shares having a majority of the voting power of the common stock of Delta issued and outstanding and entitled to vote must be present or represented by proxy to constitute a quorum for the transaction of business at the special meeting. All shares of Delta common stock represented at the Delta special meeting, including abstentions and broker non-votes, will be treated as present for purposes of determining the presence or absence of a quorum for all matters for consideration at the Delta special meeting.

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Required Vote

The issuance of Delta common stock to Northwest stockholders, approval of which is necessary to complete the merger, requires approval by an affirmative vote of holders of a majority of the shares of Delta common stock present or represented and entitled to vote on the proposal, with a majority of the shares of Delta common stock entitled to vote actually voting on the proposal.

Approval of the amendment to the Delta 2007 Performance Compensation Plan requires approval by an affirmative vote of holders of a majority of the shares of Delta common stock present or represented and entitled to vote on the proposal, with a majority of the shares of Delta common stock entitled to vote actually voting on the proposal.

Approval of a proposal to adjourn the Delta special meeting, if necessary or appropriate, for the purpose of soliciting additional proxies requires approval by the vote of holders of a majority of the Delta common stock present or represented and entitled to vote on the proposal.

Abstentions

Abstentions, which will occur if a Delta stockholder attends the Delta special meeting, either in person or by proxy, but abstains from voting will have the same effect as a vote against both the proposal to approve the issuance of shares of Delta common stock in the merger and the proposal to approve the amendment to the Delta 2007 Performance Compensation Plan.

Voting of Proxies by Holders of Record

If you are a holder of record, a proxy card is enclosed for your use. Delta requests that you vote through the Internet or by telephone following the instructions included on your proxy card or sign the accompanying proxy and return it promptly in the enclosed postage-paid envelope. When the accompanying proxy is returned properly executed, the shares of Delta common stock represented by it will be voted at the Delta special meeting or any adjournment thereof in accordance with the instructions contained in the proxy.

If a proxy is returned without an indication as to how the shares of Delta common stock represented are to be voted with regard to a particular proposal, the Delta common stock represented by the proxy will be voted in favor of each such proposal. At the date hereof, management has no knowledge of any business that will be presented for consideration at the special meeting and which would be required to be set forth in this proxy statement or the related proxy card other than the matters set forth in the Notice of Special Meeting of Stockholders. If any other matter is properly presented at the special meeting for consideration, it is intended that the persons named in the enclosed form of proxy and acting thereunder will vote in accordance with their best judgment on such matter.

Your vote is important. Accordingly, please sign and return the enclosed proxy card whether or not you plan to attend the Delta special meeting in person. Proxies must be received by 5:00 p.m., Eastern time, on , 2008.

Shares Held in Delta Plans

If you are a participant in the Pilot Plan and hold shares of Delta common stock through an account under the Pilot Plan, or you own shares of unvested restricted Delta common stock granted under the Delta 2007 Performance Compensation Plan, you will receive a proxy or voting instruction card representing these shares of Delta common stock. Your submission of voting instructions will instruct the trustee of the Pilot Plan or the administrator of the Delta 2007 Performance Compensation Plan, as applicable, how to vote those shares, but it will not result in the appointment of a proxy. You may deliver voting instructions for these shares of Delta common stock by:

accessing the Internet website specified on your voting instruction card;

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calling the toll-free number specified on your voting instruction card; or

signing and returning the enclosed voting instruction card in the postage-paid envelope provided.

To be effective, instructions regarding shares of Delta common stock held in the Pilot Plan account must be received by 5:00 p.m., Eastern time, on , 2008. Instructions regarding unvested restricted stock must be received by 5:00 p.m., Eastern time, on , 2008. Please note that you may not vote shares held in your Pilot Plan account or shares of unvested restricted Delta common stock in person at the meeting. If you do not submit voting instructions regarding these shares, they will not be voted.

Shares Held in Street Name

If you hold your shares in a stock brokerage account or if your shares are held by a bank or nominee (that is, in street name), you must provide the record holder of your shares with instructions on how to vote your shares. Please follow the voting instructions provided by your bank or broker. Please note that you may not vote shares held in street name by returning a proxy card directly to Delta or by voting in person at your stockholders meeting unless you provide a legal proxy, which you must obtain from your bank or broker. Further, brokers who hold shares of Delta common stock on behalf of their customers may not give a proxy to Delta to vote those shares without specific instructions from their customers.

If you are a Delta stockholder and you do not instruct your broker on how to vote your shares:

your broker may not vote your shares on the proposal to approve the issuance of shares of Delta common stock in the merger, which will have no effect on the vote on this proposal, assuming a quorum is present and a majority of the shares of Delta common stock entitled to vote actually do vote on the proposal; and

your broker may not vote your shares on the proposal to approve the amendment to the Delta 2007 Performance Compensation Plan, which will have no effect on the vote on this proposal, assuming a quorum is present and a majority of the shares of Delta common stock entitled to vote actually do vote on the proposal.

Revocability of Proxies

You have the power to revoke your proxy at any time before your proxy is voted at the Delta special meeting. You can revoke your proxy in one of three ways:

you can send a signed written notice of revocation to the Secretary of Delta at P.O. Box 20706, Atlanta, Georgia 30320-6001;

you can deliver a new, valid proxy bearing a later date by submitting instructions through the Internet, by telephone or by mail as described on the proxy or voting instruction card; or

if you are a holder of record, you can attend the Delta special meeting and vote in person, which will automatically cancel any proxy previously given, or you can revoke your proxy in person, but your attendance alone will not revoke any proxy that you have previously given.

If you hold shares of Delta common stock in a Pilot Plan account, revocation of instructions through the Internet, by telephone or by mail must be received by 5:00 p.m., Eastern time, on , 2008 to be effective. If you are a holder of record, or hold shares of unvested restricted Delta common stock, revocation of your proxy or voting instructions through the Internet, by telephone or by mail must be received by 5:00 p.m., Eastern time, on , 2008. As noted above, if you are a holder of record you may also revoke your proxy by attending the meeting and voting in person or revoking your proxy in person. If your shares are held in street name by your bank or broker, you should follow the instructions provided by your bank or broker to change your vote.

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Solicitation of Proxies

In accordance with the merger agreement, the cost of proxy solicitation for the Delta special meeting will be borne by Delta, except that Delta and Northwest will share equally all expenses incurred in connection with the filing of the registration statement of which this document forms a part with the SEC and the printing and mailing of this document. In addition to the use of the mail, proxies may be solicited by members of the Delta board of directors, officers and other employees of Delta, without additional remuneration, by personal interview, telephone, facsimile or otherwise. Delta will also request brokerage firms, nominees, custodians and fiduciaries to forward proxy materials to the beneficial owners of shares held of record on the record date and will provide customary reimbursement to such firms for the cost of forwarding these materials. Delta has retained D.F. King & Co., Inc. to assist in its solicitation of proxies and has agreed to pay them approximately $, plus reasonable expenses, for these services.

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THE NORTHWEST ANNUAL MEETING

Date, Time and Place

The annual meeting of Northwest stockholders will be held at the , on , 2008 at : a.m., local time.

Purpose of the Northwest Annual Meeting

At the Northwest annual meeting, stockholders will be asked to:

- adopt the merger agreement;
- elect twelve directors to hold office until the 2009 Annual Meeting of Stockholders and until their respective successors have been elected and qualified, or if the merger is completed, until the effective time of the merger;
- ratify the appointment of Ernst & Young LLP as Northwest s independent registered public accounting firm for the fiscal year ending December 31, 2008;
- approve an amendment to the Northwest 2007 Stock Incentive Plan;
- vote upon an adjournment of the Northwest annual meeting, if necessary or appropriate, to solicit additional proxies if there are not sufficient votes to approve each of the foregoing proposals; and
- transact such other business as may properly come before the Northwest annual meeting or any adjournment or postponement thereof.

Northwest Record Date; Stock Entitled to Vote

Only Northwest stockholders of record at the close of business on , 2008, the Northwest record date for the Northwest annual meeting, will be entitled to notice of, and to vote at, the Northwest annual meeting or any adjournments or postponements thereof.

On the Northwest record date, there were shares of Northwest common stock outstanding and entitled to vote at the Northwest annual meeting. The Northwest common stock is the only class of securities entitled to vote at the annual meeting. Each share of Northwest common stock outstanding on the Northwest record date entitles the holder thereof to one vote on each matter properly brought before the Northwest annual meeting, exercisable in person or through the Internet or by telephone or by a properly executed and delivered proxy with respect to the Northwest annual meeting.

On the Northwest record date, directors and executive officers of Northwest and their affiliates owned and were entitled to vote shares of Northwest common stock, or approximately % of the shares of Northwest common stock outstanding on that date. We currently expect that Northwest s directors and executive officers will vote their shares in favor of the merger and the other Northwest proposals described in this joint proxy statement/prospectus, although none of them have entered into any agreements obligating them to do so.

Quorum

A majority of the votes entitled to be cast by the shares entitled to vote must be present or represented by proxy to constitute a quorum for action on the matters to be voted upon at the Northwest annual meeting. All shares of Northwest common stock represented at the Northwest annual meeting, including abstentions and broker non-votes, will be treated as present for purposes of determining the presence or absence of a quorum for all matters voted on at the Northwest annual meeting.

Required Vote

Adoption of the merger agreement requires the affirmative vote of holders of a majority of the outstanding shares of Northwest common stock entitled to vote on the proposal.

The twelve nominees for election to the Northwest board of directors receiving the greatest number of affirmative votes cast by holders of Northwest common stock will be elected as directors.

Ratification of the appointment of Ernst & Young LLP as Northwest s independent registered public accounting firm for the fiscal year ending December 31, 2008 requires the affirmative vote of a majority of the votes cast on the proposal at the Northwest annual meeting.

Under NYSE rules, approval of the amendment to the Northwest 2007 Stock Incentive Plan requires the affirmative vote of a majority of the votes cast on the proposal at the Northwest annual meeting, provided that a majority of the outstanding shares of Northwest common stock entitled to vote are voted on the proposal.

Adjournment of the Northwest annual meeting, if necessary or appropriate, to solicit additional proxies if there are not sufficient votes to approve each of the foregoing proposals, requires the affirmative vote of a majority of the votes cast on the proposal at the Northwest annual meeting.

Abstentions

For purposes of the Northwest annual meeting, an abstention or withhold vote, as applicable:

for the proposal to adopt the merger agreement, will have the same effect as a vote against the proposal and against the merger;

for the election of directors, will not count as a vote for or against the proposal and will have no effect on the outcome of the election;

for ratification of the appointment of the independent auditor, will not count as a vote for or against the proposal and will have no effect on the outcome of the proposal;

for approval of the amendment to the Northwest 2007 Stock Incentive Plan, is considered a vote cast under NYSE rules and thus will have the same effect as a vote against the proposal and will be counted in determining whether the votes cast represent a majority of the outstanding shares of Northwest common stock entitled to vote on the proposal; and

for adjournment of the Northwest annual meeting, if necessary or appropriate, to solicit additional proxies if there are not sufficient votes to approve each of the foregoing proposals, will not count as a vote for or against the proposal and will have no effect on the outcome of the proposal.

Voting of Proxies by Holders of Record

Vote by Mail. If you choose to vote by mail, simply mark your proxy, date and sign it, and return it in the postage-paid envelope provided.

Voting by Ballot at the Annual Meeting. The method by which you vote will not limit your right to vote at the Northwest annual meeting if you decide to attend in person. If your shares are held in the name of a bank, broker or other holder of record, however, you must obtain a proxy, executed in your favor, from the holder of record to be able to vote at the Northwest annual meeting. Northwest Retirement Savings Plan participants who are entitled to provide voting instructions with respect to shares allocated to their account must provide voting instructions to the trustee before the deadline stated above and therefore will not be able to provide voting instructions at the Northwest annual meeting.

Voting on the Internet. You may vote by proxy on the internet by following the procedures and instructions on your proxy card. Participants in the Northwest Retirement Savings Plan may provide voting instructions on the internet by following the procedures and instructions on their

voting instruction card. Internet voting for stockholders of record and Northwest Retirement Savings Plan participants will be available 24 hours a day,

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seven days a week. The deadline for internet voting is 5:00 p.m., Eastern time, on , 2008 for stockholders of record. In order to provide the trustee of the Northwest Retirement Savings Plan with sufficient time to vote the shares held in the plan, voting instructions for Northwest Retirement Savings Plan shares will be accepted only until 5:00 p.m., Eastern time, on , 2008.

If a proxy is returned without an indication as to how the shares of Northwest common stock represented are to be voted with regard to a particular proposal, the Northwest common stock represented by the proxy will be voted as recommended by the Northwest board of directors. Your signed proxy also confers discretionary authority to vote with respect to any matter presented at the Northwest annual meeting, except as set forth in the proxy and except for matters proposed by a stockholder who notifies Northwest not later than the close of business on the tenth day following the day on which the Notice of Annual Meeting of Stockholders was mailed. At the date hereof, management has no knowledge of any business that will be presented for consideration at the special meeting and which would be required to be set forth in this proxy statement or the related proxy card other than the matters set forth in the Notice of Annual Meeting of Stockholders. If any other matter is properly presented at the annual meeting for consideration, it is intended that the persons named in the enclosed form of proxy and acting thereunder will vote in accordance with their best judgment on such matter.

Your vote is important. Accordingly, please vote your shares either on the Internet or by mail, whether or not you plan to attend the Northwest annual meeting in person. Proxies must be received by 5:00 p.m., Eastern time, on , 2008.

Voting Shares Held in the Northwest Retirement Savings Plan

Participants in the Northwest Retirement Savings Plan who have shares of Northwest common stock allocated to their account are entitled to provide voting instructions on each proposal to be voted on at the Northwest annual meeting with respect to shares of Northwest common stock allocated to their account. Any allocated shares of Northwest common stock held in the Northwest Retirement Savings Plan for which participant voting instructions are not timely received by the trustee will be voted by the trustee in the same proportion as the shares for which voting instructions have been received. Participants may provide voting instructions either on the internet or by mail. If you choose to provide voting instructions on the internet, follow the procedures and instructions on your enclosed voting instruction card. If you choose to provide voting instructions by mail, simply mark your enclosed voting instruction card, date and sign it, and return it in the postage paid envelope provided. The trustee under the Northwest Retirement Savings Plan will vote the shares of Northwest common stock allocated to a participant s account in accordance with the participant s instructions timely received. The deadline for providing voting instructions is 5:00 p.m., Eastern time, on , 2008.

Shares Held in Street Name

If you hold your shares in a stock brokerage account or if your shares are held by a bank or nominee (that is, in street name), you must provide the record holder of your shares with instructions on how to vote your shares. Please follow the voting instructions provided by your bank or broker. Please note that you may not vote shares held in street name by returning a proxy card directly to Northwest or by voting in person at your stockholders meeting unless you provide a legal proxy, which you must obtain from your bank or broker. Further, brokers who hold shares of Northwest common stock on behalf of their customers may not give a proxy to Northwest to vote those shares with respect to the proposal to adopt the merger agreement or the amendment to the Northwest 2007 Stock Incentive Plan without specific instructions from their customers, as brokers do not have discretionary voting power on such proposals.

Therefore, if you are a Northwest stockholder and you do not instruct your broker on how to vote your shares:

your broker may not vote your shares on the proposal to adopt the merger agreement, which broker non-votes will have the same effect as votes against the proposal and against the merger;

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- your broker may not vote your shares on the approval of the amendment to the Northwest 2007 Stock Incentive Plan, which broker non-votes will not count as votes for or against the proposal and will have no effect on the outcome of the proposal, assuming a majority of the outstanding shares of Northwest common stock entitled to vote are voted on the proposal; and

- your broker may vote your shares on the other Northwest annual meeting matters.

Revocability of Proxies

You have the power to revoke your proxy at any time before your proxy is voted at the Northwest annual meeting. You can revoke your proxy in one of three ways:

- you can revoke your proxy at any time prior to the commencement of the Northwest annual meeting by written notice to the Secretary of Northwest at 2700 Lone Oak Parkway, Eagan, Minnesota 55121;

- you can deliver to Northwest a new, valid proxy bearing a later date; or

- if you are a holder of record, you can attend the Northwest annual meeting and vote in person, which will automatically cancel any proxy previously delivered, or you may revoke your proxy in person, but your attendance alone will not revoke any proxy that you have previously delivered.

If you are a holder of record, revocation of your proxy or voting instructions through the Internet, by telephone or by mail must be received by 5:00 p.m., Eastern time, on , 2008. If you hold shares of Northwest common stock in a Northwest Retirement Savings Plan account, revocation of instructions through the Internet, by telephone or by mail must be received by 5:00 p.m., Eastern time, on , 2008 to be effective. If your shares are held in street name by your bank or broker, you should follow the instructions provided by your bank or broker to change your vote.

Solicitation of Proxies

This joint proxy statement/prospectus is furnished in connection with the solicitation of proxies by the board of directors of Northwest to be voted at our annual meeting of stockholders to be held on , 2008 at at : a.m., Eastern time, or at any postponement or adjournment thereof. Stockholders will be admitted to the Northwest annual meeting beginning at : a.m., Eastern time.

The mailing of this joint proxy statement, form of proxy and voting instructions will commence on , 2008.

In accordance with the merger agreement, the cost of this solicitation for the Northwest annual meeting, including all expenses incurred in preparing, printing and mailing this joint proxy statement, will be borne by Northwest, except that Northwest and Delta will share equally all expenses incurred in connection with the filing of the registration statement of which this document forms a part with the SEC and the printing and mailing of this document. In addition to solicitation by mail, proxies may be solicited on Northwest s behalf by directors, officers or employees of Northwest in person or by telephone, electronic transmission and facsimile transmission. These individuals will not be additionally compensated, but may be reimbursed for out-of-pocket expenses in connection with the solicitation. Northwest will also request brokerage firms, nominees, custodians and fiduciaries to forward proxy materials to the beneficial owners of shares held of record on the Northwest record date and will provide customary reimbursement to such firms for the cost of forwarding these materials. Northwest has retained Innisfree M&A Incorporated to assist in its solicitation of proxies and has agreed to pay it approximately $75,000, plus reasonable expenses, for these services.

Foreign Ownership of Shares

The Federal Aviation Act prohibits non-United States citizens from owning more than 25 percent of the voting interest of a company such as Northwest, which owns a United States air carrier. Northwest s Restated

Certificate of Incorporation provides that no share of Northwest s voting stock may be voted by or at the direction of persons who are not United States citizens unless such shares are registered on a separate stock registry maintained by Northwest for non-United States holders, which we refer to as the Foreign Stock Registry. Northwest s Amended and Restated Bylaws provide that no shares of Northwest s voting stock held by non-United States citizens will be registered on the Foreign Stock Registry if the amount so registered would exceed foreign ownership restrictions, currently 25 percent of the voting stock of Northwest.

As of the Northwest record date, shares representing less than one percent of the total outstanding voting stock of Northwest (on a fully diluted basis) are registered on the Foreign Stock Registry. Any holder of Northwest common stock who is not a United States citizen and has not registered its shares on the Foreign Stock Registry maintained by Northwest will not be permitted to vote its shares at the Northwest annual meeting. The enclosed proxy card contains a certification that by signing the proxy card or voting by proxy on the internet the stockholder certifies that such stockholder is a United States citizen as that term is defined in the Federal Aviation Act or that the shares represented by the proxy card have been registered on Northwest s Foreign Stock Registry.

Under Section 40102(a)(15) of the Federal Aviation Act, the term citizen of the United States is defined as: (1) an individual who is a citizen of the United States, (ii) a partnership each of whose partners is an individual who is a citizen of the United States, or (iii) a corporation or association organized under the laws of the United States or a state, the District of Columbia or a territory or possession of the United States of which the president and at least two-thirds of the board of directors and other managing officers are citizens of the United States, and in which at least 75 percent of the voting interest is owned or controlled by persons that are citizens of the United States.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934 requires Northwest s directors, executive officers and holders of more than 10% of Northwest s voting securities to file reports of holdings and transactions in Northwest s equity securities with the SEC. Based on Northwest records and other information, Northwest believes that in 2007 its directors, executive officers and beneficial holders who are subject to Section 16(a) met all applicable SEC filing requirements.

INFORMATION ABOUT THE COMPANIES

Delta Air Lines, Inc.

Delta Air Lines, Inc. is a major air carrier that provides scheduled air transportation for passengers and cargo throughout the United States and around the world. Delta offered customers service to more destinations than any other global airline, with Delta and Delta Connection carrier service to 305 destinations in 58 countries in May 2008. Delta has added more international capacity than any other major U.S. airline during the last two years and is the leader across the Atlantic with flights to 38 trans-Atlantic markets. To Latin America and the Caribbean, Delta offered more than 478 weekly flights to 58 destinations in May 2008. Delta is a founding member of SkyTeam, a global airline alliance that provides customers with extensive worldwide destinations, flights and services. Delta and Air France recently implemented a joint venture to share revenues and costs on transatlantic routes that is expected to increase customer travel choices on key routes across the Atlantic. Including its SkyTeam and worldwide codeshare partners, Delta offered flights to 474 worldwide destinations in 104 countries in May 2008.

Delta is a Delaware corporation headquartered in Atlanta, Georgia. Delta s website is *www.delta.com*. Delta has provided this website address as an inactive textual reference only and the information contained on Delta s website is not a part of this joint proxy statement/prospectus.

Additional information about Delta and its subsidiaries is included in documents incorporated by reference in this document. See Where You Can Find More Information on page 166.

Northwest Airlines Corporation

Northwest Airlines, Inc., the wholly-owned subsidiary of Northwest Airlines Corporation, operates the world s sixth largest airline, as measured by 2006 revenue passenger miles, and is engaged in the business of transporting passengers and cargo. Northwest began operations in 1926. Northwest Airlines, Inc. s business focuses on the operation of a global airline network through its strategic assets that include: (1) domestic hubs at Detroit, Minneapolis/St. Paul and Memphis, (2) an extensive Pacific route system with a hub in Tokyo, (3) a transatlantic joint venture with KLM Royal Dutch Airlines, which operates through a hub in Amsterdam, (4) a domestic and international alliance with Continental Airlines, Inc. and Delta, (5) membership in SkyTeam, a global airline alliance with KLM, Continental, Delta, Air France, Alitalia, Aeroméxico, CSA Czech Airlines, Korean Air and Aeroflot, (6) agreements with three domestic regional carriers, including Pinnacle Airlines, Inc., Mesaba Aviation, Inc., a wholly-owned subsidiary, and Compass Airlines, Inc., a wholly-owned subsidiary, each of which operates as Northwest Airlink and (7) a cargo business that operates a dedicated freighter fleet of aircraft through hubs in Anchorage and Tokyo.

Northwest is a Delaware corporation headquartered in Eagan, Minnesota. Northwest s website is *www.nwa.com*. Northwest has provided this website address as an inactive textual reference only and the information contained on Northwest s website is not a part of this joint proxy statement/prospectus.

Additional information about Northwest and its subsidiaries is included in documents incorporated by reference in this document. See Where You Can Find More Information on page 166.

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DELTA PROPOSAL 1 AND NORTHWEST PROPOSAL 1: THE MERGER

The following is a discussion of the proposed merger and the merger agreement. This is a summary only and may not contain all of the information that is important to you. A copy of the merger agreement is attached to this document as Appendix A and is incorporated by reference herein. Delta and Northwest stockholders are urged to read this entire document, including the merger agreement, for a more complete understanding of the merger.

Effect of the Merger; Consideration to be Received in the Merger

Under the merger agreement, Nautilus Merger Corporation, a direct, wholly-owned subsidiary of Delta, will merge with and into Northwest, with Northwest continuing as the surviving corporation. As a result of the merger, Northwest will become a direct, wholly-owned subsidiary of Delta.

At the effective time of the merger, each share of Northwest common stock that is either (i) issued and outstanding immediately prior to the effective time of the merger or (ii) to be issued pursuant to the reserve created under Northwest s plan of reorganization under Chapter 11 of the U.S. Bankruptcy Code (other than shares of Northwest common stock owned by Northwest, Delta or Nautilus Merger Corporation to be cancelled upon completion of the merger), will be converted into the right to receive 1.25 shares of Delta common stock.

Background of the Merger

In the first half of 2007, each of Delta s and Northwest s board of directors from time to time separately reviewed and discussed potential strategic alternatives with senior management of their respective companies, and considered ways to enhance their respective performance and prospects in light of airline industry and economic conditions. For each company, these reviews also included periodic internal discussions of projected financial performance as well as hypothetical transactions that would add stockholder value, better serve customers and employees and further its strategic objectives, and the potential benefits and risks of those transactions.

In mid-November 2007, in response to rapidly changing dynamics in the airline industry, especially an unprecedented increase in the price of jet fuel, the Delta board of directors established a special committee of its members, which we refer to as the Delta special committee, to analyze Delta s strategic alternatives, including potential business combinations with other carriers, and report its results and recommendations to the Delta board of directors.

Commencing in late November 2007, the Delta special committee began holding meetings, which were attended by members of Delta s senior management and outside advisors, during which they considered, among other things, the financial position on a standalone basis and strategic goals of Delta, the rapidly changing and increasingly competitive environment in the airline industry, the effects of competition from foreign airlines, capital needs, labor issues, regulatory matters, airline alliance matters, and whether to consider a merger transaction. The Delta special committee discussed whether such a transaction would help Delta achieve its strategic goals, increase stockholder value, build a world class respected brand, broaden its route network and improve financial sustainability. In connection with its review of potential strategic transactions, Delta retained Greenhill and Merrill Lynch as its financial advisors, and Wachtell, Lipton, Rosen & Katz, who we refer to as Wachtell, Lipton, and Hunton & Williams as its legal advisors.

Similarly, commencing in late October 2007 and throughout November and December 2007, the Northwest board of directors held meetings during which it considered, among other things, the financial position on a standalone basis and strategic goals of Northwest, competitive pressures facing the airline industry and Northwest in particular, capital needs, labor issues (including the significance of airline employees in the success of any potential business combination), regulatory matters, airline alliance matters, and whether to consider a strategic merger transaction with one or more other airlines. In early December 2007, Northwest engaged Morgan Stanley to act as financial advisor to Northwest in connection with a potential combination of

Northwest with another major air carrier. Throughout late 2007 and early 2008, representatives of Northwest held various preliminary discussions with other airlines, including Delta, regarding possible combination transactions. The Northwest board of directors met several times in January 2008 to discuss the progress of discussions with Delta and discussions with the other airlines, as well as other strategic alternatives.

In early December 2007, Delta s senior management, along with Greenhill and Merrill Lynch, discussed with the Delta special committee an illustrative analysis of Delta s three-year operating plan as well as a variety of hypothetical combination transactions with other airlines. The Delta special committee discussed, among other things, the achievability of such a transaction, labor, regulatory and airline alliance matters, the likely strategic response of other airlines if Delta entered into a merger transaction and the impact that failing to consummate a transaction might have on Delta.

In mid-December 2007, based on its review of Delta s three-year operating plan and a variety of hypothetical combination scenarios as well as the recommendations of Delta s senior management and the Delta special committee, the Delta board of directors determined that, of Delta s potential merger partners, Northwest and one other airline were the most likely to lead to a transaction that would achieve Delta s strategic goals, and authorized Delta management to commence exploratory meetings with Northwest and the other airline. The Delta board of directors and Delta management also discussed the significance of airline employees in the success of any potential business combination and the importance of affirmatively addressing pilot and other employee concerns as an integral part of a possible combination. Shortly thereafter, Delta and Northwest entered into a reciprocal confidentiality agreement and began mutual due diligence. Delta also entered into a confidentiality agreement and commenced due diligence with the other airline.

Discussions between Delta and each of Northwest and the other airline continued during late December 2007 and early January 2008. Based on the results of Delta s initial due diligence and the conversations that had taken place between the senior management of Delta and each of Northwest and the other airline, the Delta board of directors in mid-January 2008 authorized Delta management to pursue further negotiations with Northwest and the other airline regarding a potential merger transaction in the form of an all-stock merger.

Delta s discussions with Northwest and the other airline continued throughout January 2008. On January 16, 2008, Delta s legal counsel at Wachtell, Lipton delivered a draft merger agreement to Northwest s legal counsel at Simpson Thacher & Bartlett LLP, who we refer to as Simpson Thacher. At a meeting in late January 2008, the Delta special committee received an update from Delta management as to the status of the discussions. Delta s senior management reported that, while they continued to believe that there were significant benefits to a combination of Delta and the other airline, they also were of the view that there remained unresolved significant financial, alliance, labor, regulatory, strategic and operational issues with such a transaction. Delta management also reported that they believed that good progress was being made in its negotiations with Northwest.

The Northwest board of directors also received regular updates from Northwest management as to the status of discussions with Delta and the other airlines throughout January 2008. In addition, in late January 2008, the Northwest board of directors met with its senior management and outside financial and legal advisors at which the progress of discussions with Delta and the proposed terms of the transaction were discussed. Meanwhile, senior representatives of Delta and Northwest engaged in discussions regarding, among other subjects, the exchange ratio in a potential stock-for-stock merger, the name and headquarters location of a combined company, governance issues, including representation on a combined company board of directors, and potential cash break-up fees if a deal was announced but not completed for various reasons.

On February 6, 2008, the Northwest board of directors met again to review the progress of discussions with Delta, receiving an update from Northwest senior management that agreement in principle with Delta on certain key business issues had been reached. On February 9, 2008, Northwest delivered to Delta a revised merger agreement. Negotiations between Delta and Northwest of the terms of the merger agreement continued throughout the first three weeks of February.

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On February 16, 2008, the Northwest board of directors met with senior management and its outside financial and legal advisors, at which Northwest management and advisors reviewed for the Northwest board of directors the progress of discussions with Delta, the due diligence process, projected financial information and the proposed terms of the transaction, including the proposed merger consideration. Representatives of Simpson Thacher advised the Northwest board of directors regarding certain legal matters related to the proposed transaction, including the fiduciary obligations of Northwest s directors in connection with their consideration of the proposed merger agreement, and reviewed the terms and conditions of the draft merger agreement. The Northwest board of directors was also presented with an overview of possible retention programs and changes to compensation arrangements for Northwest officers and employees that the Northwest compensation committee was considering in connection with the transaction.

By February 20, 2008, Delta and Northwest had made significant progress on key aspects of a transaction, including the exchange ratio as well as governance matters, including the name of the combined company, the location of the combined company s headquarters and the composition of the board of directors and the chief executive officer. Also during this period, Delta engaged in discussions with representatives of the Delta and Northwest pilot groups regarding potential changes in the pilot collective bargaining agreements to be effected in connection with a merger. The topics discussed included pilot representation on the combined company board and a proposed pilot equity stake in the combined company. Delta and Northwest were also informed that the Delta and Northwest pilot groups were engaged in discussions aimed at achieving a single, integrated seniority list for the combined pilot group.

In these discussions, the Delta and Northwest pilot groups reached tentative agreement on the terms of a joint collective bargaining agreement for the combined pilot group except for agreement on an integrated seniority list. In late February 2008, however, the Delta and Northwest pilot groups informed Delta and Northwest that they had been unable to reach an agreement on an integrated seniority list and, as a result, the two pilot groups were ceasing their negotiations. Following this development, Delta management and legal and financial advisors provided an update to the Delta special committee and reported that the two pilot groups were unable to come to an agreement on an integrated seniority list. The Delta special committee concluded that without the seniority issue resolved it would recommend to the Delta board of directors that Delta suspend pursuing a merger with Northwest. The Delta board of directors met thereafter and concurred in this recommendation. Delta and Northwest suspended their negotiations. At periodic times throughout March 2008, the Delta and Northwest pilot groups had further contact through their executive councils but were unable to reach an agreement on an integrated seniority list. During this period, Delta management and the Delta special committee reviewed whether it would be advisable to proceed with a transaction on different terms without a joint pilot collective bargaining agreement or an integrated pilot seniority list.

After negotiations between Delta and Northwest were suspended in February, conditions in the U.S. airline industry continued to grow more challenging due, in significant part, to the continued increase in the price of jet fuel to record high levels. Each of the Delta and Northwest boards of directors and Delta and Northwest management continued to discuss internally the changing environment and how it affected achievement of its strategic goals and consideration of a strategic transaction. On March 18, the Northwest board of directors met to discuss possible alternative transactions and the possibility of proceeding with a transaction with Delta without a joint pilot collective bargaining agreement or an integrated pilot seniority list. The Northwest board of directors authorized Northwest management to discuss with Delta and further consider proceeding with such a transaction.

In early April 2008, Mr. Steenland, chief executive officer of Northwest, contacted Mr. Anderson, chief executive officer of Delta, and suggested that, under the circumstances, Delta and Northwest should resume discussions and consider the benefits of proceeding with a merger along the terms previously agreed upon in February but without a joint pilot collective bargaining agreement or an integrated pilot seniority list. The Delta board of directors and Delta management considered this suggestion and also discussed whether, if an agreement among the two airlines and the two pilot groups could not be achieved in a timely manner, a bilateral agreement between Delta and the Delta pilots would have advantages for a potential combination. Delta management

reviewed with the Delta board of directors the projected financial impact of various scenarios, including a scenario in which Delta reached an agreement only with its own pilot group. The Delta board of directors also discussed financial analyses that it received from Delta management and from Delta s financial advisors. The Delta board of directors authorized Delta management to resume negotiations with Northwest and the Delta pilots to determine if an acceptable transaction could be negotiated.

In early April 2008, Delta held discussions with union representatives for the Delta pilot group regarding the possibility of entering into a bilateral agreement that would amend the existing collective bargaining agreement covering the Delta pilot group. Talks between Delta and Northwest also resumed regarding the terms of a merger transaction.

In early April 2008, given the passage of time that had occurred since Delta and Northwest management had last engaged in formal discussions, senior representatives of Delta and Northwest again discussed certain key aspects of the potential transaction and were able to reach tentative agreement on all of these matters. Counsel for Delta and Northwest continued to work together on a definitive merger agreement.

Shortly thereafter, Delta and union representatives for the Delta pilot group reached a tentative agreement to modify and extend the Delta pilots existing collective bargaining agreement in exchange for, among other things, a 3.5% equity stake in the combined company, certain compensation increases and the right to designate one member of the Delta board of directors.

The Delta board of directors met in the early evening on April 14, 2008 with senior management and Delta s financial and legal advisors. At this meeting, pursuant to Delta s agreement with the Delta MEC and ALPA, Mr. Kenneth C. Rogers, a Delta pilot who since 2005 has served as a non-voting associate member of the Delta board of directors, was elected as a voting member of the Delta board of directors. In addition, Delta senior management reviewed for the Delta board of directors the discussions and negotiations with Northwest, the due diligence process and the proposed terms of the transaction, including the proposed merger consideration, the revised agreement with the Delta pilots and proposed broad-based equity issuance for employees of the combined company.

Representatives from Greenhill and Merrill Lynch reviewed with the Delta board of directors financial information regarding Delta, Northwest and the proposed transactions as further described under Opinion of Delta s Financial Advisors. In connection with the deliberation by the Delta board of directors, Greenhill and Merrill Lynch each rendered to the Delta board of directors its oral opinion (subsequently confirmed in writing), as described under Opinion of Delta s Financial Advisors, that, as of the date of its opinion, and subject to and based on the factors and assumptions set forth in its opinion, the exchange ratio in the merger was fair, from a financial point of view, to Delta.

Representatives of Wachtell, Lipton advised the Delta board of directors regarding certain legal matters related to the proposed transaction, including the fiduciary obligations of Delta s directors in connection with their consideration of the proposed merger agreement. Representatives of Wachtell, Lipton also presented information about the proposed merger agreement, including key terms relating to structure, covenants, representations and warranties and closing conditions. Wachtell, Lipton also discussed regulatory and stockholder approvals required to complete the merger. Following the presentations, the Delta board of directors addressed questions to, and discussed the proposed transaction with, members of Delta management, representatives of Wachtell, Lipton and representatives of Greenhill and Merrill Lynch.

Following these discussions, and review and discussion among the members of the Delta board of directors, the Delta board of directors unanimously determined that the transactions contemplated by the merger agreement, including the issuance of Delta common stock in the merger and the employee equity issuance were advisable and in the best interests of Delta and its stockholders, and the directors voted unanimously to approve the merger agreement and the issuance of shares of Delta common stock to the employees of the combined company.

The Northwest board of directors met on April 13, 2008 with senior management and Northwest s outside financial and legal advisors. Northwest management reviewed for the Northwest board of directors the discussions and negotiations with Delta, the due diligence process and the proposed terms of the transaction, including the proposed merger consideration.

Representatives from Morgan Stanley reviewed with the Northwest board of directors the financial information regarding Northwest, Delta and the proposed transaction. Representatives of Simpson Thacher advised the Northwest board of directors regarding certain legal matters related to the proposed transaction, including the fiduciary obligations of Northwest s directors in connection with their consideration of the proposed merger agreement. Representatives of Simpson Thacher also presented information about the proposed merger agreement, including key terms relating to structure, covenants, representations and warranties and closing conditions. The Northwest board of directors also reviewed and considered information about the proposed retention programs and changes to compensation arrangements for Northwest officers and employees related to the transaction. Counsel to Northwest also discussed regulatory and stockholder approvals required to complete the merger. Following the presentations, the Northwest board of directors addressed questions to, and discussed the proposed transaction with, members of Northwest management, representatives of Simpson Thacher and representatives of Morgan Stanley.

The Northwest board of directors convened again in the late afternoon on April 14, 2008 with senior management and Northwest s outside financial and legal advisors. Representatives of Northwest management and advisors updated the Northwest board of directors on final updates on issues relating to the transaction. Morgan Stanley rendered to the Northwest board of directors its oral opinion (subsequently confirmed in writing), as described under Opinion of Northwest s Financial Advisor, that, as of the date of its opinion, and subject to and based on the factors and assumptions set forth in its opinion, the exchange ratio pursuant to the merger agreement was fair, from a financial point of view, to the holders of Northwest common stock. Following these discussions, and review and discussion among the members of the Northwest board of directors, the Northwest board of directors unanimously determined that the transactions contemplated by the merger agreement and the merger were advisable and in the best interests of Northwest and its stockholders, and the directors voted unanimously to approve the merger agreement and the merger with Delta.

Following the approvals of the Delta and Northwest boards of directors, Delta and Northwest executed the merger agreement. Delta also executed certain ancillary agreements, including the transaction framework agreement with the Delta MEC and ALPA. The transaction was announced later in the evening on April 14, 2008 in a press release issued jointly by Delta and Northwest.

Delta s Reasons for the Merger; Recommendation of the Issuance of Delta Common Stock in Merger and the Amendment to the Delta 2007 Performance Compensation Plan by the Delta Board of Directors

In reaching its decision to approve the merger agreement and recommend approval of both the issuance of Delta common stock in the merger and the amendment to the Delta 2007 Performance Compensation Plan, the Delta board of directors consulted with Delta s management, as well as with Delta s legal and financial advisors, and considered a number of factors, including the following factors, and recommends Delta stockholders vote FOR approval of the issuance of Delta common stock in the merger and FOR approval of the amendment to the Delta 2007 Performance Compensation Plan.

- the fact that the merger will create a globally-balanced airline that is expected to be in a better position to compete in the Open Skies environment by combining Delta s strengths in the South, Mountain West and Northeast United States, Europe and Latin America with Northwest s presence in the Midwest and Northwest United States and Asia;

- Delta expects the combined company to have a strong balance sheet for the airline industry and liquidity that should provide both the financial strength and flexibility to weather cyclical conditions in the airline industry and a foundation for growth, even in an environment of record high jet fuel costs;

the transaction is expected to generate more than $1 billion in annual revenue and cost synergies by 2012 from more effective aircraft utilization, a more comprehensive and diversified route system and cost synergies from reduced overhead and improved operational efficiency;

Delta s and Northwest s complementary networks and common membership in the SkyTeam alliance are expected to ease the combination of operations that have complicated past mergers within the airline industry;

Delta s ability to reach an agreement with its pilot leadership that, subject to ratification by Delta pilots and approval by Delta stockholders of the amendment to the Delta 2007 Performance Compensation Plan, will allow Delta to achieve substantial synergies on an accelerated basis and will extend its existing collective bargaining agreement with ALPA through the end of 2012;

the fact that the employees of the combined company are expected to receive % of the fully-diluted shares outstanding of the combined company;

its knowledge of Delta s business, operations, financial condition, earnings and prospects and of Northwest s business, operations, financial condition, earnings and prospects, taking into account the results of Delta s due diligence review of Northwest;

the current and prospective competitive climate in the global airline industry in which Delta and Northwest operate, including the potential for consolidation, and the alternatives reasonably available to Delta if it did not pursue the transaction;

the projected financial results of Delta for the next three years as a standalone company in the current jet fuel price environment and the ability of Delta to achieve strategic goals previously established by the Delta board of directors;

the financial analyses and presentations of Greenhill and Merrill Lynch, and their related respective opinions, each dated as of April 14, 2008, to the effect that, as of that date and based upon and subject to the factors and assumptions set forth in its respective opinion, the exchange ratio pursuant to the merger agreement was fair from a financial point of view to Delta (see Opinion of Delta s Financial Advisors);

the terms and conditions of the merger agreement and the likelihood of completing the merger on the anticipated schedule;

the fact that the exchange ratio of 1.25 shares of Delta common stock for each share of Northwest common stock represented a premium to Northwest stockholders of approximately 14.2% based on the closing prices of each company s stock on the NYSE on April 11, 2008 and that the exchange ratio is fixed, which the Delta board of directors believed was consistent with market practice for mergers of this type and with the strategic purpose of the merger;

the anticipated market capitalization, liquidity and capital structure of the combined company;

the challenges inherent in combining the businesses, operations and workforces of two major airlines, including the possibility of (1) unforeseen difficulties in integrating operations and systems, (2) the possible diversion of management attention for an extended period of time and (3) difficulties in assimilating employees, including the two companies pilot groups;

the substantial costs to be incurred in connection with the merger, including the costs of integrating the businesses of Delta and Northwest and the transaction expenses arising from the merger;

the risk of not capturing all the anticipated operational synergies and cost savings between Delta and Northwest and the risk that other anticipated benefits might not be realized;

the risk that, despite Northwest s efforts and the efforts of Delta after the merger, the combined company may lose key personnel;

the risk that governmental entities may impose conditions on Northwest and/or Delta in order to gain approval for the merger that may adversely impact the ability of the combined company to realize the synergies that are projected to occur in connection with the merger; and

the risks of the type and nature described under Risk Factors , and the matters described under Cautionary Statement Regarding Forward-Looking Statements .

In view of the wide variety of factors considered in connection with its evaluation of the merger and the complexity of these matters, the Delta board of directors did not find it useful and did not attempt to assign any relative or specific weights to the various factors that it considered in reaching its determination to approve the merger and the merger agreement and to recommend that Delta stockholders vote FOR the issuance of Delta common stock in connection with the merger and FOR the amendment to the Delta 2007 Performance Compensation Plan. In addition, individual members of the Delta board of directors may have given differing weights to different factors. The Delta board of directors conducted an overall analysis of the factors described above, including through discussions with, and questioning of, Delta s management and outside legal and financial advisors regarding certain of the matters described above.

The Delta board of directors unanimously determined that the merger, the merger agreement and the transactions contemplated by the merger agreement, including the issuance of Delta common stock, are advisable and in the best interests of Delta and its stockholders and unanimously approved the merger agreement. The Delta board of directors also approved the amendment to the Delta 2007 Performance Compensation Plan. The Delta board of directors unanimously recommends that Delta stockholders vote FOR the issuance of Delta common stock in connection with the merger and FOR the amendment to the Delta 2007 Performance Compensation Plan.

Opinions of Delta s Financial Advisors

The Delta board of directors received oral opinions, subsequently confirmed in writing, from Greenhill and Merrill Lynch that, based upon and subject to the various considerations and assumptions described in the written opinions, the exchange ratio to be paid by Delta in the merger was fair from a financial point of view to Delta.

The full text of the written opinions of Greenhill and Merrill Lynch, each dated April 14, 2008, which set forth, among other things, the assumptions made, procedures followed, matters considered and limits on the opinions and the review undertaken in connection with rendering the opinions, are attached as Appendix C and D, respectively, to this joint proxy statement/prospectus and are incorporated herein by reference. Greenhill s and Merrill Lynch s opinions are not recommendations as to how Delta stockholders should vote with respect to the issuance of shares of Delta common stock pursuant to the merger or any other matter. The summaries of Greenhill s and Merrill Lynch s respective opinions that are set forth below are qualified in their entirety by reference to the full text of the respective opinions. Delta stockholders are urged to read the respective opinions in their entirety.

Greenhill

In connection with rendering its opinion, Greenhill, among other things:

- reviewed the draft of the merger agreement presented to the Delta board of directors at its meeting on April 14, 2008 and certain related documents;
- reviewed certain publicly available financial statements of Northwest and Delta;
- reviewed certain other publicly available business and financial information relating to Northwest and Delta that Greenhill deemed relevant;
- reviewed certain information, including financial forecasts and other financial and operating data concerning Northwest and Delta, prepared by the management of Northwest and Delta, respectively;
- discussed the past and present operations and financial condition and the prospects of Northwest with senior executives of Northwest;
- discussed the past and present operations and financial condition and the prospects of Delta with senior executives of Delta;

reviewed certain information regarding the amount and timing of potential cost efficiencies, as well as financial and operational benefits, expected to result from the merger, which we refer to as synergies, prepared by management of Delta;

reviewed the historical market prices and trading activity for Northwest common stock and analyzed its implied valuation multiples;

compared the value of the merger consideration with that received in certain publicly available transactions that Greenhill deemed relevant;

compared the value of the merger consideration with the trading valuations of certain publicly traded companies that Greenhill deemed relevant;

compared the value of the merger consideration to the valuation derived by discounting future cash flows and a terminal value of the business at discount rates Greenhill deemed appropriate;

participated in discussions and negotiations among representatives of Northwest and its legal advisors and representatives of Delta and its legal and financial advisors; and

performed such other analyses and considered such other factors as Greenhill deemed appropriate.

In giving its opinion, Greenhill assumed and relied upon, without independent verification, the accuracy and completeness of all information that was either publicly available or supplied or otherwise made available to it by representatives and management of Northwest and Delta for the purposes of its opinion. Greenhill further relied upon the assurances of the representatives and management of Northwest and Delta, as applicable, that they were not aware of any facts or circumstances that would make such information inaccurate or misleading in any respect meaningful to Greenhill s opinion. With respect to synergies, the financial forecasts and projections and other data that have been furnished or otherwise provided to it, Greenhill assumed that such synergies, projections and data were reasonably prepared on a basis reflecting the best currently available estimates and good faith judgments of the management of Delta as to those matters, and Greenhill relied upon such forecasts and data in arriving at its opinion. Greenhill expressed no opinion with respect to such synergies, projections and data or the assumptions upon which they are based, and, at the direction of the Delta board of directors, assumed for the purposes of its opinion that such synergies will be achieved. Greenhill did not make any independent valuation or appraisal of the assets or liabilities of Northwest, nor was Greenhill furnished with any such appraisals. Greenhill assumed that the merger will be treated as a tax-free reorganization for federal income tax purposes. Greenhill also assumed that the merger will be consummated in accordance with the terms set forth in the final, executed merger agreement, without waiver of any material terms or conditions set forth in the merger agreement. Greenhill assumed that all material governmental, regulatory and other consents and approvals necessary for the consummation of the merger will be obtained without any effect on Northwest, Delta, the merger or the contemplated benefits of the merger meaningful to Greenhill s analysis. Greenhill s opinion was necessarily based on financial, economic, market and other conditions as in effect on, and the information made available to it as of the date of its opinion. It should be understood that subsequent developments may affect Greenhill s opinion.

Greenhill s written opinion was addressed to the Delta board of directors and is not a recommendation as to how Delta stockholders should vote with respect to the issuance of shares of Delta common stock pursuant to the merger or any other matter. Greenhill s opinion did not address the underlying business decision of Delta to engage in the merger or the relative merits of the merger as compared to any other alternative business strategies that might exist for Delta. Greenhill s opinion did not address any terms or other aspects of the merger, other than the fairness of the exchange ratio, from a financial point of view, to Delta. Greenhill s opinion did not address the prices at which the Delta common stock will trade at any future time. Greenhill s opinion did not address the amount or nature of any compensation to any directors, officers or employees of Delta, or any class of such persons relative to the exchange ratio or with respect to the fairness of any such compensation.

Merrill Lynch

In connection with rendering its opinion, Merrill Lynch, among other things:

- reviewed certain publicly available business and financial information relating to Delta and Northwest that Merrill Lynch deemed to be relevant;
- reviewed certain information, including financial forecasts, relating to the business, earnings, cash flow, assets, liabilities and prospects of Delta and Northwest, as well as the amount and timing of the cost savings and related expenses and synergies expected to result from the merger furnished to Merrill Lynch by Delta;
- conducted discussions with members of senior management of Delta and Northwest concerning the matters described in the preceding two bullet points, as well as the respective businesses of Delta and Northwest and prospects before and after giving effect to the merger and the expected synergies;
- reviewed the market prices and valuation multiples for Delta common stock and Northwest common stock and compared them with those of certain publicly traded companies that Merrill Lynch deemed to be relevant;
- reviewed the results of operations of Delta and Northwest and compared them with those of certain publicly traded companies that Merrill Lynch deemed to be relevant;
- compared the proposed financial terms of the merger with the financial terms of certain other transactions that Merrill Lynch deemed to be relevant;
- participated in certain discussions and negotiations among representatives of Delta and Northwest and their financial and legal advisors;
- reviewed the potential pro forma impact of the merger;
- reviewed a draft of the merger agreement presented to the Delta board of directors at its meeting on April 14, 2008 and certain related documents; and
- reviewed such other financial studies and analyses and took into account such other matters as Merrill Lynch deemed necessary, including its assessment of general economic, market and monetary conditions.

In preparing its opinion, Merrill Lynch assumed and relied on the accuracy and completeness in all material respects of all information supplied or otherwise made available to Merrill Lynch, discussed with or reviewed by or for it, or publicly available. Merrill Lynch did not assume any responsibility for independently verifying such information or undertake an independent evaluation or appraisal of any of the assets or liabilities of Delta or Northwest and was not furnished with any such evaluation or appraisal, nor did Merrill Lynch evaluate the solvency or fair value of Delta or Northwest under any state or federal laws relating to bankruptcy, insolvency or similar matters. In addition, Merrill Lynch did not assume any obligation to conduct any physical inspection of the properties or facilities of Delta or Northwest. With respect to the financial forecast information and the expected synergies furnished to or discussed with Merrill Lynch by Delta or Northwest, Merrill Lynch assumed that they had been reasonably prepared and reflected the best currently available estimates and judgment of Delta s management as to the expected future financial performance of Delta or Northwest, as the case may be, and the expected synergies, at the direction of the Delta board of

directors, that would be achieved. Merrill Lynch assumed that the merger will qualify as a tax-free reorganization for U.S. federal income tax purposes.

Merrill Lynch s opinion was necessarily based upon market, economic and other conditions as they existed and could be evaluated on, and on the information made available to Merrill Lynch as of, the date of its opinion. Merrill Lynch assumed that in the course of obtaining the necessary regulatory or other consents or approvals (contractual or otherwise) for the merger, no restrictions, including any divestiture requirements or amendments or modifications, will be imposed that will have a material adverse effect on the contemplated benefits of the merger.

In connection with the preparation of its opinion, Merrill Lynch was not authorized by Delta or the Delta board of directors to solicit, nor did Merrill Lynch solicit, third party indications of interest for the acquisition of all or any part of Delta.

Merrill Lynch s opinion was addressed to the Delta board of directors for the use and benefit of the Delta board of directors, and addressed only the fairness of the exchange ratio, as of the date of the opinion and from a financial point of view, to Delta. Merrill Lynch s opinion did not address the merits of the underlying decision by Delta to engage in the merger and does not constitute a recommendation to any Delta stockholder as to how such stockholder should vote on the issuance of shares of Delta common stock pursuant to the merger or any matter related thereto. In addition, Merrill Lynch s opinion did not address the fairness to, or any other consideration of, the holders of any class of securities, creditors or other constituencies of Delta. Merrill Lynch s opinion did not address the prices at which the Delta common stock will trade following the announcement or consummation of the merger. In rendering its opinion, Merrill Lynch expressed no view or opinion with respect to the fairness (financial or otherwise) of the amount or nature or any other aspect of any compensation payable to or to be received by any officers, directors, or employees of any parties to the merger, or any class of such persons, relative to the exchange ratio.

Summary of Greenhill s and Merrill Lynch s Financial Analyses

The following is a summary of the material financial analyses provided by Greenhill and Merrill Lynch to the Delta board of directors in connection with rendering their opinions described above. The summary set forth below does not purport to be a complete description of the analyses performed by Greenhill and Merrill Lynch, nor does the order of analyses described represent relative importance or weight given to those analyses by Greenhill or Merrill Lynch. Some of the summaries of the financial analyses include information presented in tabular format. The tables must be read together with the full text of each summary and are not alone a complete description of Greenhill s and Merrill Lynch s financial analyses.

Exchange Ratio Analysis

Greenhill and Merrill Lynch analyzed the historical range of exchange ratios (the price of a share of Northwest common stock divided by the price of a share of Delta common stock) in comparison to the exchange ratio. Using the daily closing prices of the Delta common stock and the Northwest common stock, Greenhill and Merrill Lynch calculated the low, high and average exchange ratios for the periods indicated in the table below. Greenhill and Merrill Lynch then calculated the premium that the Exchange Ratio represents over the various average exchange ratios for these periods.

As of April 11, 2008	**Low**	**Average**	**High**	**Premium**
Previous 5 Trading Days	1.06x	1.09x	1.11x	14.9%
Previous 20 Trading Days	0.97x	1.04x	1.11x	20.1%
Previous 60 Trading Days	0.94x	1.04x	1.16x	20.3%
Previous 120 Trading Days	0.88x	1.01x	1.16x	23.8%
Since May 18, 2007	0.88x	1.04x	1.36x	20.0%

Selected Transaction Analysis

$3 Billion $10 Billion Transactions. Using publicly available information, Greenhill and Merrill Lynch analyzed the premiums paid in stock for stock transactions since January 2000 with a transaction value of between $3 billion and $10 billion. Greenhill and Merrill Lynch calculated the premium of the transaction exchange ratio for all of these transactions over the historical exchange ratio one week prior to announcement (referred to herein as the 1 Week Premium) and one month prior to announcement (referred to herein as the 1 Month Premium). The 1 Week Premiums ranged from 2.3% to 146.8%, with an average of 31.8% and a median of 26.6%. The 1 Month Premiums ranged from (15.1%) to 148%, with an average of 32.2% and a median of 27%. Limiting the data to only those transactions in which the stockholders of the company being acquired

would own at least 30% of the combined equity, the 1 Week Premiums ranged from 4.9% to 37.7% with an average of 22.1% and a median of 25.7%, and the 1 Month Premiums ranged from (15.1%) to 39.4%, with an average of 17.9% and a median of 18.6%. The exchange ratio represents a premium of 15.7% to the historical exchange ratio one week before April 11, 2008 and a premium of 23.8% to the historical exchange ratio one month before April 11, 2008.

Airline Transactions. In addition, Greenhill and Merrill Lynch analyzed certain publicly available information relating to selected transactions in the airline industry since January 1986. For each of the selected transactions, Greenhill and Merrill Lynch calculated the ratio of the adjusted enterprise transaction value (adjusted to capitalize aircraft rent at 7.0x) implied by the transaction to the revenue and earnings before interest, taxes, depreciation, amortization and aircraft rent, which we refer to as EBITDAR, of the respective target company for the latest reported twelve month period, which we refer to as LTM, prior to announcement. The average and median LTM revenue multiples were 1.37x and 1.20x respectively and the average and median LTM EBITDAR multiples were 8.7x and 8.3x respectively. The revenue and EBITDAR multiples for Northwest, based on 2008 revenue and EBITDAR estimates which were obtained from publicly available Wall Street analysts projections, at the valuation implied by the exchange ratio as of April 11, 2008 are 0.76x and 7.3x, respectively.

You should note that no transaction utilized in the analyses above is identical to the merger. A complete analysis involves complex considerations and judgments concerning differences in financial and operating characteristics of the companies involved in these transactions and other factors that could affect the transaction premiums and multiples in these transactions to which the merger is being compared.

Pro Forma Merger Analysis.

Greenhill and Merrill Lynch prepared pro forma analyses of the financial impact of the merger (taking into account the shares of Delta common stock to be issued to employees) using forecasts of Delta s and Northwest s earnings and forecasts of synergies prepared by the management of Delta. For each of 2009, 2010, and 2011, Greenhill and Merrill Lynch compared the projected earnings per share and adjusted earnings per share (excluding one-time costs), in each case, for Delta, on a standalone basis and on the basis of the combined company based on estimates provided by Delta. Based on such analyses, Greenhill and Merrill Lynch determined that (a) as to earnings per share, the merger would be significantly dilutive during 2009, moderately accretive during 2010 and significantly accretive during 2011 and (b) as to adjusted earnings per share (adjusted to exclude one-time costs), the merger would be significantly accretive in each of 2009, 2010 and 2011.

Comparable Company Analysis

Greenhill and Merrill Lynch reviewed and compared certain financial information for Delta and Northwest to corresponding financial multiples, ratios and operating statistics for the following publicly traded legacy and low-cost carriers:

Legacy Carriers	**Low-Cost Carriers**
UAL Corporation	Southwest Airlines Co.
AMR Corporation	Jet Blue Airways Corporation
Continental Airlines, Inc.	AirTran Holdings, Inc.
Northwest Airlines Corporation	
US Airways Group, Inc.	
Alaska Air Group Inc.	

For each of the companies identified above, Greenhill and Merrill Lynch calculated and compared various financial multiples, ratios and operating statistics based on financial data and stock prices as of April 11, 2008, which Greenhill and Merrill Lynch obtained from filings made with the SEC and from publicly available Wall Street analysts projections. The financial multiples, ratios and operating statistics of Delta and Northwest were based on publicly available Wall Street analysts projections and information from Delta management. For the

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purpose of their analyses, Greenhill and Merrill Lynch calculated adjusted enterprise value as of April 11, 2008 (adjusted to capitalize aircraft rent at 7.0x). The adjusted enterprise value of Northwest was calculated at the valuation implied by the exchange ratio.

With respect to the selected companies, Greenhill and Merrill Lynch calculated adjusted enterprise value as a multiple of:

- estimated 2008 revenue;
- estimated 2009 revenue;
- estimated 2008 EBITDAR;
- estimated 2009 EBITDAR;
- estimated 2008 earnings before interest and taxes, which we refer to as EBIT; and
- estimated 2009 EBIT.

Although no carrier is directly comparable to Delta or Northwest, Greenhill and Merrill Lynch selected these legacy and low-cost carriers because they believed that they had characteristics that were instructive for purposes of their analysis.

The results of these analyses based on publicly available Wall Street analysts projections are summarized as follows:

	Selected Legacy Carriers		Selected Low-Cost Carriers			
Adjusted Enterprise Value as a Multiple of	**Range**	**Average**	**Range**	**Average**	**Delta**	**Northwest @ Exchange Ratio**
2008 Revenue	0.52x-0.75x	0.63x	0.90x-1.31x	1.11x	0.60x	0.76x
2009 Revenue	0.50x-0.71x	0.60x	0.82x-1.16x	0.99x	0.57x	0.73x
2008 EBITDAR	5.3x-9.3x	7.6x	7.2x-10.3x	9.1x	7.0x	7.3x
2009 EBITDAR	6.0x-8.0x	6.9x	6.0x-8.2x	7.1x	6.3x	6.5x
2008 EBIT(1)	19.7x-27.8x	23.7x	15.6x	15.6x	NM	20.7x
2009 EBIT(2)	19.5x	19.5x	16.9x-29.1x	22.2x	29.5x	20.6x

(1) For legacy carriers, only meaningful ratios were for Northwest Airlines Corp., based on estimates from publicly available Wall Street analysts projections, and Alaska Air Group Inc. For low-cost carriers, only meaningful ratio was for Southwest Airlines Co.

(2) For legacy carriers, only meaningful ratios were for Northwest Airlines Corp., based on estimates from publicly available Wall Street analysts projections.

Greenhill and Merrill Lynch also calculated the selected companies estimated 2008 price/earnings ratios, which are summarized as follows:

	Selected Legacy Airlines		Selected Low-Cost Airlines			
Price/Earnings Ratio	**Range**	**Average**	**Range**	**Average**	**Delta**	**Northwest @ Exchange Ratio**
2008(1)	13.3x-18.9x	16.1x	38.7x	38.7x	NM	22.3x

(1) For legacy carriers, only meaningful ratios were for Northwest Airlines Corp., based on estimates from publicly available Wall Street analysts projections, and Alaska Air Group Inc. For low-cost carriers, only meaningful ratio was for Southwest Airlines Co.

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Greenhill and Merrill Lynch also calculated the selected companies estimated revenue growth for 2008 and 2009, and estimated EBITDAR and EBIT margins for 2008 and 2009, which are summarized as follows:

	Selected Legacy Airlines		Selected Low-Cost Airlines		
	Range	**Average**	**Range**	**Average**	**Delta**
2008 Revenue Growth	3.9%-7.3%	5.4%	8.8%-18.2%	13.6%	6.6%
2009 Revenue Growth	3.6%-5.3%	4.2%	9.5%-13.2%	11.8%	4.5%
2008 EBITDAR Margin	5.6%-12.8%	8.7%	10.9%-13.2%	12.2%	8.6%
2009 EBITDAR Margin	6.6%-11.1%	9.0%	11.7%-16.6%	14.1%	9.1%
2008 EBIT Margin	(1.7)%-3.7%	0.7%	(1.0)%-5.8%	2.7%	1.4%
2009 EBIT Margin	(0.8)%-3.5%	0.8%	4.0%-4.9%	4.6%	1.9%

Discounted Cash Flow Analysis

Greenhill and Merrill Lynch performed a discounted cash flow analysis on Delta and the combined company using Delta s management projections for Delta and the combined company.

Greenhill and Merrill Lynch calculated the net present value of the free cash flows for Delta, on a standalone basis, for the years 2008 to 2010 using a discount rate of 10.5% and terminal year multiples of EBITDAR ranging from 5.0x to 5.5x yielding a range of net present values for the Delta common stock on a standalone basis of between $9.05 and $11.51 per share. Greenhill and Merrill Lynch also calculated the net present value of free cash flows for Delta, on a combined basis after giving effect to the merger, for the years 2009 to 2011 using a discount rate of 10.5% and terminal year multiples of EBITDAR ranging from 6.0x to 6.5x yielding a range of net present values for the Delta common stock on a combined basis after giving effect to the merger of between $15.59 and $17.80 per share.

Greenhill and Merrill Lynch also calculated the enterprise value of Delta, on a standalone basis, at the end of 2010 using a range of multiples between 5.0x and 5.5x estimated 2011 EBITDAR, and then calculated the net present value for the Delta common stock from this range of enterprise values by discounting the implied equity value at the end of 2010 at a discount rate of 17.5% yielding a range of net present values for the Delta common stock of between $9.74 and $11.78 per share. In addition, Greenhill and Merrill Lynch calculated the enterprise value of Delta, on a combined basis after giving effect to the merger, at the end of 2010 using a range of multiples between 6.0x and 6.5x estimated 2011 EBITDAR, and then calculated the net present value for the Delta common stock from this range of enterprise values by discounting the implied equity value at the end of 2010 at a discount rate of 17.5% yielding a range of net present values for the Delta common stock on a combined basis after giving effect to the merger of between $15.74 and $17.90 per share.

The summary set forth above does not purport to be a complete description of the analyses performed by Greenhill and Merrill Lynch, but describes, in summary form, the material analyses that Greenhill and Merrill Lynch conducted in connection with rendering their respective opinions. The preparation of a fairness opinion is a complex process and is not necessarily susceptible to partial analysis or summary description. In arriving at their respective opinions, Greenhill and Merrill Lynch did not attribute any particular weight to any analyses or factors considered by them and did not form an opinion as to whether any individual analysis or factor, considered in isolation, supported or failed to support their opinions. Rather, Greenhill and Merrill Lynch considered the totality of the factors and analyses performed in determining their opinions. Accordingly, the summary set forth above and the analyses of Greenhill and Merrill Lynch must be considered as a whole and that selecting portions thereof, without considering all of their analyses, could create an incomplete view of the processes underlying their analyses and respective opinions. Greenhill and Merrill Lynch based their analyses on assumptions that they deemed reasonable, including assumptions concerning general business and economic conditions and industry-specific factors. Analyses based on forecasts or projections of future results are inherently uncertain, as they are subject to numerous factors or events beyond the control of the parties or their advisors. Accordingly, Greenhill and Merrill Lynch s analyses are not necessarily indicative of actual values or actual future results that might be achieved, which values may be higher or lower than those indicated. Moreover,

Greenhill and Merrill Lynch s analyses are not and do not purport to be appraisals or otherwise reflective of the prices at which businesses actually could be bought or sold. In addition, no company or transaction used in Greenhill and Merrill Lynch s analysis as a comparison is directly comparable to Delta, Northwest or the contemplated transaction. Because these analyses are inherently subject to uncertainty, being based upon numerous factors or events beyond the control of the parties or their respective advisors, none of Delta or Greenhill and Merrill Lynch or any other person assumes responsibility if future results are materially different from those forecasts or projections.

The exchange ratio was determined through arm s length negotiations between Delta and Northwest and was approved by the Delta board of directors. Greenhill and Merrill Lynch provided advice to Delta during these negotiations. Greenhill and Merrill Lynch did not, however, recommend any specific amount of consideration to Delta or the Delta Board of Directors or that any specific amount of consideration constituted the only appropriate consideration for the merger. Greenhill s and Merrill Lynch s respective opinions did not in any manner address the underlying business decision to proceed with or effect the merger.

The Delta board of directors selected Greenhill and Merrill Lynch as Delta s financial advisor in connection with the merger based on their qualifications and expertise in providing financial advice to acquirors, target companies and their respective boards of directors in merger and acquisition transactions. Greenhill and Merrill Lynch will each receive a fee of $20 million for their services rendered in connection with the merger, $15 million of which is contingent on the consummation of the merger. In addition, Greenhill and Merrill Lynch may each be entitled to receive an additional one-time fee of up to $5 million, with such fee being paid at Delta s sole discretion based on Delta s assessment of the services that Greenhill and Merrill Lynch have provided in connection with the merger and the related transactions. Furthermore, Delta has agreed to indemnify each of Greenhill and Merrill Lynch for certain liabilities arising out of its engagement.

During the two years preceding the date of its opinion, Greenhill was engaged by Delta to assist Delta in discussions with ALPA in connection with Delta s restructuring under Chapter 11 of the U.S. Bankruptcy Code.

Merrill Lynch has, in the past, provided financial advisory and financing services to Delta and Northwest and their respective affiliates and may continue to do so and has received, and may receive, fees for the rendering of such services. Specifically, in relation to Delta, during the two years preceding its opinion, Merrill Lynch served as (i) Sole Arranger on the $300 million credit card holdback replacement facility completed in January 2006, (ii) Joint Bookrunner on the $2.5 billion secured exit facility completed in April 2007 and (iii) Joint Bookrunner on the $1.4 billion EETC 2007-1 completed in October 2007. In relation to Northwest, Merrill Lynch has participated in customary fuel hedging transactions on behalf of Northwest. In addition, in the ordinary course of its business, Merrill Lynch or its affiliates may actively trade Delta common stock and other securities of Delta, as well as Northwest common stock and other securities of Northwest, for its own account and for the accounts of its customers and, accordingly, may at any time hold a long or short position in such securities.

Greenhill s and Merrill Lynch s respective opinions were one of many factors considered by the Delta board of directors in evaluating the merger and should not be viewed as determinative of the views of the Delta board of directors with respect to the merger.

Northwest s Reasons for the Merger; Recommendation of the Merger by the Northwest Board of Directors

In reaching its decision to approve the merger agreement and recommend adoption of the merger agreement by the Northwest stockholders, the Northwest board of directors consulted with Northwest s management, as well as with Northwest s legal and financial advisors, and considered a number of factors, including the following factors:

- the fact that the merger will create a globally-balanced airline that is expected to be in a better position to compete in the Open Skies environment by combining Delta s strengths in the South, Mountain West and Northeast United States, Europe and Latin America with Northwest s presence in the Midwest and Northwest United States and Asia;

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Northwest expects the combined company to have a strong balance sheet for the airline industry and liquidity that should provide both the financial strength and flexibility to weather cyclical conditions in the airline industry and a foundation for growth, even in an environment of record high jet fuel costs;

by enhancing scale, financial strength and customer capacity, the combined company will be better positioned to compete in an increasingly challenging business environment, with the merger expected to generate more than $1 billion in annual revenue and cost synergies by 2012 from more effective aircraft utilization, a more comprehensive and diversified route system and cost synergies from reduced overhead and improved operational efficiency;

Delta s and Northwest s complementary networks and common membership in the SkyTeam alliance are expected to ease the combination of operations that have complicated past mergers within the airline industry;

its knowledge of Northwest s business, operations, financial condition, earnings and prospects and of Delta s business, operations, financial condition, earnings and prospects, taking into account the results of Northwest s due diligence review of Delta;

the current and prospective competitive climate in the global airline industry in which Delta and Northwest operate, including the potential for consolidation, and the alternatives reasonably available to Northwest, including development opportunities and other possible acquisition candidates, if it did not pursue the merger;

the projected financial results of Northwest for the next five years as a standalone company in the current jet fuel price environment and the ability of Northwest to achieve strategic goals previously established by the Northwest board of directors;

the financial analyses and presentations of Morgan Stanley, and its related opinion, dated as of April 14, 2008, to the effect that, as of that date and based upon and subject to the various considerations set forth in its opinion, the exchange ratio pursuant to the merger agreement was fair from a financial point of view to the holders of shares of Northwest common stock (see Opinion of Northwest s Financial Advisors);

the review by the Northwest board of directors in consultation with Northwest s legal and financial advisors of the structure of the merger and the financial and other terms and conditions of the merger agreement, including the exchange ratio, the expectation of Northwest s legal advisors that the merger will qualify as a transaction of a type that is generally tax-free to stockholders for U.S. federal income tax purposes and the likelihood of completing the merger on the anticipated schedule;

the fact that the exchange ratio of 1.25 shares of Delta common stock for each share of Northwest common stock represented a premium to Northwest stockholders of 25% to an exchange ratio of 1:1 which the Northwest board of directors believed was the approximate unaffected exchange ratio based on its discussion with Morgan Stanley, and a premium to Northwest stockholders of approximately 14.2% based on the closing prices of each company s stock on the NYSE on April 11, 2008, and that the exchange ratio is fixed, which the Northwest board of directors believed was consistent with market practice for mergers of this type and with the strategic purpose of the merger;

the design and implementation of retention strategy programs to retain management and employees whose dedication would be necessary to continue successful operation of Northwest prior to the closing of the merger and thereafter;

the fact that Delta common shares issued to Northwest stockholders will be registered on Form S-4 and will be freely tradable for Northwest stockholders who are not affiliates of Delta or Northwest;

the intent of the parties as to the combined company s commitment to the Minneapolis-St. Paul metropolitan area; and

the governance arrangements providing for representation on the board of directors of the combined company for appointees from each of Delta and Northwest after completion of the merger and

providing for Mr. Steenland of Northwest to serve as co-chairman of the transition committee of the combined company, both of which the Northwest board of directors considers to be of significant importance in assuring continuity of management and an effective and timely integration of the two companies operations.

The Northwest board of directors also considered potential risks associated with the merger in connection with its deliberations of the proposed transaction, including:

- the possibility that the merger might not be completed, or that completion might be unduly delayed, for reasons beyond Northwest s and/or Delta s control;
- the potential for diversion of management and employee attention and for increased employee attrition during the substantial period prior to the closing of the merger agreement, and the potential effect of these on Northwest s business and relations with customers, suppliers and regulators;
- the risk that governmental entities may impose conditions on Northwest and/or Delta in order to gain approval for the merger that may adversely impact the ability of the combined company to realize the synergies that are projected to occur in connection with the merger;
- the challenges inherent in combining the businesses, operations and workforces of two major airlines, including (1) unforeseen difficulties in integrating operations and systems, (2) the possible diversion of management attention for an extended period of time and (3) difficulties in assimilating employees, including the two company s pilot groups;
- the substantial costs to be incurred in connection with the merger, including the costs of integrating the businesses of Delta and Northwest and the transaction expenses arising from the merger;
- that the fixed exchange ratio, by its nature, would not adjust upwards to compensate for declines, or downwards to compensate for increases, in Delta s stock price prior to completion of the merger, and that the terms of the merger agreement did not include collar provisions or stock-price-based termination rights that would be triggered by a decrease in the value of the merger consideration implied by the Delta stock price;
- the risk of not capturing all the anticipated operational synergies and cost savings between Delta and Northwest and the risk that other anticipated benefits might not be realized;
- the interests of Northwest executive officers and directors with respect to the merger apart from their interests as holders of Northwest common stock, and the risk that these interests might influence their decision with respect to the merger. See the section entitled Interests of Directors and Officers in the Merger ;
- the risk that the terms of the merger agreement, including provisions relating to the payment of a termination fee under specified circumstances, could have the effect of discouraging other parties that might be interested in a transaction with Northwest from proposing such a transaction;
- the restrictions on the conduct of Northwest s business during the period between the signing of the merger agreement and the completion of the merger; and

- the risks of the type and nature described under Risk Factors, and the matters described under Cautionary Statement Regarding Forward-Looking Statements.

In view of the wide variety of factors considered in connection with its evaluation of the merger and the complexity of these matters, the Northwest board of directors did not find it useful and did not attempt to quantify or assign any relative or specific weights to the various factors that it considered in reaching its determination to approve the merger and the merger agreement and to recommend that Northwest stockholders vote FOR the adoption of the merger agreement. In addition, individual members of the Northwest board of directors may have given differing weights to different factors. The Northwest board of directors conducted an overall analysis of the factors described above, including through discussions with, and questioning of, Northwest s management and outside legal and financial advisors regarding certain of the matters described above.

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The Northwest board of directors unanimously determined that the merger, the merger agreement and the transactions contemplated by the merger agreement, are advisable and in the best interests of Northwest and its stockholders and unanimously approved the merger agreement. The Northwest board of directors unanimously recommends that Northwest stockholders vote FOR the adoption of the merger agreement.

Opinion of Northwest s Financial Advisor

Northwest retained Morgan Stanley to provide financial advisory services and a financial opinion to the Northwest board of directors in connection with a possible merger, sale, acquisition or other strategic combination, and certain stockholder relations matters. The Northwest board of directors selected Morgan Stanley to act as its financial advisor based on Morgan Stanley s qualifications, expertise, reputation and knowledge of the business of Northwest. At the special meeting of the Northwest board of directors on April 14, 2008, Morgan Stanley rendered its oral opinion, subsequently confirmed in writing, that, as of April 14, 2008, based upon and subject to the various considerations set forth in the opinion, the exchange ratio pursuant to the merger agreement was fair from a financial point of view to the holders of shares of Northwest common stock.

The full text of Morgan Stanley s written opinion, dated as of April 14, 2008, is attached as Appendix E to this joint proxy statement/prospectus and is incorporated herein by reference. The opinion sets forth, among other things, the assumptions made, procedures followed, matters considered and limitations on the opinion and the scope of the review undertaken by Morgan Stanley in rendering its opinion. The summary of Morgan Stanley s fairness opinion set forth in this joint proxy statement/prospectus is qualified in its entirety by reference to the full text of the opinion. Northwest stockholders should read this opinion carefully and in its entirety. Morgan Stanley s opinion is directed to the board of directors of Northwest, addresses only the fairness from a financial point of view of the exchange ratio pursuant to the merger agreement to holders of shares of Northwest common stock as of the date of the opinion, and does not address any other aspect of the merger. Morgan Stanley s opinion does not constitute a recommendation to any Northwest stockholder as to how such stockholder should vote on, or take any action with respect to, the merger or any other matter. In addition, this opinion does not in any manner address the prices at which Delta common stock will trade following the consummation of the merger.

In connection with rendering its opinion, Morgan Stanley, among other things:

- reviewed certain publicly available financial statements and other business and financial information of Northwest and Delta, respectively;
- reviewed certain internal financial statements and other financial and operating data concerning Northwest and Delta, respectively;
- reviewed certain financial projections prepared by the managements of Northwest and Delta, respectively;
- reviewed information relating to certain strategic, financial and operational benefits anticipated from the merger, prepared by the managements of Northwest and Delta, respectively, and by consultants engaged by Northwest;
- discussed the past and current operations and financial condition and the prospects of Northwest, including information relating to certain strategic, financial and operational benefits anticipated from the merger, with senior executives of Northwest;
- discussed the past and current operations and financial condition and the prospects of Delta, including information relating to certain strategic, financial and operational benefits anticipated from the merger, with senior executives of Delta;

reviewed the pro forma impact of the merger on the earnings per share, cash flow, consolidated capitalization and financial ratios of Delta;

reviewed the reported prices and trading activity for Northwest common stock and Delta common stock;

compared the financial performance of Northwest and Delta and the prices and trading activity of Northwest common stock and Delta common stock with that of certain other publicly-traded companies comparable with Northwest and Delta, respectively, and their securities;

reviewed the financial terms, to the extent publicly available, of certain acquisition transactions with comparable characteristics;

participated in discussions and negotiations among representatives of Northwest and Delta and their financial and legal advisors;

reviewed the merger agreement and certain related documents; and

performed such other analyses, reviewed such other information and considered such other factors as Morgan Stanley deemed appropriate.

In arriving at its opinion, Morgan Stanley assumed and relied upon, without independent verification, the accuracy and completeness of the information that was publicly available or supplied or otherwise made available to it by Northwest and Delta, and formed a substantial basis for its opinion. With respect to the financial projections, including information relating to certain strategic, financial and operational benefits anticipated from the merger, Morgan Stanley assumed that they were reasonably prepared on bases reflecting the best currently available estimates and judgments of the respective managements of Northwest and Delta of the future financial performance of Northwest and Delta. In addition, Morgan Stanley assumed, in all respects material to its analysis, that the merger will be consummated in accordance with the terms set forth in the merger agreement without any waiver, amendment or delay of any terms or conditions, including, among other things, that the merger will be treated as a tax-free reorganization and/or exchange, each pursuant to the Code. Morgan Stanley assumed that in connection with the receipt of all the necessary governmental, regulatory or other approvals and consents required for the proposed merger, no delays, limitations, conditions or restrictions will be imposed that would have a material adverse effect on the contemplated benefits expected to be derived in the proposed merger.

Morgan Stanley relied upon, without independent verification, the assessment by the managements of Northwest and Delta of: (i) the strategic, financial and other benefits expected to result from the merger; (ii) the timing and risks associated with the integration of Northwest and Delta; (iii) their ability to retain key employees of Northwest and Delta, respectively; and (iv) the validity of, and risks associated with, Northwest s and Delta s existing and future technologies, intellectual property, products, services and business models. Morgan Stanley are not legal, tax or regulatory advisors. Morgan Stanley are financial advisors only and relied upon, without independent verification, the assessment of Northwest and Delta and their legal, tax or regulatory advisors with respect to such matters. Morgan Stanley expressed no opinion with respect to the fairness of the amount or nature of the compensation to any of Northwest s officers, directors or employees, or any class of such persons, relative to the consideration to be received by the holders of shares of Northwest common stock in the merger. Morgan Stanley did not make any independent valuation or appraisal of the assets or liabilities of Northwest, nor was it furnished with any such appraisals. Morgan Stanley s opinion was necessarily based on financial, economic, market and other conditions as in effect on, and the information made available to it as of, April 14, 2008. Events occurring after April 14, 2008, may affect Morgan Stanley s opinion and the assumptions used in preparing it, and Morgan Stanley did not assume any obligation to update, revise or reaffirm its opinion.

The following is a brief summary of the material financial analyses performed by Morgan Stanley in connection with its oral opinion of April 14, 2008 and the preparation of its written opinion letter of the same date. Some of these summaries include information in tabular format. In order to understand fully the financial analyses used by Morgan Stanley, the tables must be read together with the text of each summary. The tables alone do not constitute a complete description of the analyses.

Historical Share Price Analysis

Morgan Stanley reviewed the stock price performance and trading volumes of Northwest and Delta during various periods ending on January 8, 2008, the date after which Northwest common stock and Delta common stock share prices may have been impacted by increased news reports of and public speculation regarding a potential merger of the two companies, and periods ending on April 11, 2008, the last full trading day prior to the rendering of Morgan Stanley s opinion dated April 14, 2008.

Morgan Stanley noted that the range of low and high closing prices of shares of Northwest common stock during the period May 31, 2007 through April 11, 2008 was approximately $8 to $26 per share. Morgan Stanley also noted that the average closing prices during the 90 trading days ending on January 8, 2008 and April 11, 2008 were approximately $17 and $15 per share, respectively, and during the 30 trading days ending on January 8, 2008 and April 11, 2008 were approximately $16 and $11 per share, respectively. Morgan Stanley noted that the closing price for shares of Northwest common stock as of April 11, 2008 was $10.96 per share.

Morgan Stanley noted that the range of low and high closing prices of shares of Delta common stock during the period May 31, 2007 through April 11, 2008 was approximately $8 to $20 per share. Morgan Stanley also noted that the average closing prices during the 90 trading days ending on January 8, 2008 and April 11, 2008 were approximately $18 and $14 per share, respectively, and during the 30 trading days ending on January 8, 2008 and April 11, 2008 were approximately $16 and $10 per share, respectively. Morgan Stanley noted that the closing price for shares of Delta common stock as of April 11, 2008 was $10.01 per share.

Historical Exchange Ratio Analysis

Morgan Stanley analyzed the historical trading price of Northwest common stock relative to Delta common stock based on closing prices between May 31, 2007 and April 11, 2008 and calculated the historical exchange ratios during certain periods within those dates implied by dividing the daily closing prices per share of Northwest common stock by those of Delta common stock, and the average of those historical trading ratios for the various periods reviewed. Morgan Stanley reviewed exchange ratios for periods ending on January 8, 2008 and April 11, 2008.

Morgan Stanley next compared the merger exchange ratio of 1.25 provided for in the merger agreement with historical exchange ratios for the various periods ending January 8, 2008 and April 11, 2008. The following table lists the implied exchange ratios for these periods:

Days Trading	**Period Ending January 8, 2008(1) Implied Exchange Ratio**	**Period Ending April 11, 2008(2) Implied Exchange Ratio**
April 11, 2008		1.09x
15-Day Average	1.00x	1.06x
20-Day Average	1.01x	1.04x
30-Day Average	0.99x	1.03x
60-Day Average	0.97x	1.04x
90-Day Average	0.98x	1.03x
Average Since May 31, 2007	1.03x	1.03x
Median Since May 31, 2007	1.00x	1.01x
Low / High Since May 31, 2007	0.88 / 1.36	0.88 / 1.36

(1) Based on Delta share price of $11.77 and Northwest share price of $11.67, each as of January 8, 2008.

(2) Based on Delta share price of $9.14 and Northwest share price of $9.69, each as of April 1, 2008.

Equity Research Analyst Price Targets

Morgan Stanley reviewed selected public market trading price targets for Northwest s common stock prepared and published by equity research analysts prior to January 8, 2008 and April 11, 2008, respectively.

These targets reflect each analyst s estimate of the future public market trading price of Northwest common stock at the time the price target was published. For the period ending January 8, 2008, the range of selected equity analyst price targets for Northwest common stock was from approximately $14 to $23 per share. For the period ending April 11, 2008, the range of selected equity analyst price targets for Northwest common stock was from approximately $10 to $15 per share.

Morgan Stanley also reviewed selected public market trading price targets for Delta common stock prepared and published by equity research analysts prior to January 8, 2008 and April 11, 2008, respectively. These targets reflect each analyst s estimate of the future public market trading price of Delta common stock at the time the price target was published. For the period ending January 8, 2008, the range of selected equity analyst price targets for Delta common stock was from approximately $16 to $27 per share. For the period ending April 11, 2008, the range of selected equity analyst price targets for Delta common stock was from approximately $11 to $17 per share. Morgan Stanley noted that price targets for Northwest common stock and Delta common stock after January 8, 2008 may have been impacted by increased news reports of and public speculation regarding a potential merger between the two companies.

Morgan Stanley calculated the exchange ratio implied by each analyst s price targets for Northwest and Delta by dividing the Northwest price target by the Delta price target. This analysis implied a range of exchange ratios from 0.75x to 1.05x based on price targets during the period ending January 8, 2008 and a range of exchange ratios from 0.79x to 1.00x based on price targets during the period ending April 11, 2008, as compared to the merger exchange ratio of 1.25x provided for by the merger agreement.

The public market trading price targets published by securities research analysts do not necessarily reflect current market trading prices for shares of Northwest common stock and shares of Delta common stock and these estimates are subject to uncertainties, including the future financial performance of Northwest and Delta and future financial market conditions.

Comparable Company Analysis

Morgan Stanley compared certain financial information of Northwest and Delta with publicly available consensus earnings estimates for other companies that shared similar business characteristics to Northwest and Delta, respectively. The companies used in this comparison included the following companies:

- Northwest Airlines Corporation
- Delta Air Lines, Inc.
- Alaska Air Group, Inc.
- AMR Corporation
- Continental Airlines, Inc.
- UAL Corporation
- US Airways Group, Inc.

For purposes of this analysis, Morgan Stanley analyzed the ratio of adjusted aggregate value, defined as market capitalization plus total debt and capitalized aircraft rents less unrestricted cash and cash equivalents, to estimated calendar year 2008 consensus EBITDAR (based on publicly available estimates and defined as I/B/E/S consensus earnings before interest expense, taxes, depreciation and amortization plus publicly available equity research estimates for aircraft rent expense) of each of these companies.

Based on an analysis of the relevant metrics for each of the comparable companies, Morgan Stanley selected a reference range of EBITDAR multiples of 5.5x to 6.5x for the comparable companies and applied this range of multiples to the relevant financial statistic of Northwest and Delta, respectively. For purposes of estimated calendar year 2008 EBITDAR, Morgan Stanley utilized publicly available equity research estimates and financial forecasts prepared by the management of Northwest.

Based on publicly available equity research estimates for the calendar 2008 EBITDAR of Northwest and Delta, respectively, Morgan Stanley calculated an implied value range for shares of Northwest common stock of approximately $8 to $13 per share and an implied value range for shares of Delta common stock of approximately $6 to $11 per share. Based on financial forecasts prepared by the management of Northwest, Morgan Stanley estimated an implied value range for shares of Northwest common stock of approximately $6 to $11 per share and an implied value range for shares of Delta common stock of approximately $7 to $11 per share.

Morgan Stanley noted that such analyses indicated a range of implied exchange ratios of 1.16x to 1.26x based on publicly available equity research estimates and 0.91x to 0.93x based on financial forecasts prepared by the management of Northwest, as compared to the merger exchange ratio of 1.25x provided for by the merger agreement.

No company utilized in the comparable company analysis is identical to Northwest or Delta (other than the companies themselves, as applicable). In evaluating comparable companies, Morgan Stanley made judgments and assumptions with regard to industry performance, general business, economic, market and financial conditions and other matters, many of which are beyond the control of Northwest and Delta, such as the impact of competition on the businesses of Northwest and Delta and the industry generally, industry growth and the absence of any adverse material change in the financial condition and prospects of Northwest and Delta or the industry or in the financial markets in general. Mathematical analysis (such as determining the average or median) is not in itself a meaningful method of using comparable company data.

Precedent Exchange Ratio Premiums Analysis

Morgan Stanley reviewed announced exchange ratios in selected precedent transactions with certain comparable characteristics relative to the average exchange ratio of the common stock of the applicable acquirer and target during the 30 trading days prior to the announcement of the applicable transaction. Morgan Stanley reviewed transactions greater than $1.0 billion where the consideration paid consisted solely of stock and pro forma ownership of the selling party s stockholders in the combined entity was greater than 30%. Morgan Stanley also reviewed the composition of the board of directors and senior management, and analyzed publicly available information for the selected transactions reviewed. Based on this review, Morgan Stanley applied a reference range of exchange ratio premiums for these precedent transactions of 10% to 30% to the 30 trading day average Northwest/Delta exchange ratio of 0.99x for the period ending January 8, 2008. Morgan Stanley noted that such analysis indicated a range of implied exchange ratios of 1.09x to 1.29x, as compared to the merger exchange ratio of 1.25x provided for by the merger agreement.

No company or transaction utilized in the precedent transaction analysis is identical to Northwest, Delta or the merger. In evaluating the precedent transactions, Morgan Stanley made judgments and assumptions with regard to general business, market and financial conditions and other matters, which are beyond the control of Northwest and Delta, such as the impact of competition on the businesses of Northwest and Delta or the industry generally, industry growth and the absence of any adverse material change in the financial condition of Northwest and Delta or the industry or in the financial markets in general, which could affect the public trading value of the companies and the aggregate value of the transactions to which they are being compared.

Discounted Cash Flow Analysis

Morgan Stanley calculated a range of equity values per share for each of Northwest and Delta based on a four year discounted cash flow analysis for the calendar years 2008 through 2011. In preparing its analysis, Morgan Stanley relied upon Northwest management s projections with respect to the projected future financial performance of Northwest and Delta, respectively.

In arriving at the estimated equity values per share of Northwest common stock, Morgan Stanley estimated a range of terminal values in 2011 by multiplying Northwest s calendar year 2012 estimated EBITDAR by selected multiples ranging from 5.5x to 6.5x. Morgan Stanley then discounted Northwest s projected unlevered

free cash flow streams, the estimated terminal value, and the estimated value of Northwest s net operating losses and other potential tax savings for the same period as calculated in consultation with Northwest s management, in each case to a present value using a range of discount rates from 9.0% to 11.0%. Based on the foregoing analysis, the discounted cash flow analysis of Northwest yielded an implied valuation range for Northwest common stock of approximately $8 to $14 per share. Morgan Stanley noted that the Northwest closing price as of April 11, 2008 was $10.96.

In arriving at the estimated equity values per share of Delta common stock, Morgan Stanley estimated a range of terminal values in 2011 by multiplying Delta s calendar year 2012 estimated EBITDAR by selected multiples ranging from 5.5x to 6.5x. Morgan Stanley then discounted Delta s projected unlevered free cash flow streams, the estimated terminal value, and the estimated value of Delta s net operating losses and other potential tax savings for the same period as calculated in consultation with Northwest s management, in each case to a present value using a range of discount rates from 9.0% to 11.0%. Based on the foregoing analysis, the discounted cash flow analysis of Delta yielded an implied valuation range for Delta common stock of approximately $7 to $13 per share. Morgan Stanley noted that the Delta closing price as of April 11, 2008 was $10.01.

Morgan Stanley noted that such discounted cash flow analysis for Northwest and Delta indicated an implied exchange ratio of approximately 1.06x, as compared to the merger exchange ratio of 1.25x provided for by the merger agreement.

Morgan Stanley performed a variety of financial and comparative analyses for purposes of rendering its opinion. The preparation of a financial opinion is a complex process and is not susceptible to partial analysis or summary description. In arriving at its opinion, Morgan Stanley considered the results of all of its analyses as a whole and did not attribute any particular weight to any analysis or factor it considered. Furthermore, Morgan Stanley believes that the summary provided and the analyses described above must be considered as a whole and that selecting any portion of the analyses, without considering all of the analyses as a whole, would create an incomplete view of the process underlying Morgan Stanley s analyses and opinion. In addition, Morgan Stanley may have given various analyses and factors more or less weight than other analyses and factors, and may have deemed various assumptions more or less probable than other assumptions. As a result, the ranges of valuations resulting from any particular analysis or combination of analyses described above should not be taken to be the view of Morgan Stanley with respect to the actual value of Northwest or Delta, their respective shares of common stock or the value of the combined company.

In performing its analyses, Morgan Stanley made numerous assumptions with respect to industry performance, general business, regulatory, and economic conditions and other matters, many of which are beyond the control of Morgan Stanley. Any estimates contained in the analyses of Morgan Stanley are not necessarily indicative of future results or actual values, which may be significantly more or less favorable than those suggested by such estimates.

Morgan Stanley conducted the analyses described above solely as part of its analysis of the fairness of the merger consideration pursuant to the merger agreement from a financial point of view to holders of shares of Northwest common stock and in connection with the delivery of its opinion to the Northwest board of directors. These analyses do not purport to be appraisals or to reflect the prices at which shares of Northwest or Delta common stock might actually trade.

The merger consideration was determined through arm s-length negotiations between Northwest and Delta and was approved by the Northwest board of directors. Morgan Stanley provided advice to Northwest during these negotiations. Morgan Stanley did not, however, recommend any specific merger consideration to Northwest or that any specific merger consideration constituted the only appropriate consideration for the merger.

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Morgan Stanley s opinion and its presentation to the Northwest board of directors was one of many factors taken into consideration by the Northwest board of directors in deciding to approve, adopt and authorize the merger agreement. Consequently, the analyses as described above should not be viewed as determinative of the opinion of the Northwest board of directors with respect to the merger consideration or of whether the Northwest board of directors would have been willing to agree to a different merger consideration. Morgan Stanley s opinion was approved by a committee of Morgan Stanley investment banking and other professionals in accordance with its customary practice.

Morgan Stanley is an internationally recognized investment banking and advisory firm. Morgan Stanley, as part of its investment banking and financial 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. Morgan Stanley is a global financial services firm engaged in the securities, investment management and individual wealth management businesses. Its securities business is engaged in securities underwriting, trading and brokerage activities, foreign exchange, commodities and derivatives trading, prime brokerage, as well as providing investment banking, financing and financial advisory services. Morgan Stanley, its affiliates, directors and officers may at any time invest on a principal basis or manage funds that invest, hold long or short positions, finance positions, and may trade or otherwise structure and effect transactions, for their own account or the accounts of its customers, in debt or equity securities or loans of Northwest, Delta or any other company, or any currency or commodity, that may be involved in this transaction, or any related derivative instrument.

In the past, Morgan Stanley and its affiliates have provided financial advisory and financing services for Northwest and Delta, and have received fees for the rendering of these services Morgan Stanley may also seek to provide such services to Northwest and Delta in the future and will receive fees for the rendering of these services. Under the terms of its engagement letter with Northwest, Morgan Stanley provided Northwest with financial advisory services and a financial opinion in connection with the merger, and Northwest has agreed to pay Morgan Stanley a fee of approximately $42.0 million, approximately $37.3 million of which is contingent on the consummation of the merger. Northwest has also agreed to reimburse Morgan Stanley for its expenses incurred in performing its services. In addition, Northwest has agreed to indemnify Morgan Stanley and its affiliates, their respective directors, officers, agents and employees and each person, if any, controlling Morgan Stanley or any of its affiliates against certain liabilities and expenses, including certain liabilities under the federal securities laws, related to or arising out of Morgan Stanley s engagement.

Interests of Directors and Officers in the Merger

The executive officers of Delta and Northwest are eligible to participate in existing compensation arrangements with Delta or Northwest, as applicable, that may provide for enhanced severance benefits if their employment is terminated under certain circumstances in connection with a change in control of Delta or Northwest. In addition, certain of Delta s and Northwest s respective compensation and benefits plans and arrangements provide for payment or accelerated vesting or distribution of the rights or benefits thereunder upon a change in control of Delta or Northwest, as applicable, which the merger would be for purposes of both Delta s and Northwest s respective compensation and benefits arrangements. As discussed below, Mr. Anderson has waived the change in control provisions of his compensation arrangements.

Delta

Stock Options, Restricted Stock and Performance Shares. Delta s executive officers hold stock options, restricted stock and performance shares (long-term incentive opportunities payable in shares of Delta common stock) that were awarded under the Delta 2007 Performance Compensation Plan.

Under the terms of the equity awards under the Delta 2007 Performance Compensation Plan, all unvested stock options and restricted stock held by Delta s executive officers (other than Mr. Anderson who agreed to

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waive his right to accelerated vesting upon the consummation of the merger, as discussed below) will vest upon the consummation of a change in control of Delta such as the merger. Similarly, in the event of a change in control such as the merger, outstanding performance shares (long-term incentive opportunities payable in Delta common stock) will become payable in shares of Delta common stock at 100% of the target award. Each option that becomes vested due to the merger will remain exercisable for the full term of the option, subject to the executive s continued employment. However, upon a subsequent termination of the holder s employment (a) by Delta for cause (as defined in the plan), the option will be forfeited, and (b) for reasons other than by Delta for cause , the holder would have until the earlier of the third anniversary of the termination of employment or the normal expiration date of each option, as the case may be, to exercise that option.

In February 2008, Mr. Anderson offered to waive the change in control provisions of his compensation arrangements, voluntarily agreeing to relinquish any enhanced or accelerated compensation he would otherwise be entitled to receive if any consolidation transaction then under review by Delta were completed. The Personnel & Compensation Committee of the Delta board of directors, which we refer to as the P&C Committee, accepted Mr. Anderson s offer. Mr. Anderson s waiver applies to the proposed merger between Delta and Northwest and any other transaction that was being contemplated by Delta at the time the waiver was offered. For this reason, Mr. Anderson is not included in the disclosure provided below.

Based on Delta equity compensation holdings as of May 15, 2008 and assuming a closing date of January 1, 2009, upon completion of the merger, (1) the number of shares of Delta common stock subject to unvested stock options (at exercise prices ranging from $8.81 to $20.20) held by each of Messrs. Bastian, Campbell, Hauenstein, Macenczak, the two other Delta executive officers (as a group), and the ten non-employee directors (as a group) that would vest are 71,090, 31,600, 31,600, 25,280, 50,560 and 0, respectively; (2) the number of unvested shares of restricted stock held by each of Messrs. Bastian, Campbell, Hauenstein, Macenczak, the two other Delta executive officers (as a group), and the ten non-employee directors (as a group) that would vest upon completion of the merger are 197,050, 91,646, 110,646, 75,206, 171,612, and 0, respectively; and (3) the number of performance shares that would vest in respect of shares of Delta common stock at 100% of target held by each of Messrs. Bastian, Campbell, Hauenstein, Macenczak, the two other Delta executive officers (as a group), and the ten non-employee directors (as a group) that would vest upon completion of the merger are 179,150, 86,780, 86,780, 79,340, 109,080 and 0, respectively. The value of such accelerated vesting will depend upon the fair market value of Delta common stock at the time the awards vest; however, applying the closing price of Delta s common stock on May 16, 2008, which was $7.50 per share, the aggregate value of the accelerated vesting of all equity awards held by each of Messrs. Bastian, Campbell, Hauenstein, Macenczak, the two other Delta executive officers (as a group), and the ten non-employee directors (as a group) would (with stock options valued at the excess of such stock price over the applicable option exercise price) be $2,821,500, $1,338,195, $1,480,695, $1,159,095, $2,105,190 and 0, respectively.

However, depending on when the closing of the merger occurs, certain of the equity awards included in the disclosure above will become vested and payable in accordance with their terms without regard to the merger.

Severance Benefits. Under Delta s 2007 Officer and Director Severance Plan, which we refer to as the Severance Plan, and the 2008 Management Incentive Plan, which we refer to as the 2008 MIP, each of Delta s executive officers may become eligible to receive severance benefits if his employment is terminated by Delta without cause (as defined in the Severance Plan) during the six month period before, or the two-year period after, a change in control such as the merger or if the executive terminates employment for good reason (as defined in the Severance Plan) during the two-year period after a change in control such as the merger. Specifically, in the event of such a termination of an executive officer s employment, pursuant to the Severance Plan, the executive officers would be entitled to receive 24 months of base salary plus two times his MIP target award. In addition, pursuant to the 2008 MIP, an executive officer who becomes entitled to receive severance benefits under the Severance Plan in connection with a change in control also will receive a pro rata payment of his 2008 MIP target award, calculated based on the number of months during the year he was employed, rounded up for any partial months, if his termination occurs before the end of the workday on December 31, 2008 (Because Delta assumes for purposes of this disclosure that the merger closes on January 1, 2009, after the end of the

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workday on December 31, 2008, the participant would have earned his 2008 MIP award, if any, and no pro rata payment would be payable in connection with the merger transaction). Each executive officer who becomes entitled to severance benefits would also receive (a) continuation of certain medical and dental benefits for which the COBRA premiums will be waived for the participant s severance period, (b) continuation of basic life insurance coverage of $50,000 for which premiums will be waived for the severance period, (c) the flight benefits that are offered to retired officers, (d) reimbursement of expenses for financial planning services through the end of the year in which the termination occurred and (e) outplacement services with fees not to exceed $5,000. Specifically, pursuant to the Severance Plan, Mr. Anderson would receive 24 months of flight benefits and 24 months of benefits continuation, and each of Delta s executive officers other than Mr. Anderson would receive 24 months of benefits continuation and Retired Officers Lifetime Flight Benefits.

As noted above, Mr. Anderson voluntarily agreed to relinquish any enhanced or accelerated compensation or benefits he would otherwise be entitled to receive if the merger is completed by Delta. Accordingly, Mr. Anderson will not receive any enhanced severance benefit (including the pro-rata payment of his 2008 MIP target award) if his employment is terminated in connection with the merger without cause or by him for good reason.

The cash severance benefits are paid in a lump sum following termination of employment. To receive severance benefits, each executive officer must enter into a general release of claims against Delta and its affiliates and will be subject to certain non-competition, non-solicitation and confidentiality covenants for the benefit of Delta and its affiliates.

In addition, pursuant to the Severance Plan and the Delta 2007 Performance Compensation Plan, each executive officer is eligible to receive a tax reimbursement payment to indemnify such executive officer for any excise taxes imposed by Section 4999 of the Code, if applicable, on certain payments made to the executive officer as a result of a change in control for purposes of Sections 280G and 4999 of the Code (other than Mr. Anderson, who has waived such rights, as discussed above). If a reduction of payments to the executive officer of less than 10% would cause no such excise tax to be payable, payments to the executive officer will be reduced so that no such excise tax is payable. However, the merger should not constitute a change in control of Delta for purposes of Sections 280G and 4999 of the Code.

The following summarizes the approximate amounts of cash severance that may become payable under the Severance Plan to Delta s executive officers based on each executive officer s current annual base salary and target 2008 MIP if he became eligible for severance benefits due to the termination of his employment without cause or his resignation for good reason in connection with a change in control on January 1, 2009. For Messrs. Anderson, Bastian, Campbell, Hauenstein, Macenczak and the two other Delta executive officers (as a group), their approximate cash severance amounts are $3 million (the same cash severance amount he would be eligible to receive with no corresponding change in control), $2.5 million, $1.5 million, $1.5 million, $1.377 million and $2.877 million, respectively. Since the merger should not constitute a change in control of Delta for purposes of Sections 280G and 4999 of the Code, Delta s executive officers should not be subject to excise taxes under Section 4999 of the Code nor be entitled to any tax reimbursement payments with respect to such a tax. Accordingly, the value of possible tax reimbursements should be zero for each of Delta s executive officers. The severance benefits described above pertaining to Mr. Anderson are the same benefits he would be eligible to receive with no corresponding change in control.

Other. Pursuant to a letter agreement between Delta, the Delta MEC and ALPA, Mr. Kenneth C. Rogers, a Delta pilot who since 2005 has served as a non-voting associate member of the Delta board of directors, was elected as a voting member of the Delta board of directors on April 14, 2008. Mr. Rogers will not be separately compensated for his service as a member of the Delta board of directors. It is expected that Mr. Rogers will, along with the other Delta pilots, be entitled to receive equity and increased cash compensation pursuant to the terms of the Delta pilot issuance and LOA #19 as described in the section entitled Delta Proposal 2: Amendment to the Delta Performance Compensation Plan Transaction Framework Agreement beginning on page 84.

Northwest

Stock-Based Awards. The Northwest 2007 Stock Incentive Plan provides for full vesting of all outstanding awards upon the consummation of a change in control, such as the merger. Upon a subsequent qualifying termination, a participant would have up to three years to exercise his or her options or stock appreciation rights, as the case may be. For employees, a qualifying termination would occur if the employee s employment were terminated without cause or if the employee resigns with good reason (each, as defined in the Northwest 2007 Stock Incentive Plan) during the two year period following the change in control. For non-employee directors, a qualifying termination would occur if, immediately following the change in control, the director did not continue as, or were to not be appointed as, a member of the board of directors of the parent entity, which we refer to as the Successor Board, resulting from the transaction, or if at any point during the two year period thereafter the non-employee director (i) were to cease serving as a director of the Successor Board as a result of a failure to be included in the slate of nominees to serve as directors, (ii) were to fail to be re-elected as a member of the Successor Board notwithstanding having been included in such slate or otherwise having been nominated to serve, or (iii) otherwise were removed from the Successor Board without cause (as defined in the Northwest 2007 Stock Incentive Plan).

In connection with Northwest s execution of the merger agreement, NWA entered into with Mr. Steenland a Retention Agreement and Amendment to Mr. Steenland s Management Compensation Agreement. Under the terms of his retention agreement, Mr. Steenland waived his right under his agreement to resign (and receive severance benefits) during the 30-day period following the one year anniversary of NWA s emergence from bankruptcy in exchange for the grant of 375,000 restricted retention units, which represent the right to receive, subject to the terms and conditions set forth in his retention agreement, an amount in cash equal to the fair market value of a share of Northwest common stock (not to exceed $22.00 per share) multiplied by the number of vested units. The restricted retention units are subject to various vesting and acceleration provisions, which include a provision that, in the event the merger is consummated and Mr. Steenland has remained employed with NWA through the consummation of the merger, then the unvested portion of the units will become immediately vested in full. The retention agreement also provides that Mr. Steenland will be obligated to repay to NWA a pro-rated portion of any payments received by him upon the vesting of any of the restricted retention units in the event he joins certain competitors of NWA within the one year period following his termination of employment with NWA, based upon the percentage of such one year period that has not elapsed as of such date, and contains a provision prohibiting him from soliciting employees of NWA for employment with another entity during such one year period.

Based on current outstanding awards under the Northwest 2007 Stock Incentive Plan (assuming that the Northwest stockholders approve the proposal relating to the Amendment to the Northwest 2007 Stock Incentive Plan and the Director Stock Awards (which are discussed below under the section entitled Northwest Board of Directors and Board Committees Director Compensation in 2007) are no longer conditional) and assuming a closing date for the merger of January 1, 2009, (1) the number of unvested stock options held by each of Messrs. Steenland, Cohen, Davis, Griffin and Roberts, who we collectively refer to as the Named Executive Officers, and the ten non-employee directors (as a group) that would vest upon the closing of the merger are 265,138, 129,211, 91,467, 111,441, 121,583 and 40,650, respectively; (2) the number of unvested restricted stock units in respect of shares of Northwest common stock held by each of Northwest s Named Executive Officers and the ten non-employee directors of Northwest (as a group) that would vest upon the closing of the merger are 397,709, 193,822, 137,203, 167,162, 182,375 and 60,980, respectively; and (3) as stated above, the number of restricted retention units in respect of shares of Northwest common stock previously granted to Mr. Steenland under his retention agreement described above that would vest upon the closing of the merger is 375,000. The value of such accelerated vesting will depend on the fair market value of Northwest common stock at the time the awards vest; however, based on the closing sale price of a share of Northwest common stock on May 13, 2008 ($8.55) and with stock options valued at the excess of such stock price over the applicable option exercise price, the aggregate value of the accelerated vesting of all equity awards held by each of Messrs. Steenland, Cohen, Davis, Griffin and Roberts and the ten non-employee directors (as a group) would be $6,606,662, $1,657,178, $1,173,086, $1,429,235, $1,559,306 and $521,379, respectively. However, depending on when the closing of the

merger occurs, certain of the outstanding equity awards will become vested in accordance with their terms without regard to the merger. For example, 1,219 of the restricted stock units and 813 of the stock options previously granted to each of the ten non-employee directors under the conditional Director Stock Awards will vest on May 31, 2009, subject to the director s continued service on the Northwest board of directors.

Severance Benefits. NWA previously entered into management compensation agreements with each of its executive officers, pursuant to which each such executive would be entitled to severance benefits if the executive s employment were terminated by NWA without cause or by the executive for good reason (each as defined in the applicable management compensation agreement), whether or not in connection with a change in control. These agreements for the Named Executive Officers other than Mr. Steenland were recently amended to (1) modify the definitions of good reason to be more protective of certain elements of the officer s compensation and benefits following a change in control of Northwest (such as the merger), (2) make certain changes to the executive s eligibility for post-termination pass travel privileges in connection with a change in control, and (3) provide those executives whose employment is terminated without cause or by the executive for good reason (each, as defined in the applicable management compensation agreement) within two years after a change in control and who would be retiree eligible at the time of such termination of employment with the right to receive tax gross-up payments for the imputed income resulting from the executive s use of such pass travel privileges following such termination of employment.

Under their amended management compensation agreements, Mr. Steenland and each of Northwest s other Named Executive Officers would be entitled to receive, in the event their employment with NWA is terminated without cause or by the executive for good reason (each, as defined in the applicable management compensation agreement) within two years after a change in control (such as the merger), pass travel privileges during their lifetimes on NWA, any successor to NWA and such successor s affiliates on terms and conditions no less favorable than those to which the executives were entitled immediately prior to the change in control. Currently, Mr. Steenland, by virtue of his management compensation agreement, and Mr. Griffin, who is retiree eligible under NWA s pass travel program would be entitled to receive tax gross-up payments for the imputed income resulting from their use of such pass travel privileges following their termination of employment. The Northwest board of directors also recently adopted an amendment to NWA s pass travel policies with respect to its non-employee directors, under which, in the event of a change in control of Northwest, each of Northwest s non-employee directors who are serving as a member of the Northwest board of directors immediately prior to the change in control will be entitled to lifetime positive space pass travel benefits on NWA, any successor to NWA and such successor s affiliates, regardless of the number of years of service on the Northwest board of directors.

Under the management compensation agreement with Mr. Steenland, in the event of a termination of employment other than by NWA for cause or by Mr. Steenland with good reason (each as defined in the agreement) whether or not in connection with a change in control, Mr. Steenland would receive a severance payment equal to three times his annual base salary and target incentive payment, as well as supplemental pension benefits and reimbursement of relocation expenses. Mr. Steenland would be entitled to these same benefits if he resigns at any time during the six months commencing on the first anniversary of a change in control of Northwest (such as the merger). Mr. Steenland would also continue to receive coverage under NWA s medical and dental plans for the remainder of his and his spouse s lifetimes (with Mr. Steenland paying, until age 65, up to 25% of the premium cost for such coverage), NWA confirmed space pass travel benefits during the remainder of his lifetime, including a tax gross-up for the imputed income, and coverage under NWA s life insurance and disability plans for a specified period of time. Mr. Steenland also would be entitled to a full tax gross-up for golden parachute excise taxes incurred by him under Code Sections 280G and 4999 and the applicable regulations thereunder with respect to the payments and benefits received by him pursuant to his management compensation agreement.

Under the management compensation agreements with Northwest s executive officers other than Mr. Steenland, in the event of a termination of the executive s employment by NWA other than for cause or by

the executive for good reason (each as defined in the applicable management compensation agreement), the executive would receive a severance payment equal to two times the executive s annual base salary and target incentive payment. In addition, in the event the executive remains employed by NWA until a date specified in his agreement, his employment is terminated by NWA other than for cause or he resigns for good reason in each case prior to the specified date, the executive would continue to receive coverage under NWA s medical and dental plans for the remainder of his lifetime on the same terms and conditions as apply from time to time to salaried employees of NWA. Each management compensation agreement for Northwest s executive officers (other than for Mr. Steenland) also provides for a tax gross-up payment not to exceed $1,000,000 for golden parachute excise taxes incurred under Code Sections 280G and 4999 by the executive with respect to the payments and benefits received by the executive in connection with a change in control, subject to certain limitations (including a cutback (i.e., no gross-up payment) if the amount of the payments subject to the excise tax exceeds the applicable safe harbor by less than 10% (within the meaning of Code Sections 280G and 4999 and the applicable regulations thereunder)).

The management compensation agreements for Mr. Steenland and each of the other Named Executive Officers also provide that, in the event of a termination of employment by NWA other than for cause or by the executive for good reason (each as defined in the applicable management compensation agreement) (and, in the case of Mr. Steenland, in the event of his death or disability (as defined in his management compensation agreement), the executive will be entitled to receive a pro rata payment of the executive s annual cash incentive plan target award for the year in which such termination occurs, based on the number of days during the year the executive was employed. Under a recent amendment to NWA s annual cash incentive plan, in the event of a change in control, if the executive remains employed through the payment date or his employment is terminated without cause or he resigns for good reason after the plan year but prior to the payment date, the executive would be entitled to receive the higher of the executive s target incentive payment for the year and the amount of the executive s incentive payment based on NWA s actual performance for the year in which the change of control occurs. Mr. Steenland s target payout under the annual cash incentive plan is 100% of his annual salary and the target payout percentage for the other Named Executive Officers is 60% of their annual salary.

Mr. Steenland and each of the other Named Executive Officers also participate in NWA s long term cash incentive plan, under which the executives are eligible for cash payments based on Northwest s adjusted operating margin performance during overlapping two-year performance periods compared to that of five other major U.S. network airlines during such periods. Under the terms of the long term cash incentive plan, in the event an officer s employment is terminated by NWA without cause or by the executive for good reason (each as defined in the long term cash incentive plan) within two years after a change of control (such as the merger), each executive will be entitled to receive a payment for each performance period in which such termination of employment occurs as if the payout percentage for such period had equaled 100%, and, if such termination occurs after the end of a performance period but prior to the payment date, the executive will be entitled to receive a payment based on Northwest s actual relative performance during such period. Mr. Steenland s target payout under the long term cash incentive plan is 150% of his annual salary and the target payout percentage for the other Named Executive Officers is 70% of their annual salary.

In addition, the annual cash incentive plan and the long term cash incentive plan were recently amended to provide certain protections to participants in those plans in the event of a change in control of Northwest (such as the merger). The plans provided that, in the event of a change of control of Northwest, the administrator of the plans may not reduce any amounts otherwise payable under the plan for any performance periods in which the change in control occurs or terminate any outstanding incentive opportunity for such performance periods. In addition, the administrator of each plan will, in good faith, make any adjustment that it reasonably determines to be equitable to the performance measures for the performance period in which a change in control occurs, to reflect any change in the business of Northwest or its successor.

The estimated amounts of cash severance that may become payable to Messrs. Steenland, Davis, Griffin and Roberts under their respective management compensation agreement based on each executive s current annual

base salary and target incentive compensation amounts assuming the merger is consummated and the executive s employment is terminated on January 1, 2009 are $3,270,378, $1,356,602, $1,356,602, and $1,356,602. In addition, the pro-rated target incentive payments that would become payable to each executive under the annual cash incentive plan for 2008 would be $545,063, $254,363, $254,363 and $254,363, respectively, and the aggregate amount of the target incentive payments that would become payable to each executive under the long term cash incentive plan for the two year performance periods ending on December 31, 2008 and December 31, 2009 would be $1,635,190, $593,514, $593,514 and $593,514, respectively. NWA has announced that Mr. Cohen s employment with NWA will be terminated effective June 16, 2008. In connection with his departure, Mr. Cohen will receive the severance payments and benefits provided for in his existing management compensation agreement. Under the original terms of the previously granted restricted stock units and stock options held by Mr. Cohen, 50% of the unvested portion of his restricted stock units and stock options would vest upon termination of Mr. Cohen s employment and the remaining 50% would be cancelled. In connection with Mr. Cohen s resignation, however, NWA agreed that, notwithstanding the termination of Mr. Cohen s employment, (i) the remaining unvested portion of his restricted stock units and stock options will continue to vest during Mr. Cohen s lifetime in equal installments on the vesting dates provided for under the original terms of his restricted stock units and stock options, (ii) Mr. Cohen s outstanding restricted stock units and stock options will vest automatically upon a change of control, and (iii) in the event Northwest s pending merger with Delta is consummated, Mr. Cohen will have up to three years following the merger to exercise his outstanding stock options and if the merger agreement with Delta is terminated without the merger having occurred, Mr. Cohen will have ninety (90) days after the termination of the merger agreement to exercise his vested stock options and ninety (90) days after the vesting of each remaining installment to exercise such stock options. All of the remaining terms and conditions of his restricted stock units and stock options will continue in effect as set forth in the award documentation pertaining to such restricted stock units and stock options.

Retention Plan. In connection with Northwest s execution of the merger agreement and in consideration of the potential employee retention issues at NWA during the period prior to the closing of the merger, NWA adopted the Northwest Airlines, Inc. 2008 Retention Plan, which we refer to as the Retention Plan, in which all salaried employees of NWA and its affiliates are eligible to participate. Initial awards made under the Retention Plan were made to certain non-officer salaried employees of NWA. Under the Retention Plan, the compensation committee of the Northwest board of directors also is authorized, but not obligated, from time to time and in its sole discretion, to make awards of additional retention payment opportunities up to an aggregate amount of $25 million to employees of NWA or an affiliate, which may include Northwest s executive officers, who are selected by the compensation committee, on such terms and conditions as the compensation committee would determine. To date, no awards have been made to Northwest s executive officers under the Retention Plan.

Indemnification. Executive officers and directors of Northwest also have rights to indemnification and directors and officers liability insurance that will survive completion of the merger. See The Merger Agreement Other Covenants and Agreements Indemnity and Insurance.

Board of Directors and Management Following the Merger

Following the merger, the board of directors of the combined company will be made up of thirteen members, consisting of (1) seven members of the Delta board of directors (which will include Daniel A. Carp, the current chairman of the board of directors of Delta, and Richard H. Anderson, the current chief executive officer of Delta), (2) five members of the Northwest board of directors (which will include Roy J. Bostock, the current chairman of the Northwest board of directors, and Douglas M. Steenland, the current chief executive officer of Northwest) and (3) one representative designated by the Delta MEC. As of the date of this document, the Delta board of directors has not made a determination as to which directors (other than Messrs. Carp, Anderson, Bostock and Steenland) will be appointed to the board of directors of the combined company after the merger. The Delta MEC has designated Mr. Kenneth C. Rogers, a Delta pilot who is a current member of the Delta board of directors, to serve on the board of directors of the combined company.

Upon completion of the merger, Daniel A. Carp will serve as non-executive chairman of the board of directors of the combined company, Roy J. Bostock will serve as a non-executive vice chairman of the board of the combined company, Richard H. Anderson will serve as chief executive officer of the combined company and Edward H. Bastian will serve as president and chief financial officer of the combined company.

Regulatory Approvals Required for the Merger

Under the HSR Act, Delta and Northwest must file notifications with the Federal Trade Commission, which we refer to as the FTC, and the Antitrust Division and observe a mandatory pre-merger waiting period before consummating the merger. The parties filed the required HSR notification and report form on April 21, 2008, and the waiting period under the HSR Act will expire at 11:59 p.m., Eastern time, on May 21, 2008, unless this period is earlier terminated or extended by issuance of a Request for Additional Information and Documentary Material, which we refer to as a Second Request. Based on discussions with the Antitrust Division staff, the parties anticipate the Antitrust Division will issue a Second Request to Delta and Northwest before the waiting period expires. If the Antitrust Division issues a Second Request to the parties, then the waiting period will be extended until the 30th calendar day after the date of substantial compliance with the Second Request by both parties, unless earlier terminated by the Antitrust Division or further extended by court order or with the consent of Delta and Northwest. Assuming the Antitrust Division issues a Second Request, Delta and Northwest do not expect the closing of the merger to occur until the fourth quarter of 2008. Delta and Northwest are committed to working cooperatively with the Antitrust Division staff as it conducts its review of the proposed acquisition.

Delta and Northwest each conduct business in member states of the European Union, and they are required to make a merger notification to the European Commission. The European Commission review process determines whether the proposed merger is compatible with the European common market. A merger that does not significantly impede effective competition in the common market (or in a substantial part of it) is compatible with the common market and allowed to proceed. If, following a preliminary Phase I investigation of 25 working days (which may be extended in certain circumstances), the European Commission determines that the merger does not significantly impede effective competition in the common market (or in a substantial part of it) it will be declared compatible with the common market. If, following the preliminary Phase I investigation of 25 working days (which may be extended in certain circumstances), the European Commission determines that it needs to examine the merger more closely because the merger raises serious doubts as to its compatibility with the common market, the European Commission initiates a Phase II investigation. If the European Commission initiates a Phase II investigation, the European Commission must issue a final decision as to whether or not the merger is compatible with the common market no later than 90 working days after the initiation of the Phase II investigation (although this period may be extended in certain circumstances). Delta and Northwest are working toward obtaining the required European Commission clearance as soon as possible.

In addition to the antitrust related filings and approvals discussed above, completion of the merger is conditioned on Delta and Northwest obtaining approval of the U.S. Department of Transportation for the transfer of Northwest s international routes to Delta. The parties must also either notify or obtain consent from certain foreign regulatory agencies in connection with the consummation of the merger and will make international merger filings in Brazil, Canada, China, Mexico, South Africa and South Korea.

Delta and Northwest cannot assure you that the Antitrust Division or other government agencies, including state attorneys general, or a private party, will not initiate action to challenge the merger before or after it is completed. Any such challenge to the merger could result in a court order enjoining the merger or in restrictions or conditions that would have a material adverse effect on the combined company if the merger is completed. Such restrictions and conditions could include the divestiture or spin-off of assets or businesses. Under the terms of the merger agreement, each of Delta and Northwest, if requested by the other party, is each required to commit to any divestitures or similar arrangements with respect to its assets or conduct of business arrangements if that divestiture or arrangement is a condition to obtain any clearance or approval from any governmental entity in order to complete the merger and would not have a material adverse effect on either company or the combined

company. No additional stockholder approval is expected to be required or sought for any decision by Delta or Northwest, after the Delta special meeting and the Northwest annual meeting, to agree to any terms and conditions necessary to resolve any regulatory objections to the merger.

Exchange of Certificates in the Merger

At or prior to the effective time of the merger, an exchange agent will be appointed to handle the exchange of Northwest stock certificates for shares of Delta common stock in book-entry form. Within five days of the effective time of the merger, the exchange agent will send a letter of transmittal and instructions to each former Northwest stockholder explaining the procedure for surrendering Northwest stock certificates in exchange for shares of Delta common stock in book-entry form into which the shares of Northwest common stock will be converted in the merger.

After the effective time of the merger, each certificate that previously represented shares of Northwest common stock will represent only the right to receive shares of Delta common stock in book-entry into which the shares of Northwest common stock have been converted. In addition, after the effective time of the merger, Northwest will not register any transfers of the shares of Northwest common stock. Delta stockholders will not need to take any action with regard to their shares of Delta common stock.

Treatment of Northwest Stock Options and Other Equity Based Awards

Stock Options; Stock Appreciation Rights. At the effective time of the merger, each outstanding option to purchase shares of Northwest common stock and each stock appreciation right in respect of Northwest common stock, whether or not exercisable, will be assumed by Delta and converted into an option to purchase Delta common stock or a stock appreciation right in respect of Delta common stock subject to, and in accordance with, the same terms and conditions applicable to the corresponding Northwest stock option or stock appreciation right, except that the number of shares of Delta common stock subject to each such converted option or in respect of each such converted stock appreciation right will be equal to the product, rounded down to the nearest whole number of shares of Delta common stock, of (x) the number of shares of Northwest common stock subject to the corresponding Northwest stock option or in respect of the corresponding Northwest stock appreciation right and (y) the exchange ratio. The exercise price for converted options and stock appreciation rights will equal the applicable per share exercise price for the shares of Northwest common stock divided by the exchange ratio (rounded up to the nearest whole cent). Because the merger is a change in control for purposes of the Northwest 2007 Stock Incentive Plan, each outstanding option to purchase shares of Northwest common stock and each stock appreciation right in respect of Northwest common stock will become fully vested at the effective time of the merger.

Restricted Stock Units; Restricted Shares. At the effective time of the merger, each Northwest restricted stock unit and right to receive shares of Northwest common stock or an amount in cash measured by the value of a number of shares of Northwest common stock that is outstanding immediately prior to the effective time of the merger will, subject to and in accordance with the terms of the Northwest 2007 Stock Incentive Plan, be converted into the right to receive the number of shares of Delta common stock (or an amount in respect thereof for such cash-settled awards) equal to the product of (x) the number of shares of Northwest common stock subject to each such award and (y) the exchange ratio (rounded down to the nearest whole number of shares of Delta common stock). Because the merger is a change in control for purposes of the Northwest 2007 Stock Incentive Plan, all Northwest restricted stock units and rights to receive shares of Northwest common stock or an amount in cash measured by the value of a number of shares of Northwest common stock will become fully vested at the effective time of the merger.

Treatment of Delta Stock Options and Other Equity Based Awards

Under the terms of the equity awards under the Delta 2007 Performance Compensation Plan, generally all unvested stock options and restricted stock will fully vest upon the consummation of a change in control of

Delta such as the merger. Similarly, in the event of a change in control, generally all outstanding performance shares will become payable in shares of Delta common stock at 100% of the target award. As discussed above, Mr. Anderson s equity awards will not vest or become payable as a result of the merger.

Listing of Delta Common Stock

It is a condition to the completion of the merger that the Delta common stock issuable in the merger or upon exercise of options and other stock-based awards to purchase Delta common stock issued in substitution for Northwest options be approved for listing on the NYSE, subject to official notice of issuance.

Appraisal Rights

Under the General Corporation Law of the State of Delaware, or the DGCL, holders of Northwest common stock and Delta common stock are not entitled to appraisal rights in connection with the merger. See the section entitled Appraisal Rights beginning on page 164.

Amendment to Northwest s Rights Agreement

On May 25, 2007, Northwest entered into a rights agreement with Computershare Trust Company, N.A., as rights agent, which generally imposed a significant penalty upon any person or group that acquires 20% or more of the outstanding shares of Northwest common stock without the approval of the Northwest board of directors.

On April 14, 2008, immediately prior to the execution of the merger agreement, Northwest and the rights agent, entered into an amendment to the rights agreement that provides, among other things, that neither the approval, execution, delivery, announcement or performance of the merger agreement or the consummation of the merger or any other transactions contemplated thereby will cause any of Delta, Nautilus Merger Corporation or any of their respective affiliates or associates to be, become or be deemed an Acquiring Person , Beneficial Owner or a Principal Party nor give rise to a Stock Acquisition Date , Distribution Date , triggering event under section 11(a)(ii) of the rights agreement or other similar events. Furthermore, the amendment also provides that the rights agreement and the Rights (as defined in the rights agreement) established thereby will terminate in all respects immediately prior to the effective time of the merger.

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THE MERGER AGREEMENT

This section of the proxy statement describes the material provisions of the merger agreement but does not purport to describe all of the terms of the merger agreement. The following summary is qualified in its entirety by reference to the complete text of the merger agreement, which is attached as Appendix A to this proxy statement and incorporated into this proxy statement by reference. We urge you to read the full text of the merger agreement because it is the legal document that governs the merger. It is not intended to provide you with any other factual information about us. Such information can be found elsewhere in this proxy statement and in the public filings we make with the SEC, as described in the section entitled Where You Can Find More Information beginning on page 166.

Terms of the Merger

The merger agreement provides that, subject to the terms and conditions of the merger agreement, and in accordance with the General Corporation Law of the State of Delaware, at the effective time of the merger, Nautilus Merger Corp., a Delaware corporation and wholly-owned subsidiary of Delta Air Lines, Inc, will merge with and into Northwest Airlines Corporation. Northwest will be the surviving company in the merger. At the effective time of the merger, each share of Northwest common stock that is either (i) issued and outstanding immediately prior to the effective time of the merger or (ii) to be issued pursuant to the reserve created under Northwest s plan of reorganization under Chapter 11 of the U.S. Bankruptcy Code (other than the Northwest common stock held by Northwest, Delta or Nautilus Merger Corp. to be cancelled upon completion of the merger), will be converted into the right to receive 1.25 shares of Delta common stock (which we refer to as the exchange ratio).

Delta will not issue fractional shares of Delta common stock in the merger. Instead, a Northwest stockholder of record who otherwise would have received a fraction of a share of Delta common stock will receive an amount in cash (rounded to the nearest cent). This cash amount will be determined by multiplying the fraction of a share of Delta common stock to which the holder of record would otherwise receive by the volume-weighed average price of a share of Delta common stock, as reported by Bloomberg L.P., on the last trading day prior to the effective time of the merger.

The exchange ratio will be adjusted appropriately to fully reflect the effect of any stock split (including reverse stock split), split-up, stock dividend (including any dividend or distribution of securities convertible into either Delta common stock or Northwest common stock), reorganization, recapitalization, reclassification or other like change with respect to the shares of either Delta common stock or Northwest common stock that occurs prior to the effective time of the merger (although neither Delta nor Northwest can do so without the consent of the other).

Each share of common stock of Nautilus Merger Corp. outstanding immediately prior to the effective time of the merger will be converted into and become one share of common stock, par value $0.01 per share, of the surviving corporation with the same rights, powers and privileges as the shares so converted and will constitute the only outstanding shares of capital stock of the surviving corporation. Accordingly, as a result of the merger, Northwest will become a wholly-owned subsidiary of Delta.

Exchange of Northwest Stock Certificates

Within five business days of the effective time of the merger, if you are a Northwest stockholder, Delta s exchange agent will mail you a letter of transmittal and instructions for use in surrendering your Northwest stock certificates for stock of Delta (and cash in lieu of any fractional shares of Delta common stock). When you deliver your Northwest stock certificates to the exchange agent along with a properly executed letter of transmittal and any other required documents, your Northwest stock certificates will be cancelled.

Holders of Northwest common stock will receive statements indicating book-entry ownership of Delta common stock and a cash payment, without interest, instead of any fractional shares of Delta common stock that would have been otherwise issuable to them as a result of the merger. This cash amount will be determined in accordance with the methodology described above under Terms of the Merger.

PLEASE DO NOT SUBMIT YOUR NORTHWEST STOCK CERTIFICATES FOR EXCHANGE UNTIL YOU RECEIVE THE TRANSMITTAL INSTRUCTIONS AND LETTER OF TRANSMITTAL FROM THE EXCHANGE AGENT.

If you own Northwest common stock in book entry form or through a broker, bank or other holder of record, you will not need to obtain stock certificates to submit for exchange to the exchange agent.

If you hold Northwest stock certificates, you are not entitled to receive any dividends or other distributions on Delta common stock until the merger is completed and you have surrendered your Northwest common stock in exchange for Delta common stock. If there is any dividend or other distribution on Delta common stock with a record date occurring after the time of the merger is completed and a payment date prior to the date your surrender your Northwest stock certificates in exchange for Delta common stock, you will receive the dividend or distribution, without interest, with respect to the whole shares of Delta common stock issued to you promptly after you surrender your Northwest stock certificates and the shares of Delta common stock are issued in exchange. If there is any dividend or other distribution on Delta common stock with a record date after the date on which the merger is completed and a payment date after the date you surrender your Northwest stock certificates in exchange for Delta common stock, you will receive the dividend or distribution, without interest, with respect to the whole shares of Delta common stock issued to you on that payment date.

If your Northwest stock certificate has been lost, stolen or destroyed, you may receive shares of Delta common stock upon the making of an affidavit of that fact. Delta may, in its discretion, require you to deliver an indemnification agreement in a form reasonably acceptable to Delta as indemnity against any claim that may be made against Delta or the exchange agent with respect to the lost, stolen or destroyed Northwest stock certificate.

Delta will only issue stock (or cash in lieu of fractional shares) in a name other than the name in which a surrendered Northwest stock certificate is registered if you present the exchange agent with all documents required to show and effect the unrecorded transfer of ownership and show that you paid any applicable stock transfer taxes.

Treatment of Northwest Stock Options and Other Equity Awards

Stock Options; Stock Appreciation Rights. At the effective time of the merger, each outstanding option to purchase shares of Northwest common stock and each stock appreciation right in respect of Northwest common stock, whether or not exercisable, will be assumed by Delta and converted into an option to purchase Delta common stock or a stock appreciation right in respect of Delta common stock subject to, and in accordance with, the same terms and conditions applicable to the corresponding Northwest stock option or stock appreciation right, except that the number of shares of Delta common stock subject to each such converted option or in respect of each such converted stock appreciation right will be equal to the product, rounded down to the nearest whole number of shares of Delta common stock, of (x) the number of shares of Northwest common stock subject to the corresponding Northwest stock option or in respect of the corresponding Northwest stock appreciation right and (y) the exchange ratio. The exercise price for converted options and stock appreciation rights will equal the applicable per share exercise price for the shares of Northwest common stock divided by the exchange ratio (rounded up to the nearest whole cent). Because the merger is a change in control for purposes of the Northwest 2007 Stock Incentive Plan, each outstanding option to purchase shares of Northwest common stock and each stock appreciation right in respect of Northwest common stock will become fully vested at the effective time of the merger.

Restricted Stock Units; Restricted Shares. At the effective time of the merger, each Northwest restricted stock unit and right to receive shares of Northwest common stock or an amount in cash measured by the value of a number of shares of Northwest common stock that is outstanding immediately prior to the effective time of the merger will, subject to and in accordance with the terms of the Northwest 2007 Stock Incentive Plan, be converted into the right to receive the number of shares of Delta common stock (or an amount in respect thereof for such cash-settled awards) equal to the product of (x) the number of shares of Northwest common stock subject to each such award and (y) the exchange ratio (rounded down to the nearest whole number of shares of Delta common stock). Because the merger is a change in control for purposes of the Northwest 2007 Stock Incentive Plan, all Northwest restricted stock units and rights to receive shares of Northwest common stock or an amount in cash measured by the value of a number of shares of Northwest common stock will become fully vested at the effective time of the merger.

Governance Matters After the Merger

Board of Directors. Upon completion of the merger, the board of directors of the combined company will consist of (1) seven members of the Delta board of directors (which will include Daniel A. Carp, the current chairman of the Delta board of directors, who will serve as non-executive chairman of the board of directors of the combined company, and Richard H. Anderson, the current chief executive officer of Delta), (2) five members of the Northwest board of directors (which will include Roy J. Bostock, the current chairman of the Northwest board of directors, who will serve as a non-executive vice chairman of the board of directors of the combined company, and Douglas M. Steenland, the current chief executive officer of Northwest) and (3) one representative designated by the Delta MEC. The Delta MEC has designated Mr. Kenneth C. Rogers, a Delta pilot who is a current member of the Delta board of directors, to serve on the board of directors of the combined company.

Executive Officers. Upon completion of the merger, Richard H. Anderson will serve as chief executive officer of the combined company and Edward H. Bastian will serve as president and chief financial officer of the combined company.

Name; Headquarters. At the effective time of the merger, the name of the combined company will be Delta Air Lines, Inc. and the headquarters for the combined company will be located in Atlanta, Georgia.

Completion of the Merger

Unless otherwise agreed by the parties to the merger agreement, the parties are required to complete the merger no later than the second business day after satisfaction or waiver of all the conditions described under Conditions to Completion of the Merger below at the offices of Wachtell, Lipton, Rosen & Katz, 51 West 52nd Street, New York, New York 10019. The merger will be effective at the time the certificate of merger is filed with the Secretary of State of the State of Delaware (or at a later time, if agreed upon by the parties and specified in the certificate of merger).

Conditions to Completion of the Merger

The obligations of Delta and Nautilus Merger Corp. and Northwest to consummate the merger are subject to the satisfaction of the following conditions:

- adoption of the merger agreement by a majority of the outstanding shares of Northwest common stock;
- approval of the issuance of shares of Delta common stock in the merger by a majority of the outstanding shares of Delta common stock present or represented and entitled to vote at the special meeting, with a majority of the shares of Delta common stock entitled to vote actually voting on the proposal;
- absence of any temporary, preliminary or permanent injunction, order, judgment, decree, statute, law, ordinance, rule or regulation, or other legal restraint or prohibition by a court or other governmental

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entity that makes illegal or prohibits the consummation of merger or the other transactions contemplated by the merger agreement;

effectiveness of this joint proxy statement/prospectus and the absence of a stop order or proceedings threatened or initiated by the SEC for that purpose;

authorization of the listing of the shares of Delta common stock to be issued in the merger on the NYSE, subject to official notice of issuance; and

the waiting period (and any extension thereof) applicable to the merger under the antitrust laws of the United States and the European Union will have expired or been terminated and all exemptive authority required to be obtained from the DOT for any de facto route transfers will have been obtained; provided, however, this condition will not be deemed satisfied if the terms of any such permits, consents, approvals, expirations or terminations of waiting periods, or authorizations would, individually or in the aggregate, have a material adverse effect on Delta, Northwest or the combined company.

In addition, each of Delta s and Northwest s obligations to consummate the merger is subject to the satisfaction of the additional following conditions:

the representations and warranties of the other party, other than the representation related to the absence of any event or occurrence having a material adverse effect on the other party since January 1, 2008, will be true and correct (without giving effect to any materiality qualifications contained in such representations and warranties) when made and at and as of the effective time of the merger (other than those representations and warranties that were made only as of a specified date, which need only be true and correct as of such specified date), provided that such representations will be deemed to be true unless the individual or aggregate impact of the failure to be so true would have or would reasonably be expected to have a material adverse effect on the other party;

the representation and warranty of the other party relating to the absence of any event or occurrence having a material adverse effect on the other party since January 1, 2008 will be true and correct when made and at and as of the effective time of the merger;

the other party will have performed, or complied with, in all material respects, all of its respective obligations under the merger agreement at or prior to the consummation of the merger;

receipt of a certificate executed by the other party s Chief Executive Officer and Chief Financial Officer as to the satisfaction of the conditions described in the preceding three bullets;

receipt of a legal opinion of that party s counsel to the effect that the merger will be treated as a reorganization within the meaning of Section 368(a) of the Code; and

no proceeding under any law relating to bankruptcy, insolvency or reorganization has been instituted and not dismissed against the other party.

Representations and Warranties

The merger agreement contains representations of each of Northwest, on the one hand, and Delta and Nautilus Merger Corp., on the other hand, made solely for the benefit of the other. These representations do not survive the effective time of the merger. The assertions embodied in those representations and warranties are qualified by information in confidential disclosure schedules that the parties have exchanged in connection with signing the merger agreement. The disclosure schedules contain information that modifies, qualifies and creates exceptions to

the representations and warranties set forth in the merger agreement. Furthermore, many of the representations and warranties may not be accurate or complete as of any particular date because they are subject to a contractual standard of materiality or material adverse effect different from that generally applicable to public disclosures to stockholders. The representations and warranties were used for the purpose of allocating risk between the parties to the merger agreement rather than establishing matters of fact. For the

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foregoing reasons, you should not rely on the representations and warranties contained in the merger agreement as statements of factual information. The representations and warranties in the merger agreement and the description of them in this document should be read in conjunction with the other information contained in the reports, statements and filings that the parties publicly file with the SEC. This description of the representations and warranties is included to provide stockholders with information regarding the terms of the merger agreement.

Each of Northwest and Delta has made representations and warranties regarding, among other things:

- organization, standing and corporate power, charter documents and ownership of subsidiaries;
- capital structure;
- corporate authority to enter into and perform the merger agreement, enforceability of the merger agreement, approval of the merger agreement by the parties boards of directors and voting requirements to consummate merger and the other transactions contemplated by the merger agreement;
- absence of conflicts with or defaults under organizational documents, other contracts and applicable laws;
- required regulatory filings and consents and approvals of governmental entities;
- SEC filings since January 1, 2006, including financial statements contained therein, internal controls and compliance with the Sarbanes-Oxley Act of 2002;
- accuracy and compliance with applicable securities laws of the information supplied or to be supplied in the registration statement to be filed in connection with the merger;
- conduct of business and absence of certain changes, except as contemplated by the merger agreement, including that there has been no fact, event, change, development or set of circumstances, that has had or would reasonably be expected to have, a material adverse effect to any party;
- compliance with applicable laws and validity of permits;
- the absence of undisclosed material liabilities;
- the absence of certain litigation;
- labor and other employment matters, including benefit plans;

tax matters;

the absence of events that would be required to be reported to the SEC;

environmental matters;

intellectual property matters;

matters with respect to material contracts;

title to properties and the absence of encumbrances;

matters with respect to aircrafts and slots;

status as a U.S. citizen and air carrier ;

absence of any actions preventing merger from qualifying as a reorganization for U.S. federal tax purposes;

inapplicability of state takeover statutes and certain charter provisions to the merger;

the absence of undisclosed brokers fees and expenses; and

opinions of financial advisors.

For Northwest, the merger agreement contains an additional representation and warranty regarding inapplicability of stockholder rights agreement to the merger. For Delta, the merger agreement also contains certain representations and warranties with respect to Nautilus Merger Corp., including corporate organization and authorization, no prior business activities, capitalization and approval of the merger agreement.

Many of the representations and warranties in the merger agreement are qualified by a materiality or material adverse effect standard (that is, they will not be deemed to be untrue or incorrect unless their failure to be true or correct, individually or in the aggregate, would, as the case may be, be material or have a material adverse effect). For purposes of the merger agreement, a material adverse effect means a (i) material adverse effect on the business, assets, liabilities, financial condition or results of operations of Northwest or Delta, as the case may be, and its respective Subsidiaries, taken as a whole, or (ii) any applicable change, event, circumstance or effect that, individually or in the aggregate, would reasonably be expected to impair in any material respect the ability of Northwest or Delta, as the case may be, to perform its obligations, or prevent or materially delay the consummation of any of the transactions contemplated, under the merger agreement.

However, in no event may any of the following be taken into account, alone or in combination, when determining whether there has been or would reasonably be expected to be a material adverse effect :

- any adverse effects arising out of or relating to circumstances generally affecting the airline industry to the extent that they do not materially and disproportionately have a greater adverse impact on either Northwest or Delta relative to its respective competitors;

- any adverse effects arising out of or relating to U.S. or global economic or financial market conditions (including prevailing interest rates, commodity prices and fuel costs);

- any adverse effects that result from the announcement or execution of the merger agreement or the performance of obligations or satisfaction of conditions under the merger agreement, except to the extent that a representation or warranty, or any portion thereof, contained in the merger agreement addresses the consequences resulting from the announcement or execution of the merger agreement or the performance or obligations or satisfaction of conditions under the merger agreement;

- any adverse affect resulting from changes in applicable laws or GAAP or authoritative interpretations of either;

- any impairment charges relating to goodwill (but not excluding the underlying cause of such impairment charge);

- any adverse effects arising out of or relating to U.S. or global political conditions or any outbreak of war or major hostilities in which the U.S. is involved or any act of terrorism; and

- any change in the trading price of shares of Delta or Northwest common stock.

Conduct of Business Prior to Closing

Each of Delta and Northwest has undertaken customary covenants in the merger agreement restricting the conduct of their respective businesses between the date of the merger agreement and the effective time of the merger. In general, each of Delta and Northwest has agreed to (i) maintain its existence and the existences of its subsidiaries in good standing under applicable laws and (ii) conduct its business in the ordinary course for the airline industry, provided if changing events or circumstances warrant otherwise, each of Delta and Northwest may conduct its business in a commercially reasonable manner in light of such events or circumstances.

In addition, between the date of the merger agreement and the effective time of the merger, each of Delta and Northwest will not, among other things, undertake any of the following (subject in each case to exceptions specified in the merger agreement or previously disclosed in writing as provided in the merger agreement):

amend, waive or otherwise change any provision of the certificate of incorporation or bylaws or equivalent organizational documents, or the Northwest rights agreement;

liquidate, merge or consolidate or enter into a similar transaction;

issue or authorize the issuance, deliver, sell, grant, pledge, transfer, subject to any lien or otherwise encumber or dispose of any securities of, or other equity interest in, itself or any of its subsidiaries, subject to certain exceptions including (i) the issuance of securities issuable upon the exercise of options or other outstanding rights under any benefit plan, (ii) the issuance of shares, options or other rights under any benefit plan, subject to certain limitations or (iii) sales of shares to cover tax withholding on distributions of shares to employees pursuant to distribution reserves under the applicable plan of reorganization;

declare, set aside, make or pay any dividend or other distribution (whether payable in cash, stock, property or a combination thereof) with respect to any shares of capital stock of itself or any of its non-wholly-owned subsidiaries;

enter into any voting agreement with respect to its capital stock;

reclassify, combine, split or subdivide any of its capital stock, or issue or authorize the issuance of any other securities in respect of, in lieu of, or in substitution for, shares of its capital stock;

redeem, purchase or otherwise acquire any of its capital stock, other equity interests or other securities, other than in connection with (a) exercise of stock options or settlement of stock unit awards or performance shares, (b) withholding of shares of common stock to satisfy tax obligations with respect to stock options, stock unit awards, restricted stock or performance shares or (c) forfeiture of stock options, stock unit awards, restricted stock or performance shares as a result of terminations of employment;

terminate or cancel, other than terminations or cancellations due to the expiration of any term therein or any breach or nonperformance by any party, (a) the domestic marketing alliance agreements among Continental Airlines, Inc, Northwest and Delta, as amended, (b) SkyTeam agreements, as amended, or (c) any related adherence or implementing agreement;

make or authorize any material loan to any person, other than loans to, from or between a wholly-owned subsidiary or loans made in the ordinary course of business consistent with past practices;

adopt, enter into or amend any retention, severance, termination pay or similar plan, arrangement or agreement covering any of the directors or officers of Northwest or Delta or their respective subsidiaries, other than those that are entered into in response to the compensation committee of the respective board of directors determination that a bona fide retention need exists for which the existing plans, arrangements and agreements are not sufficient and to the extent determined by such compensation committee to be commercially reasonable under the circumstances;

make any material change in financial accounting policies or procedures, other than as required by GAAP or by a governmental entity;

make, change or revoke any material tax election, settle or compromise any material liability for taxes, change any material method of tax accounting or file any material amended tax return, except as required by applicable law or in the ordinary course of business consistent with past practice;

modify, amend or terminate, or waive, release or assign any rights or claims with respect to, any confidentiality or standstill agreement relating to a business combination or potential business combination;

write up, write down or write off the book value of any asset other than those that are (a) in the ordinary course of business, (b) as may be required by GAAP, (c) not in excess of $100 million in the aggregate or (d) in respect of intangible assets;

acquire or dispose, or agree to acquire or dispose, any assets (including intellectual property), operations, business or securities, make any capital expenditures or merge, consolidate or enter into any other business combination, other than in connection with (a) capital expenditures provided for

under the 2008 and 2009 calendar year budgets, (b) acquisitions or dispositions of inventory, aircraft, engines and other tangible assets and intellectual property made in the ordinary course of business consistent with past practices, (c) certain acquisitions and dispositions that have previously been disclosed to Northwest or Delta, as the case may be, or (d) other acquisitions and dispositions of assets up to $150 million in the aggregate (measured by consideration paid or received);

acquire or agree to acquire, any assets, operations, business or securities that is intended, or would reasonably be expected, to materially impede or delay the receipt of all required regulatory approvals necessary to consummate the merger;

except as required by law or any judgment by a court of competent jurisdiction, pay, discharge, settle or satisfy any material claims, liabilities, obligations or litigation, other than those made (a) in the ordinary course of business consistent with past practice or in accordance with their terms or (b) pursuant to the terms of the Delta plan of reorganization or Northwest plan of reorganization, as the case may be;

enter into any new line of business material to Northwest or Delta;

enter into any non-competition contract or other contract that limits in any material respect either the type, manner or location of business that it may engage;

fail to use commercially reasonable efforts to maintain in full force and effect insurance coverage substantially similar to coverage maintained as of the date of the merger agreement unless such coverage is not available on commercially reasonable terms;

fail to continue, with respect to its operating fleet, all material maintenance programs consistent with past practice (except as required or permitted by law), including using reasonable efforts to keep all aircraft in such condition as may be necessary to enable to airworthiness certification under the FAA to be maintained in good standing at all times;

fail to use reasonable best efforts to keep in effect any material governmental route authority in effect and used as of the date of the merger agreement, other than such failures that occur in the ordinary course of business; or

authorize or enter into any agreement or otherwise make any commitment to do any of the foregoing.

No Solicitations

Each of Delta and Northwest has agreed that, from April 14, 2008 until the earlier of the consummation of the merger or the termination of the merger agreement, it, its subsidiaries and their officers, directors, employees, agents and representatives (including any investment banker, financial advisor, attorney, accountant or other retained representative) (whom we refer to collectively as representatives) will not, directly or indirectly:

solicit, initiate or encourage or knowingly facilitate (including by way of furnishing information or entering into any agreement, arrangement or understanding) or take any other action designed or reasonably expected to facilitate an alternative transaction (as defined below);

participate in any discussions or negotiations regarding an actual or proposed alternative transaction; or

enter into any agreement regarding any alternative transaction.

Each of Delta and Northwest will, and cause its subsidiaries to, immediately cease and cause to be terminated any existing discussions or negotiations with any third parties conducted as of the date of the merger agreement with respect to any alternative transaction and will use reasonable best efforts to cause all persons (other than Delta or Northwest) who have been furnished confidential information regarding an alternative transaction within twelve months prior to the date of the merger agreement promptly to return or destroy such information, as permitted under any agreements relating to the disclosure of such information. Delta and

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Northwest have also agreed not to, and to cause their respective subsidiaries not to, release any third party from the confidentiality and standstill provisions of any agreement to which Delta or Northwest or their respective subsidiaries is or may become a party.

Alternative transaction means any (a) transaction pursuant to which any person (or group of persons), directly or indirectly, acquires or would acquire 20% or more of the outstanding voting or equity shares of Northwest common stock or Delta common stock, as applicable, whether from Northwest or Delta or pursuant to a tender offer or exchange offer or otherwise, (b) transaction pursuant to which any person (or group of persons) acquires or would acquire control of 20% or more of the consolidated assets (including, for this purpose, the outstanding equity securities of subsidiaries of Northwest or Delta, as applicable, and securities of the entity surviving any merger or business combination including any of Northwest s or Delta s subsidiaries) of Northwest or Delta and their respective subsidiaries taken as a whole or (c) other merger, share exchange, consolidation, business combination, recapitalization or similar transaction (other than the merger) involving Northwest or Delta or any of their respective significant subsidiaries, as applicable, in each case other than the transactions contemplated by the merger agreement.

Notwithstanding the restrictions described above, prior to Northwest or Delta obtaining its stockholder approval, if Northwest or Delta receives a bona fide written alternative transaction proposal from a third party that did not result from or arise out of a breach of the non-solicitation provisions of the merger agreement, Northwest or Delta, as the case may be, may furnish, or cause to be furnished, non-public information with respect to itself and its respective subsidiaries to the person who made the alternative transaction proposal and its financing sources and other persons or entities working in concert with it, and may participate in discussions and negotiations regarding such alternative transaction proposal, if and only to the extent that (a) prior to taking such action, it enters into a confidentiality agreement with the person who made the alternative transaction proposal that is substantially similar to, and no less favorable to it, the confidentiality agreement, dated as of December 18, 2007, between Northwest and Delta, (b) its board of directors, after consultation with outside legal counsel and financial advisors, concludes in good faith that there is a reasonable likelihood that such alternative transaction proposal constitutes or is reasonably likely to result in a superior proposal (as defined below) and (c) its board of directors, after consultation with outside legal counsel, concludes in good faith that the failure to take such action would cause it to violate its fiduciary duties under Delaware law.

The merger agreement requires that from April 14, 2008 until the earlier of the consummation of the merger or the termination of the merger agreement, Northwest or Delta, as the case may be, must provide oral and written notice to the other promptly (and in no event later than 24 hours) after receipt of any alternative transaction proposal, or any material modification of or material amendment to any alternative transaction proposal or any request for nonpublic information relating to Northwest or Delta, respectively, or any of their respective subsidiaries relating to an alternative transaction proposal. Such notice is required to contain the identity of the person making the alternative transaction proposal or such request and the material terms of any such alternative transaction proposal or request or any material modification or amendment to an alternative transaction proposal. Northwest or Delta, as the case may be, must also keep the other reasonably informed on a current basis of any material changes in the status and an material changes or modifications in the terms of any such alternative transaction proposal, indication or request. Furthermore, Northwest or Delta, as the case may be, must provide oral and written notice to the other promptly (and in any event within 24 hours) if its enters into discussions or negotiations concerning any alternative transaction proposal in accordance with the non-solicitation provisions of the merger agreement.

Board Recommendations

Under the merger agreement, (a) the Northwest board of directors has agreed to recommend that Northwest stockholders vote in favor of the adoption of the merger agreement, which we refer to as the Northwest board recommendation, and (b) the Delta board of directors has agreed to recommend that Delta stockholders vote in favor of the issuance of shares of Delta common stock in the merger, which we refer to as the Delta board

recommendation. Subject to the provisions described below, the merger agreement provides that neither the Northwest board of directors nor the Delta board of directors will:

- fail to include the Northwest board recommendation or Delta board recommendation, as the case may be, in this joint proxy statement;
- in a manner adverse to Northwest or Delta, as the case may be, withdraw, modify or qualify the Northwest board recommendation or the Delta board recommendation, as applicable;
- take any public action or make any public statement inconsistent with the Northwest board recommendation or the Delta board recommendation, as applicable; or
- recommend any alternative transaction.

We refer to each of the foregoing actions as a change in recommendation.

Notwithstanding these restrictions, prior to Northwest or Delta obtaining its stockholder approval, the Northwest board of directors or the Delta board of directors, as the case may be, may effect a change in recommendation if, following the receipt of an alternative acquisition proposal with respect to a majority of such party s stock or assets:

- it determines, after consultation with outside legal counsel, concludes in good faith that the failure to take such action would cause it to violate its fiduciary duties under Delaware law;
- it determines in good faith, after consultation with outside legal counsel and its financial advisors, that such alternative acquisition proposal constitutes a superior proposal;
- it provides the other party with a written notice of its intentions to effect an change in recommendation at least five business days prior to taking such action;
- it provides the other party with all material information delivered or made available to the person (or group of persons) making such superior proposal;
- during the five business day notice period, if requested by the other party, it engages in good faith negotiations to amend the merger agreement in such a manner that any alternative transaction proposal no longer is a superior proposal; and
- at the end of the five business day notice period, the alternative transaction proposal has not been withdrawn and continues to constitute a superior proposal.

The merger agreement provides that any amendment to the financial terms or any material amendment to any other material term of a superior proposal requires the delivery of a new notice and a new three business day period described above.

Superior proposal means a bona fide written alternative transaction proposal which the Northwest board of directors or the Delta board of directors, as the case may be, concludes in good faith, after consultation with its financial advisors and outside legal counsel, taking into account

the legal, financial, regulatory, timing and other aspects of the proposal and the identity of the person making the proposal (including any break-up fees, expense reimbursement provisions and conditions to consummation): (a) is more favorable to the stockholders of Northwest or Delta, as the case may be, from a financial point of view, than the transactions contemplated by the merger agreement (after giving effect to any adjustments to the terms and provisions of the merger agreement committed to in writing by Northwest or Delta, as the case may be, in response to such alternative transaction proposal) and (ii) is fully financed or reasonably capable of being fully financed, reasonably likely to receive all required governmental approvals on a timely basis and otherwise reasonably capable of being completed on the terms proposed.

Notwithstanding the foregoing, the merger agreement does not prohibit Northwest or Delta from taking and disclosing to their respective stockholders a position required by Rule 14e-2(a) or Rule 14d-9 under the Exchange Act. Neither Northwest nor Delta is permitted to submit any alternative transaction proposal to the vote of its respective stockholders.

Reasonable Best Efforts to Obtain Required Stockholder Approval

Each of Northwest and Delta has agreed to, as promptly as practicable after this joint proxy statement/prospectus is declared effective, take all action necessary to duly give notice of, convene and hold a meeting of its stockholders for the purpose of obtaining the required stockholder approval. Each parties respective obligations to hold a stockholders meeting will not be affected by any change in recommendation. Unless a change in recommendation occurs in compliance with the terms of the merger agreement, each of Northwest and Delta will use reasonable best efforts to take all actions necessary or advisable to obtain the required stockholder approval.

Agreement to Take Further Action and to Use Reasonable Best Efforts

Delta and Northwest will each use its reasonable best efforts to take all actions, to do, to assist and cooperate with the other parties in doing, all things necessary, proper and advisable under applicable laws to consummate and make effective the merger agreement and the transactions contemplated thereby, in the most expeditious manner and as promptly as possible, including (i) obtaining from governmental authorities all necessary actions or nonactions, waivers, consents and approvals and making all necessary registrations and filings and the taking of all reasonable steps as may be necessary to obtain an approval or waiver from, or to avoid an action or proceeding by, any governmental authorities (including all filings required by the HSR Act and all notifications and other filings required by any antitrust, competition or similar laws of any foreign jurisdiction), (ii) obtaining of all necessary consents, approvals or waivers from third parties and (iii) the executing and delivering of any additional instruments necessary to consummate the transactions contemplated by, and to fully carry out the purposes of, the merger agreement.

Furthermore, Delta and Northwest will each cooperate regarding, and keep the other reasonably apprised of the status of, matters relating to the completion of the transactions contemplated by the merger agreement and work cooperatively to (i) obtain all required approvals and consents from any governmental authorities and (ii) all other communications with any governmental authorities (including communications with an elected official or staff member of any governmental authority) with respect to the merger agreement and the transactions contemplated thereby. In this regards, each party, without limitation, will (A) promptly notify the other of, and provide the other with copies of (or in the case of oral communications, advise the other orally of), any communications from or with any governmental authority with respect to the transactions contemplated by the merger agreement, (B) permit the other to review and discuss in advance, and consider in good faith the views of the other in connection with any proposed communication with any such governmental entity with respect to the transactions contemplated by the merger agreement, (C) will not participate in any meeting or oral communication with any governmental authority with respect to the transactions contemplated by the merger agreement unless it consults with the other in advance and, to the extent permitted, gives the other the opportunity to attend and participate, (D) furnish the other with copies of all correspondence, filings and communications (and memoranda setting forth the substance thereof, including summaries of any meetings or communications for which the other was not permitted to participate pursuant to clause (C) above) between it and any governmental authority with respect to the transactions contemplated by the merger agreement and (E) furnish the other with such necessary information and reasonable assistance as the other may reasonably request in connection with its preparation of necessary filings or submissions of information to any governmental authority.

In connection with the filings and activities discussed in the two preceding paragraphs, Delta and Northwest will cooperate with each other and use their respective best efforts to promptly prepare and file all necessary documentation, to effect all applications, notices, petitions and filings, to obtain as promptly as practicable all

permits, consents, approvals, expirations or terminations of waiting periods, and all authorizations of all governmental authorities that are necessary or advisable to consummate the transactions contemplated by the merger agreement. Each party will comply with the terms and conditions of all such permits, consents, approvals, expirations or terminations of waiting periods, and authorizations of all such third parties or governmental authorities. Without limiting the foregoing, Delta and Northwest each agrees to take any action, or commit to take any action (including with respect to selling, holding separate or otherwise disposing of any business or assets, or agree to any condition or restriction) (we collectively refer to such actions, conditions and restrictions as regulatory actions) required or necessary to obtain, prior to the commencement of any litigation by the Antitrust Division seeking to enjoin the merger (unless a proposed final judgment is filed by the Antitrust Division contemporaneously with the commencement of such litigation) any of the foregoing permits, consents, approvals, expirations or terminations of waiting periods, and authorizations of governmental authorities. However, neither Delta nor Northwest will have any obligations to agree to, and neither will take, any regulatory action that (i) would reasonably be expected to have a material adverse effect on either (A) Delta and its subsidiaries, taken as a whole, (B) Northwest and its subsidiaries, taken as a whole, or (C) Delta and its subsidiaries (including Northwest and its subsidiaries) after giving effect to the merger, taken as a whole, or (ii) is not conditioned on the consummation of the merger.

Delta and Northwest will also use their reasonable best efforts to substantially comply as promptly as practicable with any request for additional information of documentary material issued by a governmental authority under 15 U.S.C. Sect. 18a(e) and in conjunction with the transactions contemplated by the merger agreement (we refer to such additional requests as a second request). Each party will certify substantial compliance with respect to a second request as promptly as practicable, but in no event more than three months after the date of the second request and will take all steps to assert, defend and support certification of substantial compliance with any second request. In addition, neither party will take any action to extend or toll the waiting period requirements of the HSR Act or provide the Antitrust Division with any additional time to consider, investigate or review the merger prior to the consummation of the transactions contemplated by the merger agreement, in each case to a date beyond October 31, 2008, without the consent (which will not to be unreasonably withheld, delayed or conditioned) of the other party. Each party agrees to give such advance notices as may be required (including, if necessary, notice of an anticipated closing date), and to otherwise reasonably cooperate, to give effect to the rights of the other party set forth in the foregoing sentence. Furthermore, in the event that any administrative or judicial action or proceeding is instituted by a governmental authority or private party challenging any of the transactions contemplated by the merger agreement, (i) each of Delta and Northwest will cooperate in all respects with each other and use its respective reasonable best efforts to contest and resist any such action or proceeding and to have vacated, lifted, reversed or overturned any decree, judgment, injunction or other order, whether temporary, preliminary or permanent, that is in effect and that prohibits, prevents or restricts consummation of any of the transactions contemplated by the merger agreement so as to permit such consummation as promptly as practicable, and in any event by the fifth business day before the outside date, and (ii) each of Delta and Northwest will use its respective reasonable best efforts to defend, at its cost and expense, any action or actions, whether judicial or administrative, against it or its affiliates in connection with the transactions contemplated by the merger agreement.

Employee Benefits Matters

The Delta benefit plans and Northwest benefit plans in effect as of the closing of the merger will remain in effect with respect to current and former employees of Delta, Northwest and their respective subsidiaries who are covered by such plans as of the consummation of the merger until the surviving corporation otherwise determines, subject to applicable laws and the terms of such plans. Without limiting the foregoing, any Delta benefit plan or Northwest benefit plan may be amended, modified or terminated from and after the effective time of the merger to the extent allowed under the terms of such plans, including, but not limited to, any action that may be (i) required by applicable laws, (ii) necessary as a technical matter to reflect the transactions contemplated by the merger agreement, (iii) required for Delta or the surviving corporation to provide for or permit investment in its securities or (iv) required for Delta or the surviving corporation to comply with any

Delta or Northwest collective bargaining agreement. Delta has also agreed to, or cause its subsidiaries to, honor and perform certain Northwest benefit plans listed on the disclosure schedule to the merger agreement in accordance with their terms in effect from time to time after the consummation of the merger.

Following the effective time of the merger, for employees of the surviving corporation and its subsidiaries, except represented employees (as defined below), Delta has agreed to (1) waive all pre-existing conditions, exclusions or waiting periods with respect to participation and coverage requirements applicable to those employees under any benefit plan that such employees may first become eligible to participate on or after the consummation of the merger, except to the extent such pre-existing conditions exclusions or waiting would apply under an analogous Delta or Northwest benefit plan, as the case may be, and (2) recognize all service with Delta and Northwest and their respective affiliates and predecessors for purposes of eligibility to participate, vesting credit, entitlement to benefits and level of benefits under any benefit plans or arrangements maintained by Delta under any benefit plan that such employees may first become eligible to participate on or after the consummation of the merger (other than the Delta monthly survivor welfare benefits plan) to the extent such service is taken into account under the applicable plan, except to the extent that such recognition of service would result in the duplication of benefits.

With respect to any person employed by Delta or any of its subsidiaries following the consummation of the merger whose terms and conditions of employment are governed by any Delta or Northwest collective bargaining agreement (we refer to such employees as represented employees), Delta and Northwest will honor, in conformity with applicable law, each such Delta or Northwest collective bargaining agreement through the expiration or termination of such agreements (including the termination of any such agreement as a result of the extinguishment of the representation status or certification of any applicable labor organization).

Delta and Northwest have further agreed that, prior to the consummation of the merger, neither party, nor any of their respective affiliates, will either solicit for hire or hire any director-level or more senior employee of the other party or its subsidiaries. Notwithstanding this restriction, both Delta and Northwest are permitted to (A) make general public solicitations not designed to circumvent the above restriction or (B) hire any director-level or more senior employee of the other party or its subsidiaries who has not been employed by the other party since November 14, 2007.

Other Covenants and Agreements

The merger agreement contains certain other covenants and agreements relating to, among other things:

Access to Information; Confidentiality. From April 14, 2008 until the consummation of the merger, each of Delta and Northwest has agreed to, and will cause each of their respective subsidiaries to, afford to the other party reasonable access at all reasonable times on reasonable notice to all its respective properties, books, contracts, commitments, personnel and records. Each of Delta and Northwest will, and will cause its respective officers, affiliates and representatives to, hold and keep confidential any nonpublic information in accordance with the terms of the confidentiality agreement, dated as of December 18, 2007, between Northwest and Delta.

Indemnification and Insurance. Delta will, and will cause the surviving corporation to, honor and fulfill the obligations of Northwest and its subsidiaries, to the fullest extent permissible under applicable provisions of Delaware law, under their respective certificates of incorporation or bylaws (or equivalent organizational documents) and under any indemnification or similar agreements between Northwest or any of its subsidiaries and their current and former directors, officers and other employees, whom we refer to as indemnified parties, in effect on the date of the merger agreement arising out of or relating to actions or omissions in their capacity as directors, officers or employees occurring at or prior to the consummation of the merger, including those related to the merger agreement and the transactions contemplated thereby.

For a period of six years following the consummation of the merger, the surviving corporation is obligated to use reasonable best efforts to maintain directors and officers and fiduciary liability insurance, which we refer

to as D&O insurance, with respect to acts or omissions occurring at or before the consummation of the merger covering each such person currently covered by Northwest s D&O insurance policy. Delta may obtain substitute D&O insurance policies, from insurance carriers with the same or higher financial strength ratings as Northwest s current D&O insurance carriers, of at least the same coverage and amounts and containing terms and conditions which are no less advantageous than Northwest s current D&O insurance policies with respect to claims arising from facts or events occurring prior to the consummation of the merger. However, the surviving corporation will not be required to pay aggregate annual premium payments for such policies in excess of 250% of the annual premiums currently paid by Northwest and its subsidiaries. If the surviving corporation is unable to obtain the amount of D&O insurance required for such aggregate annual premium, the surviving corporation will obtain as much D&O insurance as can be obtained for aggregate annual premiums not in excess of 250%. In the event that Northwest prepays for such a D&O insurance policy prior to the consummation of the merger, the surviving corporation will maintain such D&O insurance policies in full force and effect and continue to honor the obligations thereunder.

If Delta, the surviving corporation or any of their respective successors or assigns consolidates or merges into any other person and is not the continuing or surviving corporation of such consolidation or merger, or transfers all or substantially all of its properties to any person, then Delta is required to take such action as may be necessary so that the continuing or surviving corporation or transferee of assets will assume all of the applicable obligations described above.

Expenses. Each of Delta and Northwest has agreed to pay its own fees and expenses incurred in connection with the merger and the merger agreement, except that each company has agreed to pay 50% of the costs and expenses incurred in connection with (1) the filing, printing and mailing of the registration statement of which this document forms a part with the SEC (other than attorneys fees, accountants fees and related expenses) and (2) the filing of pre-merger notification and report forms under the HSR Act and any applicable antitrust, competition or similar laws of any foreign jurisdiction (including filing fees)

Public Announcements. Delta and Northwest have agreed that each will consult with the other before issuing any press release or making any other public statement with respect to the transactions contemplated by the merger agreement. However, either party may issue a press release or make such other public statement to the extent required by applicable law or by the rules and regulations of the NYSE without prior consultation to the extent it is impracticable under the circumstances. Delta and Northwest have also agreed to use reasonable best efforts to develop a joint communications plan and to ensure that all press releases and other public statements with respect to the merger will be consistent with such joint communications plan and the regulatory strategy contemplated by the merger agreement.

Listing. Delta will use reasonable best efforts to cause the Delta common stock issued or reserved for issuance in connection with the merger to be authorized for listing on the NYSE.

Certain Tax Matters. Each of Delta and Northwest will, and will cause its respective subsidiaries to, use reasonable best efforts to cause the merger to qualify as a reorganization within the meaning of Section 368(a) of the Code. Neither party will take any action or fail to take any action that would reasonably be expected to prevent the merger from qualifying as a reorganization within the meaning of Section 368(a) of the Code. Delta and Northwest have each agreed to make a timely election under Section 382(l)(5)(H) of the Code not to have the provisions of Section 382(l)(5) apply to the ownership changes occurring pursuant to the Delta Plan of Reorganization and the Northwest Plan of Reorganization, as applicable.

Section 16 Matters. Each of Delta and Northwest has agreed that prior to the consummation of the merger it will use reasonable best efforts to take all steps necessary to exempt any dispositions of Northwest common stock or the acquisitions of Delta common stock by Northwest officers or directors pursuant to the merger under Rule 16b-3 promulgated under the Exchange Act.

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State Takeover Laws. Neither Delta nor Northwest will, prior to the consummation of the merger, take any action to render inapplicable, exempt any third party from, or consent to a transfer under, any state takeover law or state law, or any provision of the Delta or Northwest organizational documents, as the case may be, that purports to limit or restrict business combinations or the ability to transfer, acquire, hold or vote shares of capital stock.

Seniority Protection. For all Delta and Northwest employees who are members of a craft or class that is subject to the Railway Labor Act (other than any craft or class where the same labor organization represents the employees of Delta and Northwest) binding seniority integration procedures governed by the provisions of sections 3 and 13 of the labor protective provisions required by the Civil Aeronautics Board in connection with the Allegheny-Mohawk merger will apply.

Transition. Delta and Northwest have each agreed that, prior to the consummation of the merger, to the extent permissible under applicable law (including laws regarding the exchange of information and other laws regarding competition), each party and its respective subsidiaries will consult with the other on business and operational matters, including with respect to discussions and/or arrangements regarding the financing needs of Delta and Northwest and their respective subsidiaries following the closing of the merger. Prior to the consummation of the merger, such planning and efforts will be coordinated and directed by a transition committee co-chaired by Mr. Richard H. Anderson and Mr. Douglas M. Steenland.

Cooperation. Northwest has agreed to cooperate, and to cause its subsidiaries and their respective representatives to cooperate, with Delta in connection with any of Delta s efforts to plan for the efficient integration of employee groups after the consummation of the merger.

Termination of Merger Agreement

The merger agreement may be terminated at any time prior to the effective time of the merger, whether before or after the required Northwest stockholder approval or Delta stockholder approval is obtained:

- by mutual written consent of Northwest and Delta, if the boards of directors of each so determines;
- by written notice of either Northwest or Delta:
  - if the merger has not been consummated on or before April 14, 2009, which date we refer to as the outside date; provided however, each of Northwest and Delta has the right, in its sole discretion, to extend the outside date to October 14, 2009 if, in either case, the only condition or conditions to the consummation of the merger that have not been satisfied (other than those conditions that by their nature are to be satisfied at the closing) at the time of such extension are (1) expiration or termination of the applicable waiting period under the antitrust laws of the United States and the European Union, (2) the receipt of all exemptive authority from the DOT for any de facto route transfers or (3) the absence of a judgment, order or injunction (whether temporary, preliminary or permanent), decree, statute, law, ordinance, rule or regulation, or other legal restraint or prohibition by a court or other governmental entity that is issued or brought under applicable antitrust, competition or similar laws that makes illegal or prohibits the consummation of merger or the other transactions contemplated by the merger agreement;
  - if a governmental entity issues a final and non-appealable order, decree or ruling or takes any other action (including the failure to have taken an action) having the effect of permanently restraining, enjoining or otherwise prohibiting the merger;
  - if Northwest stockholders approval is not obtained at Northwest s stockholder meeting, or at any adjournment or postponement, at which the vote to obtain the approval required for this transaction is taken; or

if Delta stockholders approval is not obtained at Delta s stockholder meeting, or at any adjournment or postponement, at which the vote to obtain the approval required for this transaction is taken;

by Northwest, upon written notice to Delta, upon a breach of any representation, warranty, covenant or agreement on the part of Delta such that the conditions to Northwest s obligation to consummate the merger would not then be satisfied and such breach is incapable of being cured or is not cured within 30 days after written notice of such breach is received by Delta;

by Delta, upon written notice to Northwest, upon a breach of any representation, warranty, covenant or agreement on the part of Northwest such that the conditions to Delta s obligation to consummate the merger would not then be satisfied and such breach is incapable of being cured or is not cured within 30 days after written notice of such breach is received by Northwest;

by Northwest, upon written notice to Delta, if, for any reason, Delta (a) changes its recommendation, (b) materially and willfully breaches the non-solicitation provisions of the merger agreement or (c) materially and willfully breaches its obligations to call stockholder meeting to obtain the required Delta stockholder approval or to prepare and mail this joint proxy statement/prospectus to Delta stockholders; or

by Delta, upon written notice to Northwest, if, for any reason, Northwest (a) changes its recommendation, (b) materially and willfully breaches the non-solicitation provisions of the merger agreement or (c) materially and willfully breaches its obligations to call stockholder meeting to obtain the required Northwest stockholder approval or to prepare and mail this joint proxy statement/prospectus to Northwest stockholders.

Termination Fees and Expenses

If the merger agreement is validly terminated, it will become void without any liability on the part of any party unless the party is in willful or intentional breach of any representation, warranty, covenant or agreement contained in the merger agreement. The provisions of the merger agreement relating to the effects of termination, fees and expenses, termination payments, governing law, jurisdiction, waiver of jury trial and specific performance, as well as the confidentiality agreement entered into between Delta and Northwest, will continue in effect notwithstanding termination of the merger agreement. Upon of a termination of the merger agreement, a party may become obligated to pay to the other party a termination fee (which will, in no event, be payable on more than one occasion).

The merger agreement contains a reciprocal termination fee of $165 million payable under the circumstances described below.

The termination fee is payable to the terminating party by the other party on the business day following the termination of the merger agreement based on the other party s change in recommendation or if the other party fails to substantially comply with its obligations relating to soliciting its stockholder vote or not soliciting alternative transactions.

The termination fee is immediately payable by Delta to Northwest or Northwest to Delta, as applicable, in a situation that satisfies each of the following conditions:

a party receives an alternative transaction proposal;

thereafter, the merger agreement is terminated due to either (a) the occurrence of the outside date following the failure to receive the relevant party s requisite stockholder vote, (b) the failure to receive the relevant party s requisite stockholder vote or (c) the relevant party s willful breach of its covenants under the merger agreement; and

within 18 months following termination of the merger agreement, the relevant party enters into or consummates an alternative transaction with respect to at least 40% of such party s stock or assets.

In the event that Delta or Northwest, as applicable fails to pay the termination fee when due, such party will pay the costs and expenses (including legal fees and expenses) in connection with any action or proceeding taken to collect payment (including the filing of any lawsuit), together with interest on such unpaid amounts at the prime lending rate prevailing at such time (as published by The Wall Street Journal).

Amendment, Extension and Waiver

Amendments. The merger agreement may be amended by the parties at any time before or after Northwest stockholders or Delta stockholders approve the merger or the issuance of shares of Delta. However, after any such stockholder approval, there may not be, without further approval of Northwest stockholders and Delta stockholders, any amendment of the merger agreement that changes the amount or form of the consideration to be delivered to the holders of Northwest common stock, or any amendment for which applicable laws otherwise expressly requires further stockholder approval.

Extension; Waiver. At any time prior to the effective time of the merger, the parties, by action taken or authorized by their respective board of directors may (a) extend the time for the performance of any of the obligations or other acts of the other party, (b) waive any inaccuracies in the representations and warranties of the other party contained in the merger agreement or in any document delivered pursuant to the merger agreement or (c) waive compliance by the other party with any of the agreements or conditions contained in the merger agreement.

Governing Law

The merger agreement is governed by and will be construed in accordance with the laws of the State of Delaware.

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DELTA PROPOSAL 2:

AMENDMENT TO THE DELTA 2007 PERFORMANCE COMPENSATION PLAN

Delta is seeking approval of the amendment to the Delta 2007 Performance Compensation Plan that would increase the number of shares of Delta common stock issuable under the Delta 2007 Performance Compensation Plan by a number of shares equal to % of the fully-diluted shares outstanding of Delta (after giving effect to the shares of Delta common stock issued in connection with the merger). The amendment to the Delta 2007 Performance Compensation Plan is necessary for Delta to undertake the employee equity issuance. This section of the proxy statement describes (1) the material provisions, and proposed amendments to, the Delta 2007 Performance Compensation Plan, which governs the employee equity issuance, including the issuance of shares of Delta common stock to eligible Delta pilots on the Delta seniority list as of the closing date of the merger under the transaction framework agreement, and (2) the material provisions of the transaction framework agreement, which sets forth specific terms regarding the portion of the employee equity issuance that will be issued to Delta pilots.

The Delta board of directors believes that the employees of the combined company should receive shares of common stock of Delta to provide employees with an increased stake in the combined company s financial performance, thereby strengthening their alignment with stockholders of the combined company. The employees of both companies have played a significant role in enhancing their relative competitive positions. The employee equity issuance will provide an important incentive to employees to continue to improve the combined company s financial performance.

The employee equity issuance is expected to include an amount of the fully-diluted outstanding shares of common stock of Delta (after giving effect to the shares of Delta common stock issued in connection with the merger) equal to 3.5% to Delta pilots and 4% to non-pilot employees of the combined company. Employees may, at their option, hold or sell these shares without restrictions. The amount of the employee equity interest to be distributed to Delta pilots was negotiated with the Delta MEC and included as an essential part of the transaction framework agreement, as discussed below. The amount that Delta intends to distribute to non-pilot employees of the combined company was determined by Delta.

The transaction framework agreement will become void if it is terminated in accordance with its terms. ALPA may terminate the transaction framework agreement if Delta stockholders do not approve the amendment to the Delta 2007 Performance Compensation Plan, which is necessary for Delta to undertake the employee equity issuance. If the transaction framework agreement becomes void, a letter agreement, which we refer to as LOA #19, that Delta has entered into with the Delta MEC and ALPA would also become void. LOA #19 includes important modifications to Delta s current collective bargaining agreement with the Delta pilots, including changes that will facilitate the combined company s achievement of expected synergies prior to the complete integration of the operations of the two carriers.

As previously described above in the section entitled Risk Factors beginning on page 18, if LOA #19 becomes void and the existing collective bargaining agreement is not modified as a result of the failure to approve the amendment to the Delta 2007 Performance Compensation Plan, the synergies that the combined company expects to achieve will likely be delayed or may not be achieved at all. If LOA #19 becomes void, there can be no assurance that Delta would be able to reach a new agreement with the Delta pilots or alternatively that the combined company could reach an agreement with the pilots of both Delta and Northwest that would provide the flexibility that the combined company would need in order to achieve the projected synergies.

Delta 2007 Performance Compensation Plan

Summary. The Delta 2007 Performance Compensation Plan is a broad-based equity and cash compensation plan that was approved by Delta s unsecured creditors committee and creditors as part of Delta s Plan of Reorganization, which was confirmed by the Bankruptcy Court. All equity-based awards granted after Delta s emergence from bankruptcy have been awarded under the Delta 2007 Performance Compensation Plan and are subject to its terms. The following description of the Delta 2007 Performance Compensation Plan is only a

summary of certain provisions thereof and is qualified in its entirety by reference to its full text, a copy of which was included as Exhibit 10.1 to the Current Report on Form 8-K that Delta filed with the SEC on March 22, 2007.

Purpose. The purpose of the Delta 2007 Performance Compensation Plan is to enhance the incentive of those employees, members of the Delta board of directors and other individuals who are expected to contribute significantly to the success of Delta and its affiliates in achieving Delta s short-term and long-term objectives and, in general, to further the best interests of Delta and its stockholders. If the amendment described in this proposal is approved by stockholders, it will become effective on the date of approval.

Administration. The P&C Committee administers the Delta 2007 Performance Compensation Plan and has authority to select individuals to whom awards are granted, determine the types of awards and number of shares covered, and determine the terms and conditions of awards, including the applicable vesting schedule, the effect of termination of service and whether the award will be settled in cash, shares or a combination of the two. In addition, the P&C Committee has authority to interpret and administer the Delta 2007 Performance Compensation Plan and award agreements thereunder, and may make such determinations and take any actions deemed necessary or desirable for the administration of the Delta 2007 Performance Compensation Plan. The P&C Committee may delegate to one or more individuals or committees the authority to grant awards to participants who are not directors or executive officers.

Eligibility. Employees, consultants, advisors and service providers of Delta and its affiliates, as well as members of the Delta board of directors, are eligible to participate in the Delta 2007 Performance Compensation Plan. This group currently includes approximately 50,000 individuals; following the closing of the merger, employees of Northwest will also be eligible to participate in the Delta 2007 Performance Compensation Plan.

Shares and Other Limits. Subject to adjustment, the maximum number of shares of Delta common stock available for issuance under the Delta 2007 Performance Compensation Plan is currently 30 million. No participant may receive in any calendar year stock options and stock appreciation rights that relate to more than 2 million shares of Delta common stock; restricted stock or restricted stock units that relate to more than one million shares; or performance awards and other stock-based awards that relate to more than 1.5 million shares. In addition, the maximum amount that may be paid in cash to any participant in a calendar year for an annual cash incentive is $10 million and the maximum long-term cash incentive award is $10 million multiplied by the number of years included in any applicable performance period (and any fraction of a performance period of less than one year) relating to such award.

Shares of Delta common stock to be issued under the Delta 2007 Performance Compensation Plan may be made available from authorized but unissued Delta common stock or Delta common stock that Delta acquires. If any shares of Delta common stock are covered by an award (other than a substitute award as defined below) that expires, is cancelled, forfeited or otherwise terminates without the delivery of shares (including shares of Delta common stock surrendered or withheld in payment of any exercise or price of an award or taxes related to an award and shares subject to an award to the extent that award is settled without the issuance of shares), then such shares of Delta common stock will again be available for issuance under the Delta 2007 Performance Compensation Plan (except that if a stock appreciation right is settled in shares of Delta common stock, the total number of shares of Delta common stock relating to the stock appreciation right, regardless of the actual number of shares of Delta common stock used to settle the award, are counted against the maximum aggregate number of shares of Delta common stock that may be issued under the Delta 2007 Performance Compensation Plan). A substitute award is any award granted in assumption of, or in substitution for, an outstanding award previously granted by a company acquired by Delta or with which Delta combines. Shares of Delta common stock underlying substitute awards do not reduce the number of shares of Delta common stock available for delivery under the Delta 2007 Performance Compensation Plan.

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The P&C Committee will equitably adjust any or all of the number and type of shares of Delta common stock issuable under the Delta 2007 Performance Compensation Plan or subject to any award thereunder and/or the grant, purchase, or exercise price with respect to any award in the event that any recapitalization, stock split, reverse stock split, reorganization, merger, consolidation, split-up, spin-off, combination, repurchase or exchange of shares or any other similar corporate transaction or event affects the shares of Delta common stock such that an adjustment is appropriate to prevent the dilution or enlargement of benefits or potential benefits intended to be made available under the Delta 2007 Performance Compensation Plan.

Awards. The Delta 2007 Performance Compensation Plan provides for grants of incentive stock options, non-qualified stock options, stock appreciation rights, restricted stock, restricted stock units, performance awards, including cash incentive awards, and other stock-based awards.

Stock Options. The exercise price of an option (other than a substitute award) may not be less than the fair market value of a share of Delta common stock on the date of grant and each option has a term to be determined by the P&C Committee (not to exceed ten years). Options may be granted as incentive stock options, which are intended to qualify for favorable treatment to the recipient under Federal tax law, or as nonqualified stock options, which do not qualify for this favorable tax treatment. Stock options are exercisable at such time or times as determined by the P&C Committee.

Stock Appreciation Rights. A stock appreciation right, which we refer to as a SAR, may be granted as a free-standing right or in tandem with a stock option. Upon exercise of a SAR, the holder of that SAR is entitled to receive the excess of the fair market value of the shares for which the right is exercised over the exercise price of the SAR. The exercise price of a SAR (other than a substitute award) may not be less than the fair market value of a share of Delta common stock on the date of grant. A tandem SAR may be granted on the grant date of the related option. A tandem SAR will be exercisable only at such time or times and to the extent that the related option is exercisable. A tandem SAR will terminate or be forfeited upon the exercise or forfeiture of the related option, and the related option will terminate or be forfeited upon the exercise or forfeiture of the tandem SAR.

Restricted Stock/Restricted Stock Units. Shares of restricted stock are shares of Delta common stock subject to restrictions on transfer and a substantial risk of forfeiture. A restricted stock unit consists of a contractual right denominated in shares of Delta common stock which represents the right to receive a share or the value of a share of Delta common stock at a future date, subject to certain vesting and other restrictions. Awards of restricted stock and restricted stock units will be subject to restrictions and such other terms and conditions as the P&C Committee may determine, which restrictions and such other terms and conditions may lapse separately or in combination at such time or times, in such installments or otherwise, as the P&C Committee may deem appropriate.

Performance Awards. The Delta 2007 Performance Compensation Plan provides that grants of performance awards, including cash-denominated awards, and (when determined by the P&C Committee) options, restricted stock or other stock-based awards, may be made based upon, and subject to achieving, performance objectives. Performance objectives with respect to those awards that are intended to qualify as performance-based compensation for purposes of Section 162(m) of the Code are limited to specified levels of, or improvements for, Delta, Delta s business units or affiliates of revenue per available seat mile; cost per available seat mile; total stockholder return; return on equity, assets, capital or investment; operating, pre-tax or net income levels expressed in either absolute dollars, earnings per share, or changes in the same; the market price of shares; economic or cash value added; capitalization; net or operating profit margin; revenues or revenue growth; expenses; cash flow; operating cash flow or liquidity; earnings before interest, taxes, depreciation, amortization and aircraft rent; results of employee or customer satisfaction surveys; and other measures of operational performance (including, with limitation, DOT performance ranking in operational areas), quality, safety, productivity or process improvement. Performance criteria may be measured on an absolute (e.g., plan or budget) or relative basis. Relative performance may be measured against a group of peer companies, a financial market index or other acceptable objectives and quantifiable indices.

Except with respect to awards that are performance-based compensation under Section 162(m) of the Code, if the P&C Committee determines that a change in Delta s business, operations, corporate structure or capital structure, or the manner in which Delta conducts its business, or other events or circumstances render the performance objectives unsuitable, the P&C Committee may modify the performance objectives or the related minimum acceptable level of achievement, in whole or in part, as the P&C Committee deems appropriate and equitable.

Other Awards. The P&C Committee is authorized to grant other stock-based awards, either alone or in addition to other awards granted under the Delta 2007 Performance Compensation Plan. Other awards may be settled in shares, cash, awards granted under the plan or any other form of property as the P&C Committee determines.

Effect of Termination of Employment or Change in Control. The P&C Committee has authority to determine the treatment of awards in connection with termination of a participant s employment and any transaction or transactions resulting in a change in control by rule or regulation or in any award agreement or at any time in any individual case. The P&C Committee has determined, as set forth in the applicable award agreements, that certain awards granted under the Delta 2007 Performance Compensation Plan prior to the date hereof will vest upon a change in control of Delta such as the proposed merger.

Effective Date; Amendment to Delta 2007 Performance Compensation Plan. The Delta 2007 Performance Compensation Plan became effective on April 30, 2007, and no award may be granted under the Delta 2007 Performance Compensation Plan on or after the tenth anniversary of that date. However, unless otherwise expressly provided in the Delta 2007 Performance Compensation Plan or in an applicable award agreement, any award granted prior to such tenth anniversary may extend beyond such date, and the authority of the P&C Committee to administer the Delta 2007 Performance Compensation Plan and to amend, suspend or terminate any such award, or to waive any conditions or rights under any such award, and the authority of the Delta board of directors to amend the plan, will extend beyond such date.

Except as otherwise provided in an award agreement, the Delta board of directors or the P&C Committee may from time to time suspend, discontinue, revise or amend the Delta 2007 Performance Compensation Plan and the P&C Committee may amend the terms of any award in any respect, provided that no such action will adversely impair or affect the rights of a holder of an outstanding award under the Delta 2007 Performance Compensation Plan without the holder s consent, and no such action will be taken without stockholder approval, if required by the rules of the stock exchange on which shares of Delta common stock are traded.

Certain Federal Income Tax Consequences. The following is a summary of certain U.S. federal income tax consequences of awards made under the Delta 2007 Performance Compensation Plan, based upon the laws currently in effect. The discussion is general in nature and does not take into account a number of considerations which may apply in light of the individual circumstances of a participant under the Delta 2007 Performance Compensation Plan. The income tax consequences under applicable state and local tax laws may not be the same as under U.S. federal income tax laws.

Non-Qualified Stock Options. A participant will not recognize taxable income upon the grant of a nonqualified stock option and we will not be entitled to a tax deduction at such time. A participant will recognize compensation taxable as ordinary income (and be subject to income tax and employment tax withholding) upon exercise of a nonqualified stock option equal to the excess of the fair market value of the shares purchased pursuant to such option over their exercise price, and we generally will be entitled to a corresponding deduction.

Incentive Stock Options. A participant will not recognize taxable income upon the grant of an incentive stock option. A participant will not recognize taxable income (except for purposes of the alternative minimum tax) upon exercise of an incentive stock option. If the shares acquired by exercise of an incentive stock option are held for the longer of two years from the date the option was granted and one year from the date the shares were transferred to the participant, any gain or loss arising from a

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subsequent disposition of such shares will be taxed as a long-term capital gain or loss, and we will not be entitled to any deduction. If, however, such shares are disposed of within such two or one year periods, then in the year of such disposition the participant will recognize compensation taxable as ordinary income equal to the excess of the lesser of the amount realized upon such disposition and the fair market value of such shares on the date of exercise over the exercise price, and we generally will be entitled to a corresponding deduction. The excess of the amount realized on a subsequent sale or exchange over the fair market value of the stock on the exercise date generally will be treated as a capital gain.

Stock Appreciation Rights. A participant will not recognize taxable income upon the grant of a SAR, and Delta will not be entitled to a tax deduction at such time. Upon exercise, a participant will recognize compensation taxable as ordinary income (and be subject to income and employment tax withholding) equal to the fair market value of any shares delivered and the amount of cash paid by Delta, and Delta generally will be entitled to a corresponding deduction.

The foregoing general tax discussion is solely intended for the information of stockholders considering how to vote with respect to this proposal and not as tax guidance to participants in the Delta 2007 Performance Compensation Plan. Participants should consult their own tax advisors regarding the federal, state, local, foreign and other tax consequences to them of participating in the Delta 2007 Performance Compensation Plan.

Amendment Required to Offer Merger Equity Awards; New Plan Benefits. As of May 1, 2008, there were approximately 5.3 million shares of Delta common stock available for new awards under the Delta 2007 Performance Compensation Plan. Delta is now asking its stockholders to approve an increase in the number of shares that may be issued under the Delta 2007 Performance Compensation Plan in order to undertake the employee equity issuance. Specifically, the amendment will increase the aggregate number of shares of Delta common stock available for issuance under the Delta 2007 Performance Compensation Plan to an amount equal to % of the fully-diluted outstanding shares of Delta (after giving effect to the shares of Delta common stock issued in connection with the merger). While the actual number of shares of Delta common stock cannot be determined until closer to the actual date of the merger, at the time of the closing of the merger, the total number will be set and will not be increased other than in accordance with the terms of the Delta 2007 Performance Compensation Plan as described above. While Northwest currently maintains a similar equity plan, the Northwest 2007 Stock Incentive Plan, following the closing of the merger, no additional grants under that plan will be made.

Delta will likely make additional individual grants to management employees. The amount and other terms of such awards are not presently determinable. Otherwise, except in certain cases described below, the future benefits or awards that will be received by or allocated to any executive officers, employees or non-employee directors under the Delta 2007 Performance Compensation Plan are not currently determinable since no specific grants have been decided upon. For information with respect to 2007 grants made to Delta s executive officers, please see the Grants of Plan-Based Awards Table in the Section entitled EXECUTIVE COMPENSATION in Delta s annual Proxy Statement filed April 24, 2008. For information with respect to 2007 grants made to Northwest s executive officers, please see the Grants of Plan Based Awards in 2007 Table in the section of this joint proxy statement/prospectus entitled Northwest Proposal 4: Approval of Amendment to the Northwest Airlines Corporation 2007 Stock Incentive Plan Grants of Plan-Based Awards in 2007.

Delta expects to make its annual grant of restricted stock under the Delta 2007 Performance Compensation Plan to Delta s non-employee directors prior to the closing of the merger. The grant to each non-employee director will have a total value of $40,000 and will generally vest one year following the date of grant. However, the terms of such grants and when they will be made have not yet been determined, and therefore, we cannot estimate with any reasonable certainty the number of shares that will be subject to any such director grants.

As discussed in detail below, under the transaction framework agreement, Delta has agreed to award a number of shares of Delta common stock equal to 3.5% of the outstanding equity capitalization of Delta determined on a fully-diluted basis to Delta pilots upon the closing of the merger. Delta also intends to issue an additional 4.0% of the outstanding equity to non-management, non-pilot employees of the combined company based in the U.S., who we refer to as the employee group.

Transaction Framework Agreement

Issuance to Delta Pilots. Subject to the terms and conditions of the transaction framework agreement, at the closing of the merger, Delta will issue, which we refer to as the Delta pilot issuance, to the eligible Delta pilots on the Delta seniority list as of the date of the closing of the merger, or to a trust for the benefit of such eligible Delta pilots, which we refer to as the Delta pilot trust, a number of shares of Delta common stock equal to 3.5% of the outstanding equity capitalization of Delta determined on a fully-diluted basis (calculated based on the treasury stock method of calculating diluted earnings per share under Statement of Financial Accounting Standards No. 128) after giving effect to the issuance of Delta common stock to Northwest stockholders in connection with the merger, which we refer to as the Delta pilot shares. The transaction framework agreement provides for customary registration rights with respect to the Delta pilot shares.

Modifications to Collective Bargaining Agreement. The transaction framework agreement provides that Delta, the Delta MEC and ALPA have tentatively agreed, subject to pilot ratification, to enter into LOA #19. LOA #19 sets forth modifications to the existing collective bargaining agreement between Delta and ALPA (we refer to this existing collective bargaining agreement as modified as the revised Delta Pilot Working Agreement or the revised Delta PWA) applicable to the airline pilots in the service of Delta. Among other things, LOA #19 modifies the existing collective bargaining agreement to allow Delta to place its code on all flights operated by NWA. Under the current collective bargaining agreement, there are certain limitations on Delta s ability to place its code on NWA flights. In addition, among other things, LOA #19 provides for the combining of the Delta and Northwest regional jet fleets, revises the minimum block-hour provisions to provide Delta with flexibility to reduce schedules if economic conditions warrant, provides for pay rate increases beginning on January 1, 2009, and provides that, with certain exceptions, for 24 months following the closing of the merger, no pilot on the seniority list as of the closing will be placed on furlough as a result of the merger.

LOA #19 has been ratified by the Delta pilots and will become effective upon the closing of the merger unless it is terminated and becomes void as a result of the termination of the transaction framework agreement as described below or unless superseded by a modified collective bargaining agreement covering the Delta pilot group or a joint collective bargaining agreement covering the Delta and Northwest pilot groups. The revised Delta PWA will become amendable under the Railway Labor Act as of December 31, 2012. Until LOA #19 (or a joint collective bargaining agreement) becomes effective, Delta pilots will be governed by the terms of the existing collective bargaining agreement.

Conditions to Each Party s Obligations. The obligations of all the parties to effect the transactions contemplated by the transaction framework agreement are subject to the satisfaction of the following conditions:

- absence of any judgment or other legal prohibition of any court or other governmental entity that has the effect of prohibiting the consummation of Delta pilot issuance or the other transactions contemplated by the transaction framework agreement;

- consummation of the merger in accordance with the terms of the merger agreement;

- ratification of LOA #19 by the Delta pilots (which occurred on May 14, 2008) and the subsequent execution of LOA #19 by the president of ALPA;

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approval of the Delta pilot issuance by a majority of the shares of Delta common stock present or represented and entitled to vote at the special meeting; and

any waiting period (and any extension thereof) applicable, if any, to the Delta pilot issuance under the antitrust laws of the United States will have expired or been terminated and all other required governmental approvals will have been obtained or applicable waiting periods will have expired.

In addition, each of Delta s, on the one hand, and the Delta MEC s and ALPA s, on the other hand, obligations to effect the transactions contemplated by the transaction framework agreement are subject to the satisfaction of the following conditions:

the representations and warranties of the other parties will be true and correct in all material respects when made and as of the consummation of the Delta pilot issuance; and

the other parties will have performed, or complied with, in all material respects, all of its respective obligations under the transaction framework at or prior to the consummation of the consummation of the Delta pilot issuance.

Representations and Warranties. Delta, the Delta MEC and ALPA have made customary representations and warranties regarding, among other things (i) valid existence and authority to enter into transaction framework agreement, (ii) absence of conflicts, (iii) required consents and approvals, (iv) compliance with applicable laws and (v) due authorization and valid issuance of Delta pilot shares.

Covenants. The transaction framework agreement contains certain additional covenants relating to, among other things (i) the Delta MEC s obligations to (A) recommend ratification of LOA #19 to the Delta pilots, (B) use best efforts to achieve ratification of LOA #19 by July 13, 2008 and (C) publicly support the merger, (ii) prohibition against certain modifications to the merger agreement, (iii) allocation of fees and expenses among Delta, the Delta MEC and ALPA, (iv) use of reasonable best efforts to make all necessary governmental filings and obtain all required regulatory approvals, (v) the Delta MEC s right to appoint a representative to the Delta board of directors and (vi) Delta s indemnification obligations.

Termination of Transaction Framework Agreement. The transaction framework agreement may be terminated by provision of written notice at any time prior to the effective time of the Delta pilot issuance:

by any party, if the merger agreement is terminated;

by any party, if the merger is not consummated by the outside date (as may be extended in certain circumstances) provided in the merger agreement;

by any party, if any court of competent jurisdiction or other governmental entity issues a final and non-appealable order, decree or ruling or takes any other action restraining, enjoining or otherwise prohibiting any of the transactions contemplated by the transaction framework agreement;

by Delta, upon a material breach of any representation, warranty, covenant or agreement on the part of ALPA or the Delta MEC which is not cured on or before the consummation of the merger and the 30th day following written notice to ALPA or the Delta MEC, as the case may be, unless Delta is then in material breach of any of its covenants or agreements contained in the transaction framework agreement;

by ALPA, upon a material breach of any representation, warranty, covenant or agreement on the part of Delta which is not cured on or before the consummation of the merger and the 30th day following written notice to Delta, unless ALPA is then in material breach

of any of its covenants or agreements contained in the transaction framework agreement; or

by ALPA, if the special meeting of Delta stockholders to approve the Delta pilot issuance has been held and the requisite Delta stockholder approval has not been obtained or if such special meeting of Delta stockholders is not held by April 14, 2009.

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If the transaction framework agreement is validly terminated, except for specified provisions, the transaction framework agreement and LOA #19 will become void and have no effect, without any liability on the part of any party or its directors, officers, stockholder or members or other affiliates or related parties, unless the party is in willful and material breach of the transaction framework agreement.

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ACCOUNTING TREATMENT

Delta prepares its financial statements in accordance with GAAP. The merger will be accounted for using the purchase method of accounting with Delta being considered the acquirer of Northwest for accounting purposes. This means that Delta will allocate the purchase price to the fair value of Northwest's tangible and intangible assets and liabilities at the acquisition date, with the excess purchase price being recorded as goodwill. Under the purchase method of accounting, goodwill is not amortized but is tested for impairment at least annually.

MATERIAL U.S. FEDERAL INCOME TAX CONSEQUENCES OF THE MERGER

The following is a discussion of the material U.S. federal income tax consequences of the merger to Northwest stockholders who exchange their shares of Northwest common stock for shares of Delta common stock in the merger. This discussion addresses only Northwest stockholders who are U.S. Holders (as defined below) and hold Northwest common stock as a capital asset. It does not address all of the U.S. federal income tax consequences that may be relevant to a particular Northwest stockholder in light of that stockholder s individual circumstances or to a Northwest stockholder who is subject to special rules, including, without limitation:

- a financial institution or insurance company;
- a tax-exempt organization;
- an insurance company;
- a mutual fund;
- a stockholder who is not a U.S. Holder;
- a pass-through entity or an investor in such an entity;
- a dealer or broker in securities or foreign currencies;
- a trader in securities who elects to apply a mark-to-market method of accounting;
- a stockholder who holds Northwest common stock as part of a hedge, straddle, constructive sale or conversion transaction; and
- a stockholder who acquired his or her shares of Northwest common stock pursuant to the exercise of employee stock options or otherwise as compensation.

The following discussion is based on the Code, applicable Treasury regulations, administrative interpretations and court decisions, each as in effect as of the date of this document and all of which are subject to change, possibly with retroactive effect. In addition, this discussion does not address any state, local or foreign tax consequences of the merger.

Northwest stockholders should consult their tax advisors as to the specific tax consequences to them of the merger in light of their particular circumstances, including the applicability and effect of U.S. federal, state, local, foreign income and other tax laws.

For purposes of this discussion, U.S. Holder refers to a beneficial owner of Northwest common stock that is, for U.S. federal income tax purposes, (i) an individual citizen or resident of the United States, (ii) a corporation, or other entity taxable as a corporation for U.S. federal income tax purposes, created or organized in or under the laws of the United States, any state thereof or the District of Columbia, (iii) an estate the income of which is subject to U.S. federal income taxation regardless of its source or (iv) a trust (x) that is subject to the supervision of a court within the United States and the control of one or more U.S. persons or (y) that has a valid election in effect under applicable U.S. Treasury regulations to be treated as a U.S. person.

If an entity treated as a partnership for U.S. federal income tax purposes holds Northwest common stock, the tax treatment of a partner in such entity will generally depend upon the status of the partner and the activities of that partnership. If a U.S. Holder is a partner of a partnership holding Northwest common stock, such holder should consult its tax advisor regarding the tax consequences of the merger.

It is a condition to the completion of the merger that Delta receive a written opinion from its counsel, Wachtell, Lipton, and that Northwest receive a written opinion from its counsel, Simpson Thacher, in each case dated as of the effective date of the merger, to the effect that the merger will qualify as a reorganization within the meaning of Section 368(a) of the Code. These opinions will be based on representation letters provided by Delta and Northwest to be delivered at the time of closing and on customary assumptions. Neither Delta nor Northwest intends to waive this closing condition. In the event that either Delta or Northwest waives receipt of such opinion from its counsel, however, Delta and Northwest will resolicit the approval of its stockholders after providing appropriate disclosure. No ruling has been or will be sought from the IRS as to the U.S. federal income tax consequences of the merger and an opinion of counsel is not binding on the IRS or any court. Accordingly, there can be no assurances that the IRS will not disagree with or challenge any of the conclusions described herein.

Assuming the merger qualifies as a reorganization within the meaning of Section 368(a) of the Code, for U.S. federal income tax purposes:

- a Northwest stockholder whose shares of Northwest common stock are exchanged in the merger solely for shares of Delta common stock will not recognize gain or loss, except with respect to cash received in lieu of fractional shares of Delta common stock (as discussed below);

- a Northwest stockholder s aggregate tax basis in shares of Delta common stock received in the merger (including any fractional shares deemed received and exchanged for cash) will equal the aggregate tax basis of the Northwest common stock surrendered in the merger; and

- a Northwest stockholder s holding period for shares of Delta common stock received in the merger will include the holding period for the shares of Northwest common stock surrendered in the merger.

If Northwest stockholders acquired different blocks of Northwest common stock at different times and at different prices, such Northwest stockholders tax basis and holding periods in their Delta common stock may be determined with reference to each block of Northwest common stock.

Cash in Lieu of Fractional Shares. A holder of Northwest common stock who receives cash in lieu of a fractional share of Delta common stock generally will be treated as having received such fractional share in the merger and then as having received cash in exchange for such fractional share. Gain or loss generally will be recognized based on the difference between the amount of cash received in lieu of the fractional share and the tax basis allocated to such fractional share of Delta common stock. Such gain or loss generally will be long-term capital gain or loss if, as of the effective date of the merger, the holding period for such shares is greater than one year.

Backup Withholding. Northwest stockholders may be subject to information reporting and backup withholding on any cash payments received in lieu of a fractional share interest in Delta common stock. Such Northwest stockholders will not be subject to backup withholding, however, if they:

- furnish a correct taxpayer identification number and certify that such Northwest stockholders are not subject to backup withholding on the substitute Form W-9 or successor form included in the letter of transmittal to be delivered to such Northwest stockholders following the completion of the merger; or

- are otherwise exempt from backup withholding.

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Any amounts withheld under the backup withholding rules will be allowed as a refund or credit against such Northwest stockholders United States federal income tax liability, provided such Northwest stockholders furnish the required information to the Internal Revenue Service.

Reporting Requirements. If Northwest stockholders receive Delta common stock as a result of the merger, such Northwest stockholders will be required to retain records pertaining to the merger and will be required to file with their United States federal income tax return for the year in which the merger takes place a statement setting forth certain facts relating to the merger.

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UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL INFORMATION

The Unaudited Pro Forma Condensed Combined Balance Sheet combines the historical consolidated balance sheets of Delta and Northwest, giving effect to the merger as if it had been consummated on March 31, 2008, and the Unaudited Pro Forma Condensed Combined Statements of Operations for the three months ended March 31, 2008 and for the year ended December 31, 2007 combine the historical consolidated statements of operations of Delta and Northwest, giving effect to the merger as if it had occurred at the beginning of the periods presented. The historical consolidated financial statements of Northwest have been adjusted to reflect certain reclassifications in order to conform with Delta s financial statement presentation.

The Unaudited Pro Forma Condensed Combined Financial Statements were prepared using the purchase method of accounting with Delta treated as the acquiring entity. Accordingly, consideration given by Delta to complete the merger with Northwest will be allocated to assets and liabilities based upon their estimated fair values as of the date of completion of the merger. As of the date of this joint proxy statement/prospectus, Delta has not performed the detailed valuation studies necessary to arrive at the required estimates of the fair value of the Northwest assets to be acquired and the liabilities to be assumed and the related allocations of purchase price, nor has it identified all adjustments necessary, to conform Northwest s accounting policies to Delta s accounting policies. Additionally, a final determination of the fair value of Northwest s assets and liabilities, which cannot be made prior to the completion of the transaction, will be based on the actual net tangible and intangible assets and liabilities of Northwest that exist as of the date of completion of the merger. Accordingly, the pro forma purchase price adjustments are preliminary, are subject to further adjustments as additional information becomes available and as additional analyses are performed and have been made solely for the purpose of providing the Unaudited Pro Forma Condensed Combined Financial Statements presented below. Delta estimated the fair value of Northwest s assets and liabilities based on discussions with Northwest s management, due diligence and information presented in public filings. Until the merger is completed, both companies are limited in their ability to share information. Upon completion of the merger, final valuations will be performed. Increases or decreases in the fair value of relevant balance sheet amounts will result in adjustments to the balance sheet and/or statements of operations. There can be no assurance that such finalization will not result in material changes.

These Unaudited Pro Forma Condensed Combined Financial Statements have been developed from and should be read in conjunction with (1) the unaudited interim consolidated financial statements of Delta and Northwest contained in their respective Quarterly Reports on Form 10-Q for the quarterly period ended March 31, 2008 and (2) the audited consolidated financial statements of Delta and Northwest contained in their respective Annual Reports on Form 10-K for the fiscal year ended December 31, 2007, all of which are incorporated by reference into this joint proxy statement/prospectus. The Unaudited Pro Forma Condensed Combined Financial Statements are provided for illustrative purposes only and do not purport to represent what the actual consolidated results of operations or the consolidated financial position of Delta would have been had the Northwest acquisition occurred on the dates assumed, nor are they necessarily indicative of future consolidated results of operations or consolidated financial position.

Delta expects to incur significant costs associated with integrating the operations of Delta and Northwest. The Unaudited Pro Forma Condensed Combined Financial Statements do not reflect the costs of any integration activities or benefits that may result from realization of future cost savings from operating efficiencies or revenue synergies expected to result from the merger.

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DELTA AIR LINES, INC.

UNAUDITED PRO FORMA CONDENSED COMBINED BALANCE SHEET

March 31, 2008

(in millions)	Historical Delta	Historical Northwest	Pro Forma Adjustments	Condensed Combined Pro Forma
ASSETS				
CURRENT ASSETS:				
Cash and cash equivalents	$ 2,492	$ 3,187	$	$ 5,679
Short-term investments	103	40		143
Restricted cash, cash equivalents and short-term investments	218	484		702
Accounts receivable, net	1,325	750	(11)[a]	2,064
Prepaid expenses and other	1,191	497		1,688
Total current assets	5,329	4,958	(11)	10,276
Property and equipment, net	11,945	8,336		20,281
OTHER ASSETS:				
Goodwill	6,010	2,199	861[b]	9,070
Identifiable intangibles, net	2,751	5,088	(514)[c]	7,190
			(103)[d]	
			(32)[e]	
Other noncurrent assets	720	451		1,171
Total other assets	9,481	7,738	212	17,431
Total assets	$ 26,755	$ 21,032	$ 201	$ 47,988
LIABILITIES AND SHAREOWNERS EQUITY				
CURRENT LIABILITIES:				
Current maturities of long-term debt and capital leases	$ 732	$ 631	$	$ 1,363
Air traffic liability	2,734	1,838		4,572
Frequent flyer deferred revenue	1,079	428		1,507
Accounts payable and other accrued liabilities	2,126	1,748	155[f]	4,088
			70[g]	
			(11)[a]	
Total current liabilities	6,671	4,645	214	11,530
NONCURRENT LIABILITIES:				
Long-term debt and capital leases	8,387	6,617	(125)[h]	14,879
Pension and related benefits	3,003	2,924	239[i]	6,166
Frequent flyer deferred revenue	2,211	1,540		3,751
Postretirement benefits	858	722	(24)[i]	1,556
Other noncurrent liabilities	1,674	1,298	(39)[j]	2,933
Total noncurrent liabilities	16,133	13,101	51	29,285
COMMITMENTS AND CONTINGENCIES				
SHAREOWNERS EQUITY:				
Common stock		2	(2)[k]	
Additional paid-in capital	9,528	7,267	(7,267)[k]	13,393

			3,262(l)	
			24(l)	
			579(m)	
Accumulated deficit	(6,076)	(3,797)	3,797(k)	(6,719)
			(579)(m)	
			(64)(n)	
Accumulated other comprehensive income (loss)	650	(186)	186(k)	650
Stock held in treasury, at cost	(151)			(151)
Total shareowners equity	3,951	3,286	(64)	7,173
Total liabilities and shareowners equity	$ 26,755	$ 21,032	$ 201	$ 47,988

The accompanying notes are an integral part of the Unaudited Pro Forma Condensed Combined Financial Statements.

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DELTA AIR LINES, INC.

UNAUDITED PRO FORMA CONDENSED COMBINED STATEMENT OF OPERATIONS

For the Three Months Ended March 31, 2008

(in millions, except per share data)	Historical Delta	Historical Northwest	Pro Forma Adjustments	Condensed Combined Pro Forma
OPERATING REVENUE:				
Passenger:				
Mainline	$ 3,061	$ 2,239	$	$ 5,300
Regional affiliates	1,039	410		1,449
Cargo	134	198		332
Other, net	532	280		812
Total operating revenue	4,766	3,127		7,893
OPERATING EXPENSE:				
Aircraft fuel and related taxes	1,422	1,114		2,536
Salaries and related costs	1,091	670	21 (i)	1,782
Contract carrier arrangements	896	205		1,101
Depreciation and amortization	297	148	(4) (e)	441
Aircraft maintenance materials and outside repairs	268	221		489
Contracted services	254	210		464
Passenger commissions and other selling expenses	225	193		418
Landing fees and other rents	179	138		317
Passenger service	84	60		144
Aircraft rent	64	93		157
Impairment of goodwill	6,100	3,917		10,017
Restructuring and related items	16			16
Other	131	211		342
Total operating expense	11,027	7,180	17	18,224
OPERATING LOSS	(6,261)	(4,053)	(17)	(10,331)
OTHER (EXPENSE) INCOME:				
Interest expense, net	(120)	(114)	(2) (h)	(236)
Miscellaneous, net	(9)	28		19
Total other expense, net	(129)	(86)	(2)	(217)
LOSS BEFORE INCOME TAXES	(6,390)	(4,139)	(19)	(10,548)
INCOME TAXES			(o)	
NET LOSS	$ (6,390)	$ (4,139)	$ (19)	$ (10,548)
BASIC AND DILUTED LOSS PER SHARE	$ (16.15)	$ (15.78)	(q)	$ (13.14)
BASIC AND DILUTED WEIGHTED AVERAGE SHARES OUTSTANDING	395.6	262.2	(q)	802.6

The accompanying notes are an integral part of the Unaudited Pro Forma Condensed Combined Financial Statements.

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DELTA AIR LINES, INC.

UNAUDITED PRO FORMA CONDENSED COMBINED STATEMENT OF OPERATIONS

For the Year Ended December 31, 2007

(in millions, except per share data)	Delta Pro Forma (Note 3)	Northwest Pro Forma (Note 3)	Pro Forma Adjustments	Condensed Combined Pro Forma
OPERATING REVENUE:				
Passenger:				
Mainline	$ 12,842	$ 9,386	$	$ 22,228
Regional affiliates	4,170	1,412		5,582
Cargo	482	840		1,322
Other, net	1,754	895		2,649
Total operating revenue	19,248	12,533		31,781
OPERATING EXPENSE:				
Aircraft fuel and related taxes	4,686	3,378		8,064
Salaries and related costs	4,183	2,446	84(i)	6,713
Contract carrier arrangements	3,152	776		3,928
Depreciation and amortization	1,154	486	(15)(e)	1,625
Contracted services	996	749		1,745
Aircraft maintenance materials and outside repairs	957	811		1,768
Passenger commissions and other selling expenses	933	751		1,684
Landing fees and other rents	725	539		1,264
Passenger service	338	230		568
Aircraft rent	260	378		638
Profit sharing	158	79		237
Other	483	749		1,232
Total operating expense	18,025	11,372	69	29,466
OPERATING INCOME	1,223	1,161	(69)	2,315
OTHER (EXPENSE) INCOME:				
Interest expense, net	(511)	(493)	(8)(h)	(1,012)
Miscellaneous, net	32	152		184
Total other expense, net	(479)	(341)	(8)	(828)
INCOME BEFORE INCOME TAXES	744	820	(77)	1,487
INCOME TAX PROVISION	(295)	(320)	29(p)	(586)
NET INCOME	$ 449	$ 500	$ (48)	$ 901
BASIC EARNINGS PER SHARE	$ 1.14	$ 1.91	(q)	$ 1.12
DILUTED EARNINGS PER SHARE	$ 1.14	$ 1.91	(q)	$ 1.12
BASIC WEIGHTED AVERAGE SHARES OUTSTANDING	394.1	262.2	(q)	801.1

DILUTED WEIGHTED AVERAGE SHARES OUTSTANDING	395.2	262.4	(q)	801.1

The accompanying notes are an integral part of the Unaudited Pro Forma Condensed Combined Financial Statements.

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DELTA AIR LINES, INC.

NOTES TO UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL STATEMENTS

Note 1. Basis of Presentation

On April 14, 2008, Delta entered into the merger agreement whereby Northwest will become a wholly-owned subsidiary of Delta. Under the terms of the merger agreement, each outstanding share of Northwest common stock (including those shares issuable pursuant to Northwest s plan of reorganization under Chapter 11) will be exchanged for 1.25 shares of Delta common stock. Northwest stock options and other equity awards will generally convert upon completion of the merger into stock options and equity awards with respect to Delta common stock, after giving effect to the exchange ratio.

In addition, Delta has agreed to issue to Delta pilots shares of Delta common stock equal to 3.5% of its fully-diluted outstanding shares (after giving effect to the shares issued in connection with the merger), effective on the closing of the merger and subject to approval by Delta stockholders of the amendment to the Delta 2007 Performance Compensation Plan. Delta has also announced its intention to issue to U.S. based non-pilot employees of Delta and Northwest shares of its common stock equal to 4% of its fully-diluted outstanding shares (after giving effect to the shares issued in connection with the merger), effective on the closing of the merger and subject to stockholder approval of the amendment to the Delta 2007 Performance Compensation Plan.

In connection with the merger agreement, Delta reached a tentative agreement with ALPA to enter into LOA #19 which modifies the existing collective bargaining agreement covering Delta pilots. LOA #19 has been ratified by the Delta pilots and will become effective on the closing of the merger unless it becomes void as a result of the termination of the transaction framework agreement. The revised Delta PWA will become amendable on December 31, 2012. LOA #19 provides for, among other things, pay rate increases beginning on January 1, 2009 and certain improvements to benefits. The financial impact resulting from LOA #19 is not reflected within the Unaudited Pro Forma Condensed Combined Financial Statements.

The accompanying Unaudited Pro Forma Condensed Combined Financial Statements were prepared in accordance with Statement of Financial Accounting Standards No. 141, Business Combinations, which we refer to as SFAS 141. If the merger does not close by the end of 2008, the merger will be accounted for and reported in accordance with SFAS 141 (revised 2007), Business Combinations.

The accompanying Unaudited Pro Forma Condensed Combined Financial Statements present the pro forma consolidated financial position and results of operations of the combined company based upon the historical financial statements of Delta and Northwest, after giving effect to the Northwest merger and adjustments described in these notes, and are intended to reflect the impact of the merger on Delta s consolidated financial statements.

The accompanying Unaudited Pro Forma Condensed Combined Financial Statements are presented for illustrative purposes only and do not reflect the costs of any integration activities or benefits that may result from realization of future cost savings due to operating efficiencies or revenue synergies expected to result from the merger.

The Unaudited Pro Forma Condensed Combined Balance Sheet gives effect to the merger as if it had been consummated on March 31, 2008 and includes estimated pro forma adjustments for the preliminary valuations of net assets acquired and liabilities assumed. These adjustments are subject to further revision as additional information becomes available and additional analyses are performed. The Unaudited Pro Forma Condensed Combined Statements of Operations gives effect to the merger as if it had occurred at the beginning of the periods presented. Historical results for Delta and Northwest for the year ended December 31, 2007 have been adjusted to reflect (1) the impact of fresh start reporting as if the emergence from bankruptcy for both companies occurred on January 1, 2007 and (2) changes in accounting principle as if adoption had occurred on January 1, 2007. For additional information regarding these adjustments, see Note 3.

The Unaudited Pro Forma Condensed Combined Balance Sheet has been adjusted to reflect the preliminary allocation of the purchase price to identifiable net assets acquired and the excess purchase price to goodwill. The purchase price allocation in these Unaudited Pro Forma Condensed Combined Financial Statements is based upon a purchase price of approximately $3.4 billion. This amount was derived from the estimated 339.7 million shares of Delta common stock to be issued in the merger, based on the estimated outstanding shares of Northwest common stock to be exchanged (including those shares issuable pursuant to Northwest s plan of reorganization under Chapter 11) at March 31, 2008 and the exchange ratio of 1.25 shares of Delta common stock for each Northwest share, at a price of $9.60 per share, the average closing price of Delta shares of common stock for the two days prior to, the day of and two days subsequent to the public announcement of the merger. The actual number of shares of Delta common stock issued in the merger will be based upon the actual number of Northwest shares outstanding when the merger closes. The purchase price also includes the estimated fair value of stock options and other equity awards to be issued as of the closing date of the merger in exchange for similar securities of Northwest. Northwest stock options and other equity awards, which will all become fully vested as of the date of the merger, will be assumed by Delta and modified to provide for the purchase of Delta common stock. Accordingly, the number of shares and the price per share will be adjusted for the 1.25 exchange ratio. Vested stock options held by employees of Northwest are considered part of the purchase price. Accordingly, the purchase price includes an estimated fair value of stock options of approximately $24 million.

The preliminary purchase price is calculated as follows:

(in millions, except per share data)	
Estimated outstanding shares of Northwest common stock to be exchanged at March 31, 2008	271.7
Exchange ratio	1.25
Estimated shares of Delta common stock to be issued	339.7
Price per share	$ 9.60
Fair value of Delta shares issued	$ 3,262
Fair value of outstanding Northwest stock options	24
Estimated Delta acquisition costs	70
Total estimated purchase price	$ 3,356

The table below represents a preliminary allocation of the total consideration to Northwest s tangible and intangible assets and liabilities based on Delta management s preliminary estimate of their respective fair values as of March 31, 2008:

(in millions)	
Cash and cash equivalents	$ 3,187
Other current assets	1,760
Property and equipment	8,336
Goodwill	3,060
Identified intangibles	4,542
Other noncurrent assets	451
Liabilities assumed	(17,980)
Total estimated purchase price	$ 3,356

Upon completion of the fair value assessment after the merger, Delta anticipates that the ultimate purchase price allocation will differ from the preliminary assessment outlined above. Any changes to the initial estimates of the fair value of the assets and liabilities will be recorded as adjustments to those assets and liabilities and residual amounts will be allocated to goodwill.

During the three months ended March 31, 2008, both Delta and Northwest determined that their respective goodwill was impaired and recorded a non-cash charge of $6.1 billion and $3.9 billion, respectively based on a preliminary assessment. Both companies expect to finalize the second step of the impairment test during the June 2008 quarter. There could be adjustments to the preliminary charge once the analysis is completed. Any adjustments will be recorded during the June 2008 quarter.

Note 2. Pro Forma Adjustments

The Unaudited Pro Forma Condensed Combined Statements of Operations do not include any material non-recurring charges that will arise as a result of the merger. The Unaudited Pro Forma Condensed Combined Financial Statements reflect the following:

(a) The elimination of $11 million of receivables and payables between Delta and Northwest associated with sales to customers on behalf of the other airline and SkyMiles/WorldPerks frequent flyer miles earned or redeemed on the other airline.

(b) A $861 million adjustment to increase goodwill as part of purchase accounting.

(c) A reduction in identifiable intangible assets of $514 million associated with an adjustment to the fair value of Northwest s tradename. Northwest s tradename will continue to be recognized as an indefinite-lived intangible asset.

(d) A reduction of Delta s intangible assets of $103 million associated with the elimination of the portion of Delta s SkyTeam Alliance agreements that is directly attributable to Northwest.

(e) A reduction of Northwest s intangible assets of $32 million associated with the elimination of the portion of Northwest s SkyTeam Alliance agreements that is directly attributable to Delta. In order to conform to Delta s classification, Northwest s SkyTeam Alliance and other related agreements will also be recognized as indefinite-lived intangible assets. Previously, Northwest amortized these assets on a straight-line basis over a 30-year life as definite-lived intangible assets. As a result of this adjustment, the Unaudited Pro Forma Condensed Combined Statements of Operations reflect lower amortization expense of $4 million for the three months ended March 31, 2008 and $15 million for the year ended December 31, 2007.

(f) An adjustment of $155 million for one-time costs directly attributable to the transaction, including employee retention costs and certain professional fees incurred by Northwest pursuant to provisions contained in the merger agreement.

(g) An estimated liability of $70 million for certain professional fees incurred by Delta in connection with the merger and included in the purchase price.

(h) A $125 million adjustment to reflect the fair value of Northwest s long-term debt as part of purchase accounting. The difference between the fair value and the face amount of each borrowing is amortized using the effective interest rate method as additional interest expense over the remaining term of the borrowings based on the maturity dates. Accordingly, the Unaudited Pro Forma Condensed Combined Statements of Operations reflect higher interest expense of $2 million for the three months ended March 31, 2008 and $8 million for the year ended December 31, 2007.

(i) Adjustments to revalue Northwest s pension and related benefits of $239 million and postretirement benefits of $24 million. As a result of these adjustments, the Unaudited Pro Forma Condensed Combined Statements of Operations reflect higher salaries and related costs of $21 million for the three months ended March 31, 2008 and $84 million for the year ended December 31, 2007.

(j) A $39 million adjustment to Delta s deferred tax liability related to the elimination of the $103 million intangible asset representing the portion of Delta s SkyTeam Alliance agreements that is directly attributable to Northwest.

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(k) The elimination of all of Northwest s shareowners equity, including $2 million of common stock, $7.3 billion of additional paid-in capital, $3.8 billion of accumulated deficit and $186 million of accumulated other comprehensive loss as a result of purchase accounting.

(l) In accordance with the merger agreement, an estimated 339.7 million shares of Delta common stock will be issued to Northwest shareowners at a per share price of $9.60 totaling $3.3 billion. The issuance of these shares increases the $0.0001 par value combined company common stock outstanding as of March 31, 2008 by 339.7 million shares. Additionally, an estimated 7.3 million shares of Delta stock options with a fair value of $24 million will be issued to Northwest employees.

(m) The issuance of an estimated 60.2 million shares of Delta common stock to pilot and non-pilot employees at a per share price of $9.60 totaling $579 million. The pilot and non-pilot distribution will be comprised of fully-diluted outstanding shares. The issuance of these shares increases the $0.0001 par value combined company common stock outstanding as of March 31, 2008 by all 60.2 million shares. The Unaudited Pro Forma Condensed Combined Statement of Operations does not reflect any pro forma adjustments for compensation expense related to these distributions as the stock vests immediately upon closing of the transaction resulting in a non-recurring charge.

(n) A $64 million adjustment to increase accumulated deficit as a result of the elimination of Delta s $103 million intangible asset, as discussed in (d) above, net of the $39 million income tax effect.

(o) No income tax benefit pro forma adjustment despite the incremental loss resulting from other pro forma adjustments. The deferred tax benefit resulting from such a net operating loss is fully offset by an increase to the valuation allowance on the deferred tax asset.

(p) A $29 million income tax benefit resulting from the incremental loss associated with other pro forma adjustments. This adjustment is based on the statutory rates in effect for the year ended December 31, 2007.

(q) The pro forma combined basic and diluted (loss) earnings per share for the three months ended March 31, 2008 and year ended December 31, 2007 is calculated as follows:

(in millions, except per share data)	Pro Forma Three Months Ended March 31, 2008	Pro Forma Year Ended December 31, 2007
Pro forma net (loss) income	$ (10,548)	$ 901
Basic weighted average shares outstanding, including shares issuable pursuant to plan of reorganization	395.6	394.1
Accelerated vesting of restricted and performance shares	7.1	7.1
Estimated shares of Delta common stock to be issued:		
Northwest shares issued and outstanding[2]	304.9	304.9
Northwest shares issuable pursuant to plan of reorganization[1][2]	24.4	24.4
Accelerated vesting of Northwest shares of restricted stock[2]	10.4	10.4
Subtotal	339.7	339.7
Estimated shares to be issued to Delta pilots[3]	28.1	28.1
Estimated shares to be issued to Delta and Northwest non-pilot employees[3]	32.1	32.1
Basic and diluted weighted average shares outstanding[4]	802.6	801.1

Pro forma (loss) earnings per share[4]	$ (13.14)	$ 1.12

(1) Represents shares issuable pursuant to plan of reorganization to holders of allowed general, unsecured claims.

(2) Represents estimated shares of Delta common stock to be issued after giving effect to the 1.25 exchange ratio as determined in the merger agreement.

(3) In the event that shareowners do not approve the amendment to the Delta 2007 Performance Compensation Plan, pro forma additional paid-in capital and accumulated deficit would be $12.8 billion and $6.1 billion, respectively, as of March 31, 2008. Additionally, pro forma combined loss per share for the three months ended March 31, 2008 would be $14.21 and pro forma earnings per share for the year ended December 31, 2007 would be $1.22.

(4) Excluded from the pro forma combined basic and diluted loss (earnings) per share calculations are options to purchase 11.9 million shares of Delta common stock, which includes 7.3 million shares of converted Northwest stock options, as their effect is anti-dilutive.

Note 3. Fresh Start Reporting

Upon emergence from Chapter 11, Delta and Northwest adopted fresh start reporting in accordance with American Institute of Certified Public Accountants Statement of Position, SOP 90-7, Financial Reporting by Entities in Reorganization under the Bankruptcy Code. Fresh start reporting requires resetting the historical net book value of assets and liabilities to fair value by allocating the entity s reorganization value to its assets and liabilities pursuant to SFAS 141. The adoption of fresh start reporting resulted in Delta and Northwest becoming new entities for financial reporting purposes. Accordingly, the Consolidated Financial Statements post adoption are not comparable to the Consolidated Financial Statements prior to that date.

Delta s adoption of fresh start reporting on April 30, 2007 resulted in its Consolidated Statement of Operations for the year ended December 31, 2007 including (1) the four months ended April 30, 2007 for the predecessor entity and (2) the eight months ended December 31, 2007 of the successor entity. Northwest s adoption of fresh start reporting on May 31, 2007 resulted in its Consolidated Statement of Operations for the year ended December 31, 2007 including (1) the five months ended May 31, 2007 of the predecessor entity and (2) the seven months ended December 31, 2007 of the successor entity.

To enhance the comparability of the information presented, the Unaudited Pro Forma Condensed Combined Statement of Operations for the year ended December 31, 2007 includes pro forma historical financial statements of Delta and Northwest adjusted to reflect (1) the impact of fresh start reporting as if implemented on January 1, 2007 and (2) changes in accounting principle as if adoption had occurred on January 1, 2007. The tables below present the historical results for each company after giving effect to these adjustments.

Additional information concerning fresh start reporting adjustment made by each company is available in the respective Annual Reports on Form 10-K for the year ended December 31, 2007 of each company, which are incorporated herein.

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Delta Air Lines, Inc.

(in millions, except per share data)	Predecessor Four Months Ended April 30, 2007	Successor Eight Months Ended December 31, 2007	Pro Forma Adjustments	Pro Forma Year Ended December 31, 2007
OPERATING REVENUE:				
Passenger:				
Mainline	$ 3,829	$ 8,929	$ 84(a)	$ 12,842
Regional affiliates	1,296	2,874		4,170
Cargo	148	334		482
Other, net	523	1,221	10(a)	1,754
Total operating revenue	5,796	13,358	94	19,248
OPERATING EXPENSE:				
Aircraft fuel and related taxes	1,270	3,416		4,686
Salaries and related costs	1,302	2,887	(6)(b)	4,183
Contract carrier arrangements	956	2,196		3,152
Depreciation and amortization	386	778	(10)(c)	1,154
Contracted services	326	670		996
Aircraft maintenance materials and outside repairs	320	663	(26)(d)	957
Passenger commissions and other selling expenses	298	635		933
Landing fees and other rents	250	475		725
Passenger service	95	243		338
Aircraft rent	90	156	14(e)	260
Profit sharing	14	144		158
Other	189	299	(5)(e)	483
Total operating expense	5,496	12,562	(33)	18,025
OPERATING INCOME	300	796	127	1,223
OTHER (EXPENSE) INCOME:				
Interest expense, net	(248)	(276)	13(f)	(511)
Miscellaneous, net	27	5		32
Total other expense, net	(221)	(271)	13	(479)
INCOME BEFORE REORGANIZATION ITEMS, NET	79	525	140	744
REORGANIZATION ITEMS, NET	1,215		(1,215)(g)	
INCOME BEFORE INCOME TAXES	1,294	525	(1,075)	744
INCOME TAX BENEFIT (PROVISION)	4	(211)	(88)(h)	(295)
NET INCOME	$ 1,298	$ 314	$ (1,163)	$ 449
BASIC EARNINGS PER SHARE	$ 6.58	$ 0.80	(i)	$ 1.14
DILUTED EARNINGS PER SHARE	$ 4.63	$ 0.79	(i)	$ 1.14
BASIC WEIGHTED AVERAGE SHARES OUTSTANDING	197.3	394.1	(i)	394.1

DILUTED WEIGHTED AVERAGE SHARES OUTSTANDING	233.7	395.2	(i)	395.2

(a) *SkyMiles Frequent Flyer Program*. Delta revalued the frequent flyer award liability to estimated fair value and changed the accounting policy from an incremental cost method to a deferred revenue method. Fair value represents the estimated price that third parties would require Delta to pay for them to assume the

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obligation of redeeming miles under the SkyMiles program. The revaluation of the frequent flyer liability and change in accounting policy resulted in increases to passenger and other, net revenue.

(b) *Salaries and Related Costs.* The revaluation of Delta s pension and other postretirement liabilities resulted in a decrease in net benefit cost due to the change in the projected benefit obligation and the change in the fair value of plan assets, as well as the elimination of the amortization of actuarial gains/losses and prior service benefits/costs.

(c) *Depreciation and Amortization of Intangible Assets*. Delta revalued property and equipment to fair value, which reduced the net book value of these assets by $1.0 billion. In addition, Delta adjusted the depreciable lives of flight equipment to reflect revised estimated useful lives. Delta valued intangible assets at fair value, which increased the net book value of intangible assets (excluding goodwill) by $2.9 billion, of which $956 million relates to amortizable intangible assets. These intangible assets reflect the estimated fair value of Delta s trade name, takeoff and arrival slots, SkyTeam alliance agreements, marketing agreements, customer relationships and certain contracts. These revaluations and adjustments to useful lives resulted in a net decrease to depreciation and amortization.

(d) *Aircraft Maintenance Materials and Outside Repairs*. Delta changed the way it accounts for certain maintenance parts that were previously capitalized and depreciated. After emergence from Chapter 11, Delta expenses these parts as they are placed on the aircraft.

(e) *Other Fresh Start Adjustments*. Delta recorded other adjustments relating primarily to the revaluation of aircraft leases. These adjustments are reflected in operating expense and non-operating expense.

(f) *Interest Expense*. The revaluation of Delta s debt and capital lease obligations resulted in a decrease in interest expense due to the amortization of net premiums from adjusting these obligations to fair value.

(g) *Reorganization Items, Net*. Adjustment to reflect the elimination of reorganization items, net.

(h) *Income Taxes.* Adjustment to record an $88 million income tax provision resulting from the incremental income associated with other pro forma adjustments and statutory income taxes for the predecessor four months ended April 30, 2007. This adjustment is based on the effective tax rate (the statutory rate adjusted for permanent items) for the year ended December 31, 2007.

(i) *Earnings per Share.* Pro forma basic earnings per share is based on successor basic weighted average shares outstanding for the eight months ended December 31, 2007. Pro forma diluted earnings per share is based on successor diluted weighted average shares outstanding for the eight months ended December 31, 2007.

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Northwest Airlines Corporation

(in millions, except per share data)	Predecessor Five Months Ended May 31, 2007	Successor Seven Months Ended December 31, 2007	Pro Forma Adjustments	Pro Forma Year Ended December 31, 2007
OPERATING REVENUE:				
Passenger:				
Mainline	$ 3,768	$ 5,660	$ (42)[(a)]	$ 9,386
Regional affiliates	521	884	7[(a)]	1,412
Cargo	318	522		840
Other, net	317	538	40[(a)]	895
Total operating revenue	4,924	7,604	5	12,533
OPERATING EXPENSE:				
Aircraft fuel and related taxes	1,289	2,089		3,378
Salaries and related costs	1,027	1,462	(43)[(b)]	2,446
Contract carrier arrangements	342	434		776
Depreciation and amortization	206	289	(9)[(c)]	486
Contracted services	291	458		749
Aircraft maintenance materials and outside repairs	303	508		811
Passenger commissions and other selling expenses	315	436		751
Landing fees and other rents	235	304		539
Passenger service	92	138		230
Aircraft rent	160	218		378
Profit sharing		79		79
Other	301	448		749
Total operating expense	4,561	6,863	(52)	11,372
OPERATING INCOME	363	741	57	1,161
OTHER (EXPENSE) INCOME:				
Interest expense, net	(219)	(273)	(1)[(d)]	(493)
Reorganization items, net	1,551		(1,551)[(e)]	
Miscellaneous, net	54	98		152
Total other income (expense), net	1,386	(175)	(1,552)	(341)
INCOME BEFORE INCOME TAXES	1,749	566	(1,495)	820
INCOME TAX BENEFIT (PROVISION)	2	(224)	(98)[(f)]	(320)
NET INCOME	$ 1,751	$ 342	$ (1,593)	$ 500
BASIC EARNINGS PER SHARE	$ 20.03	$ 1.30	(g)	$ 1.91
DILUTED EARNINGS PER SHARE	$ 14.28	$ 1.30	(g)	$ 1.91
BASIC WEIGHTED AVERAGE SHARES OUTSTANDING	87.4	262.2	(g)	262.2
DILUTED WEIGHTED AVERAGE SHARES OUTSTANDING	112.7	262.4	(g)	262.4

(a) *WorldPerks Frequent Flyer Program*. Northwest revalued the frequent flyer award liability to estimated fair value and changed the accounting policy from an incremental cost method to a deferred revenue method.

Fair value represents the estimated price that third parties would require Northwest to pay for them to assume the obligation of redeeming miles under the WorldPerks program. The revaluation of the frequent flyer liability and change in accounting policy resulted in a decrease to passenger revenue and increase to other, net revenue. Additionally, Northwest began recording the premium paid by non-airline partners for the purchase of frequent flyer miles in other, net revenue, rather than in passenger revenue.

(b) *Salaries and Related Costs.* The revaluation of Northwest's pension and other postretirement liabilities resulted in a decrease in net benefit cost due to the change in the projected benefit obligation and the change in the fair value of plan assets, as well as the elimination of the amortization of actuarial gains/losses and prior service benefits/costs.

(c) *Depreciation and Amortization of Intangible Assets*. Northwest revalued property and equipment to fair value, which reduced the net book value of these assets by $1.0 billion. In addition, Northwest adjusted the depreciable lives of flight equipment to reflect revised estimated useful lives. Northwest revalued intangible assets at fair value, which increased the net book value of intangible assets (excluding goodwill) by $4.5 billion, of which $1.3 billion relates to amortizable intangible assets. These intangible assets reflect the estimated fair value of Northwest s trade name, takeoff and arrival slots, SkyTeam alliance agreements, marketing agreements, customer relationships and certain contracts. These revaluations and adjustments to useful lives resulted in a net decrease to depreciation and amortization.

(d) *Interest Expense*. The revaluation of Northwest s debt and capital lease obligations resulted in an increase in interest expense due to the amortization of premiums and discounts from adjusting these obligations to fair value.

(e) *Reorganization Items, Net*. Adjustment to reflect the elimination of reorganization items, net.

(f) *Income Taxes.* Adjustment to record a $98 million income tax provision resulting from the incremental income associated with other pro forma adjustments and statutory income taxes for the predecessor five months ended May 31, 2007. This adjustment is based on the effective tax rate (the statutory rate adjusted for permanent items) for the year ended December 31, 2007.

(g) *Earnings per Share.* Pro forma basic earnings per share is based on successor basic weighted average shares outstanding for the seven months ended December 31, 2007. Pro forma diluted earnings per share is based on successor diluted weighted average shares outstanding for the seven months ended December 31, 2007.

Note 4. Federal Income Tax Consequences of the Merger

The Unaudited Pro Forma Condensed Combined Financial Statements assume that the merger qualifies as a tax-free reorganization for federal income tax purposes.

COMPARATIVE STOCK PRICES AND DIVIDENDS

For current price information, Northwest stockholders are urged to consult publicly available sources. The table below presents the NYSE closing market price for Delta common stock, as reported on the New York Stock Exchange, and the closing market price for Northwest common stock, as reported on the New York Stock Exchange, on the two dates set forth below. The table also presents the equivalent value of the merger consideration per share of Northwest common stock on those dates, calculated by multiplying the closing price of Delta common stock on those dates by 1.25, representing the number of shares of Delta common stock that Northwest stockholders will receive in the merger for each share of Northwest common stock.

April 14, 2008, the last trading day before the public announcement of the signing of the merger agreement; and

, 2008, the latest practicable date before the date of this document.

Date	Delta Closing Price	Northwest Closing Price	Equivalent Per Share Value
April 14, 2008	$ 10.48	$ 11.22	$ 13.10
, 2008	$.	$.	$.

Market Prices and Dividend Data

Delta common stock and Northwest common stock are both traded on the New York Stock Exchange under the symbols DAL and NWA, respectively. The following tables set forth the high and low sale prices of each company s common stock as reported in the consolidated transaction reporting system for the calendar quarters indicated. Since April 30, 2007, Delta has not paid any dividends on Delta common stock due to restrictions under its credit facilities that Delta entered into in connection with its emergency from bankruptcy. Northwest has not paid any dividends on Northwest common stock since its emergence from bankruptcy on May 31, 2007.

Delta

	High	Low
2007		
Second Quarter (from April 30, 2007)	$ 21.95	$ 18.02
Third Quarter	$ 21.80	$ 14.94
Fourth Quarter	$ 21.10	$ 14.04
2008		
First Quarter	$ 18.99	$ 7.94
Second Quarter (through May 20, 2008)	$ 10.89	$ 6.50

Northwest

	High	Low
2007		
Second Quarter (from May 31, 2007)	$ 26.50	$ 21.00
Third Quarter	$ 24.25	$ 14.00
Fourth Quarter	$ 21.00	$ 13.91
2008		
First Quarter	$ 20.12	$ 8.05
Second Quarter (through May 20, 2008)	$ 12.20	$ 7.06

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COMPARISON OF RIGHTS OF DELTA STOCKHOLDERS

AND NORTHWEST STOCKHOLDERS

Both Delta and Northwest are incorporated under the laws of the State of Delaware and, accordingly, the rights of the stockholders of each are currently governed by the DGCL. Upon completion of the merger, all outstanding shares of Northwest common stock will be converted into the right to receive 1.25 shares of Delta common stock. Therefore, upon completion of the merger, the rights of the former Northwest stockholders will be governed by Delaware law, the certificate of incorporation of Delta, as amended, and the bylaws of Delta, as amended.

The following discussion is a summary of the current rights of Delta stockholders and the current rights of Northwest stockholders. While this summary includes the material differences between the two, this summary may not contain all of the information that is important to you. We urge you to carefully read this entire joint proxy statement/prospectus, the relevant provisions of the DGCL and the other governing documents to which we refer in this joint proxy statement/prospectus for a more complete understanding of the differences between being a stockholder of Delta and a stockholder of Northwest. Delta and Northwest have filed with the SEC their respective governing documents referenced in this summary of stockholder rights and will send copies of these documents to you, without charge, upon your request. See the section entitled References to Additional Information on page 166.

	Rights of Delta Stockholders	Rights of Northwest Stockholders
Outstanding Capital Stock	Delta has outstanding only one class of common stock. Holders of Delta common stock are entitled to all of the rights and obligations provided to common stockholders under Delaware law and Delta s certificate of incorporation and bylaws.	Northwest has outstanding only one class of common stock. Holders of Northwest common stock are entitled to all of the rights and obligations provided to common stockholders under Delaware law and Northwest s certificate of incorporation and bylaws.
Authorized Capital Stock	The authorized capital stock of Delta consists of 1,500,000,000 shares of common stock, $0.0001 par value per share, and 500,000,000 shares of preferred stock, $0.0001 par value per share. No shares of preferred stock are outstanding.	The authorized capital stock of Northwest consists of 400,000,000 shares of common stock, $0.01 par value per share, and 50,000,000 shares of preferred stock, $0.01 par value per share. No shares of preferred stock are outstanding.
Special Meetings of Stockholders	Under the DGCL, a special meeting of stockholders may be called by the board of directors or by any other person authorized to do so in the certificate of incorporation or bylaws.	
	Delta s bylaws provide that a special meeting of stockholders may be called only by the Delta board of directors, the Chairman of the Delta board of directors, Delta s chief executive officer or stockholders holding more than 40% of the voting power of the outstanding shares of Delta common stock.	Northwest s bylaws provide that, subject to the rights of preferred stockholders, a special meeting of stockholders may be called only by the Chairman of the Northwest board of directors, but only at the written request of (i) a majority of the board of directors or (ii) following the earlier of Northwest s 2008 annual meeting or April 30, 2008, stockholders holding more than 30% of the outstanding shares of Northwest common stock.

	Rights of Delta Stockholders	Rights of Northwest Stockholders
Stockholder Proposals and Nominations of Candidates for Election to the Board of Directors	Delta s bylaws allow stockholders to propose business to be brought before an annual meeting. In addition, Delta s bylaws allow stockholders who are entitled to vote in the election of directors to nominate candidates for election to the Delta board of directors.	Northwest s bylaws allow stockholders to propose business to be brought before an annual meeting. In addition, Northwest s bylaws allow stockholders who are entitled to vote in the election of directors to nominate candidates for election to the Northwest board of directors.
	However, such proposals with respect to an annual meeting and such nominations may only be brought by a stockholder who has given timely notice in proper written form to Delta s Secretary prior to the meeting.	However, such proposals with respect to an annual meeting and such nominations may only be brought by a stockholder who has given timely notice in proper written form to Northwest s Secretary prior to the meeting.
	To be timely, the notice must be delivered to Delta s principal executive offices not less than 90 days nor more than 120 days prior to the first anniversary of the immediately preceding annual meeting of stockholders; provided, however, that if the date of the annual meeting is advanced more than 30 days prior to or delayed more than 30 days after the anniversary of the preceding year s annual meeting, notice by the stockholder to be timely must be delivered not later than the close of business on the later of the 90th day prior to such annual meeting or the 10 th day following the day on which public announcement of the date of such meeting is first made by Delta.	To be timely, the notice must be delivered to Northwest s principal executive offices not less than 90 days nor more than 150 days prior to the first anniversary of the immediately preceding annual meeting of stockholders; provided, however, that if the date of the annual meeting is advanced more than 30 days prior to or delayed more than 70 days after the anniversary of the preceding year s annual meeting, notice by the stockholder to be timely must be delivered not earlier than the 150th day prior to such annual meeting and not later than the close of business on the later of the 90th day prior to such annual meeting or the 10th day following the day on which public announcement of the date of such meeting is first made by Northwest. For the purposes of the first annual meeting of Northwest stockholders held after 2007, the anniversary date is deemed to be April 30, 2008.
		In accordance with a Letter of Agreement, dated July 31, 2006, between Northwest, Northwest Airlines, Inc. and the Air Line Pilots in the service of Northwest Airlines, Inc. as represented by ALPA, which we refer to as NWA ALPA, NWA ALPA has the right to designate one representative to the Northwest board of directors until December 31, 2012.
Number of Directors	The DGCL provides that the board of directors of a Delaware corporation must consist of one or more directors as fixed by the corporation s certificate of incorporation or bylaws.	

	Rights of Delta Stockholders	Rights of Northwest Stockholders
	Delta s certificate of incorporation and bylaws provide that the Delta board of directors may consist of no less than five and no more than 15 directors, the exact number of directors to be determined from time to time by the vote of a majority of the then authorized number of directors. There are currently eleven positions authorized and eleven directors serving on the Delta board of directors.	Northwest s certificate of incorporation and bylaws provide that the Northwest board of directors may consist of no less than three and no more than 15 directors, the exact number of directors to be determined from time to time by resolution adopted by affirmative vote of a majority of the board of directors. There are currently twelve positions authorized and twelve directors serving on the Northwest board of directors.
Election of Directors	The DGCL provides that, unless the certificate of incorporation or bylaws provide otherwise, directors will be elected by a plurality of the votes of the shares present in person or represented by proxy at the meeting and entitled to vote.	
	Delta s bylaws provide that in a non-contested election, directors are elected by the vote of a majority of the votes cast with respect to the director at any meeting at which a quorum is present. If the number of nominees exceeds the number of directors to be elected, the directors are elected by the vote of a plurality of the shares represented in person or by proxy at any such meeting and entitled to vote on the election of directors.	Northwest s bylaws provide that directors are elected by the holders of a plurality of the votes cast by the holders of shares present in person or represented by proxy at the meeting and entitled to vote on the election of directors.
Term Limits	Delta s bylaws do not provide any limit on the number of years that a director may serve on the Delta board of directors.	Northwest s bylaws provide that the maximum number of consecutive years that any non-executive director may be elected to serve on the Northwest board of directors is twelve years.
Limitation on Liability of Directors	Delta s certificate of incorporation provides that, to the fullest extent permitted by Delaware law, no director of Delta will be personally liability to Delta or its stockholders for monetary damages for breach of a fiduciary duty as a director of Delta.	Northwest s certificate of incorporation provides that no director of Northwest will be personally liable to Northwest or its stockholders for monetary damages for any breach of fiduciary duty as a director, except to the extent such exemption from liability or limitation is not permitted under the DGCL
Indemnification of Directors and Officers	Under the DGCL, a Delaware corporation must indemnify its present or former directors and officers against expenses (including attorney s fees) actually and reasonably incurred to the extent that the officer or director has been successful on the merits or otherwise in defense of any action, suit or proceeding brought against him or her by reason of the fact that he or she is or was a director or officer of the corporation.	

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	Rights of Delta Stockholders	Rights of Northwest Stockholders
	The DGCL generally permits a Delaware corporation to indemnify directors and officers against expenses, judgments, fines and amounts paid in settlement of any action or suit for actions taken in good faith and in a manner they reasonably believed to be in, or not opposed to, the best interests of the corporation and, with respect to any criminal action, which they had no reasonable cause to believe was unlawful.	
	Delta s certificate of incorporation provides that each person who was or is a party or is threatened to be made a party to or is involved in any action, suit or proceeding, whether civil, criminal, administrative or investigative, by reason of the fact that he or she is or was a director, officer or employee of Delta is indemnified and held harmless by Delta to the fullest extent authorized by the DGCL against all expense, liability and loss (including attorneys fees, judgments, fines and amounts paid or to be paid in settlement) actually or reasonably incurred by such person in connection with such proceeding.	Northwest s certificate of incorporation provides that to the fullest extent permitted by Delaware law each person who was or is made a party or is threatened to be made a party to or is involved in any action, suit or proceeding, whether civil, criminal, administrative or investigative, by reason of the fact that he or she is or was a director or officer of Northwest is indemnified and held harmless by Northwest to the fullest extent authorized by the DGCL against all expense, liability and loss (including attorneys fees, judgments, fines and amounts paid or to be paid in settlement) actually and reasonably incurred or suffered by such person in connection with such proceeding.
	The DGCL and Delta s bylaws permit Delta to purchase and maintain insurance, at its expense, to protect itself and any director, officer, employee or agent of Delta or another corporation, partnership, joint venture, trust or other enterprise against any such expense, liability or loss, whether or not Delta would have the power to indemnify such person against such expense, liability or loss under the DGCL.	Northwest is governed by the same provisions of the DGCL, permitting Northwest to purchase director s and officer s insurance to protect itself and any director, officer, employee or agent of Northwest.
Amendments to Certificate or Articles of Incorporation	Delta s certificate of incorporation reserves the right to amend, alter, change or repeal any provision contained in the certificate of incorporation in the manner prescribed by the DGCL.	Northwest s certificate of incorporation provides that, in addition to any other vote required by the DGCL or Northwest s certificate of incorporation, the affirmative vote of the holders of at least a majority in voting power of all the then outstanding shares of Northwest common stock entitled to vote at an election of directors, voting together as a single class, is required to alter, amend or repeal provisions of Northwest s certificate of incorporation relating to amendments to such

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	Rights of Delta Stockholders	Rights of Northwest Stockholders
		certificate of incorporation or its bylaws, stockholder meetings and board of director matters (except for provisions related to board composition or director removal).
Amendments to Bylaws	Delta s bylaws provide that Delta s bylaws may be repealed, altered or amended at either an annual or special meeting of stockholders by the affirmative vote of the holders of stock entitled to cast a majority of the voting power at any meeting at which a quorum is present. Furthermore, Delta s certificate of incorporation and bylaws also provide the Delta board of directors with the authority to make, repeal, alter or amend Delta s bylaws.	Northwest s bylaws provide that Northwest s bylaws may be amended, altered, changed, added or repealed by the Northwest board of directors or at a meeting of Northwest s stockholders. Northwest s bylaws further provide that, notwithstanding any other provision of Northwest s bylaws or any provision of law which may permit a lesser vote of Northwest s stockholders, the affirmative vote of the holders of at least a majority of the voting power of all the then outstanding shares of stock of Northwest entitled to vote generally in the election of directors, voting together as a single class, is required for the stockholders to make, amend, alter, change, add to or repeal provisions of Northwest s bylaws relating to the calling of special meetings of the stockholders, the notice requirements for annual and special meetings of the stockholders, the filling of board vacancies, and the amending of such bylaws.
Stockholder Rights Plan	Delta does not have a stockholder rights plan. Delta s bylaws provide that the Delta board of directors will not adopt or extend any current or future stockholder rights plan, or poison pill, without prior stockholder approval unless, due to timing constraints or otherwise, the Delta board of directors, in discharging its fiduciary duties, and acting upon the recommendation of the independent directors on the Delta board of directors, determines that it would be in the best interests of Delta to adopt or extend a stockholder rights plan without the delay that would result from seeking advance stockholder approval. If an adopted stockholder rights plan has a stated term longer than twelve months, the Delta board of directors will put the stockholder rights plan to a stockholder ratification vote within twelve months after it is adopted or the stockholder rights plan will expire automatically one year after it is first adopted. If the stockholder rights plan is put to a	Northwest s rights plan entitles each holder of Northwest common stock to a right to purchase from the Northwest a unit consisting of one one-thousandth of a share of Series A Junior Participating Preferred Stock, par value $0.01 per share, at a purchase price of $120 in cash per unit, subject to adjustment. The description and terms of the Rights are set forth in a Rights Agreement dated as of May 25, 2007 between Northwest and Computershare Trust Company, N.A., as rights agent. Under the agreement, if any person commences a tender or exchange offer, the consummation of which would result in such person becoming the beneficial owner of 20% or more of the outstanding shares of Northwest common stock, or thereafter Northwest is involved in a merger or other business combination in which 50% or more of Northwest s assets or earning power is sold, each right entitles its holder to receive, upon

Rights of Delta Stockholders	Rights of Northwest Stockholders
stockholder ratification vote and fails to receive the approval of a majority of the votes cast, the stockholder rights plan will terminate immediately.	exercise, Northwest common stock (or, in the case of a merger or other business combination, stock of the acquiring company) having a value equal to two times the exercise price of the right.
	Upon exercise, each share of preferred stock will be entitled to a minimum preferential quarterly dividend payment equal to 1,000 times the dividend declared per share of Northwest common stock. In the event of a liquidation, dissolution or winding up of Northwest, the holders of the preferred stock will be entitled to a minimum preferential liquidating payment of $1,000 per share and will be entitled to an aggregate payment of 1,000 times the payment made per share of Northwest common stock. Each share of preferred stock will have 1,000 votes, voting together with the common stock. Finally, in the event of any merger, consolidation or other transaction in which common stock is changed or exchanged, each share of preferred stock will be entitled to receive 1,000 times the amount received per share of common stock. These rights are protected by customary anti-dilution provisions.
	Because of the nature of the preferred stock s dividend, liquidation and voting rights, the value of one one-thousandth of a share of preferred stock purchasable upon exercise of each right should approximate the value of one share of common stock.
	The rights have certain anti-takeover effects. The rights will cause substantial dilution to a person or group that attempts to acquire Northwest without conditioning the offer on a substantial number of rights being acquired.
	The rights, however, should not affect any prospective offeror willing to make a permitted offer. The rights should not interfere with any merger or other business combination approved by the board of directors of Northwest since the board of directors may, at its option, redeem all but not less than all of the then outstanding rights for a nominal redemption price ($0.01 per right).
	On April 14, 2008, Northwest amended its rights agreement to exempt the merger and the other transactions contemplated by the merger agreement from the effect of the rights agreement.

The rights will expire at the close of business on May 31, 2017, unless earlier redeemed or exchanged by Northwest, including immediately prior to the completion of the merger.

OTHER MATTERS TO BE CONSIDERED

AT THE NORTHWEST ANNUAL MEETING

The stockholders meeting at which the merger will be considered will also be Northwest s annual meeting of stockholders for 2008. Therefore, a number of proposals requiring stockholder action in the ordinary course of Northwest s business also are being presented for consideration and voting. This portion of the document discusses these other proposals, as well as various other matters related to the governance of Northwest.

GOVERNANCE OF NORTHWEST

New Northwest Board of Directors Elected Under the Northwest Plan of Reorganization

On May 18, 2007, the United States Bankruptcy Court for the Southern District of New York, which we refer to as the Bankruptcy Court, entered an order approving and confirming the First Amended Joint and Consolidated Plan of Reorganization Under Chapter 11 of the Bankruptcy Code of Northwest and certain of its direct and indirect subsidiaries, which we refer to, as confirmed, as the Northwest Plan of Reorganization. The Northwest Plan of Reorganization became effective and therefore Northwest and its debtor subsidiaries emerged from bankruptcy protection on May 31, 2007.

Under Northwest s Plan of Reorganization, twelve individuals were elected to serve on the Northwest board of directors following Northwest s emergence from bankruptcy on May 31, 2007. Each of these directors is standing for re-election at the Northwest annual meeting. Please see Northwest Proposal 2 Election of Directors Information Concerning Director Nominees below for a list of all twelve director nominees, together with a description of their business experience and background.

Under Northwest s Plan of Reorganization, Northwest and the Official Committee of Unsecured Creditors in Northwest s bankruptcy case, which we refer to as the Creditors Committee, jointly retained the services of Russell Reynolds Associates, an executive search firm, to identify and screen potential candidates to serve on the Northwest board of directors following Northwest s emergence from bankruptcy. In addition to the search conducted by Russell Reynolds, both Northwest and the Creditors Committee identified potential director candidates for consideration, and, pursuant to the collective bargaining agreement between NWA and ALPA, ALPA has the right to designate one member of the Northwest board of directors. The current directors were selected for service on the Northwest board of directors by a committee comprised of (i) a three-member subcommittee representing the Creditors Committee, (ii) two significant independent creditors, and (iii) three members of Northwest s then-current Northwest board of directors.

Northwest s Corporate Governance Guidelines; Code of Business Conduct

In 2007, following Northwest s emergence from bankruptcy, the Corporate Governance Committee of the Northwest board of directors, which we refer to as the Corporate Governance Committee, developed, and the Northwest board of directors adopted, a set of Corporate Governance Guidelines. In addition, Northwest has adopted a Code of Business Conduct. NWA s Code of Business Conduct is applicable to members of the Northwest board of directors and all employees of NWA, including Northwest s principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions. If in the future NWA were to amend or grant a waiver from the Code of Business Conduct, such information would be posted on its website. The Northwest board of directors also has adopted a policy with regard to reviewing certain transactions in which Northwest or an affiliate of Northwest is a participant and an officer, director or nominee for director has, had or may have a direct or indirect material interest. See Governance of Northwest Related Person Transactions below. All of these documents are available free of charge on NWA s website, *www.ir.nwa.com*. A copy of Northwest s Corporate Governance Guidelines and NWA s Code of Business Conduct may also be obtained free of charge from Northwest upon a written request addressed to:

Northwest Airlines Corporation

Attention: Corporate Secretary

2700 Lone Oak Parkway

Dept. A1180

Eagan, MN 55121

The information on NWA s website is not, and shall not be deemed to be, a part of this proxy statement or incorporated into any other filings Northwest makes with the Securities and Exchange Commission.

Executive Sessions of Directors

Executive sessions of Northwest s non-management directors are held regularly and were held on 5 occasions during 2007. As Chairman of the Northwest board of directors, Mr. Bostock presides over these executive sessions. Mr. Steenland, Northwest s President and Chief Executive Officer, does not attend the executive sessions of the Northwest board of directors.

Communications with Directors

Stockholders or other interested parties may communicate with any director or committee of the Northwest board of directors, or with the non-management directors as a group, by writing to them c/o Secretary, Northwest Airlines Corporation, 2700 Lone Oak Parkway, Dept. A1180, Eagan, MN 55121 or by sending an e-mail to *corporatesecretary@nwa.com*. All communications that relate to matters within the scope of the responsibilities of the Northwest board of directors will be forwarded to the Chairman of the Northwest board of directors. Communications that relate to matters that are within the responsibility of one of the committees of the Northwest board of directors will be forwarded to the Chair of the appropriate Committee. Communications that relate to ordinary business matters that are not within the scope of the Northwest board s responsibilities, such as customer complaints, will be forwarded to the appropriate department of Northwest or affiliate of Northwest for handling.

Director Nomination Process

The Corporate Governance Committee is responsible for identifying and evaluating nominees for director and for recommending to the Northwest board of directors a slate of nominees for election at the Northwest annual meeting of stockholders. In evaluating the suitability of individuals for Northwest board of directors membership, the Corporate Governance Committee takes into account many factors, including whether the individual meets requirements for independence; the individual s general understanding of the various disciplines relevant to the success of a large publicly-traded company; the individual s understanding of Northwest s businesses and markets; the individual s professional expertise and educational background; and other factors

that promote diversity of views and experience. In determining whether to recommend a director for re-election, the Corporate Governance Committee also reviews the performance of the director, including the director s attendance at prior Northwest board of directors and board committee meetings and the director s contributions to the activities of the Northwest board of directors. The Corporate Governance Guidelines adopted by the Northwest board of directors in 2007 provide that the Northwest board of directors will maintain minimum qualification standards for nominees to the Northwest board of directors. The Corporate Governance Committee is in the process of developing a set of such standards for consideration by the Northwest board of directors. In addition to such standards, however, when identifying potential Northwest board of directors candidates, from time to time the Corporate Governance Committee may identify certain skills, experience or attributes as being particularly desirable to help meet specific Northwest board of directors needs that have arisen.

In identifying potential candidates for Northwest board of directors membership, the Corporate Governance Committee relies on suggestions and recommendations from the Northwest board of directors, stockholders, management and others. From time to time, the Corporate Governance Committee also retains search firms to assist it in identifying potential candidates. Stockholders wishing to suggest candidates to the Corporate Governance Committee for consideration as directors may do so by writing to the Corporate Governance Committee c/o Secretary, Northwest Airlines Corporation, 2700 Lone Oak Parkway, Dept. A1180, Eagan, MN 55121 or by sending an e-mail to *corporatesecretary@nwa.com*. Northwest s Bylaws set forth the procedures a stockholder must follow to nominate directors. These procedures are summarized in this joint proxy statement/prospectus under the caption Stockholder Proposals *Northwest*.

Related Person Transactions

Prior to Northwest s emergence from bankruptcy, the Audit Committee of the Northwest board of directors (the Audit Committee) adopted a written policy regarding the review of related person transactions. In January 2008, the Northwest board of directors designated the Corporate Governance Committee as the committee responsible for considering and approving or ratifying Related Person Transactions (defined below) in accordance with the policy previously adopted by the Audit Committee. The policy requires Northwest s executive officers, directors and nominees for director to promptly notify the Northwest legal department in writing of any transaction in which (i) the amount exceeds $120,000, (ii) Northwest or an affiliate of Northwest is, was or is proposed to be a participant and (iii) such person or such person s immediate family members, who we refer to as Related Persons, has, had or may have a direct or indirect interest, which we refer to as a Related Person Transaction. Subject to certain exceptions delineated in the policy, Related Person Transactions must be brought to the attention of the Corporate Governance Committee or another committee designated by the Northwest board of directors that is comprised solely of independent directors for an assessment of whether the transaction or proposed transaction should be permitted to proceed. In deciding whether to approve or ratify the Related Person Transaction, the Corporate Governance Committee is required to consider all relevant facts and circumstances, including without limitation the Related Person s relationship to Northwest and its affiliates and interest in the Related Person Transaction, the aggregate value of the Related Person Transaction, the benefits of the Related Person Transaction to Northwest and its affiliates, the impact of the Related Person Transaction on the Related Person s independence, the availability of other sources for comparable products or services, and whether the Related Person Transaction is on terms that are comparable to the terms available to an unrelated third party or to employees generally. If the Corporate Governance Committee determines that the Related Person has a direct or indirect interest in any such transaction, the Corporate Governance Committee must review and approve, ratify or disapprove the Related Person Transaction.

In connection with the departure of Gary L. Wilson from his position as Chairman of the Northwest board of directors of Northwest upon Northwest s emergence from bankruptcy, a position which he held since April 1997, Northwest entered into an agreement with Mr. Wilson that provides for (i) the retention of Mr. Wilson as a consultant to Northwest for a period commencing on June 1, 2007 and ending on December 31, 2008 for a consulting fee of $200,000 payable in three installments, (ii) participation by Mr. Wilson, his spouse and eligible dependents in NWA s group medical and dental plans for the life of Mr. Wilson, provided that such coverage

shall be secondary to any Medicare benefits to which Mr. Wilson, his spouse and eligible dependents may be entitled and, if Mr. Wilson becomes employed by another employer, such coverage will become secondary to any coverage provided by such employer, (iii) positive space pass travel benefits on regularly scheduled flights of NWA during the remainder of Mr. Wilson s lifetime for the personal use of Mr. Wilson, his spouse and dependent children, up to $30,000 per year for 2008, 2009 and 2010 and up to $25,000 for each year thereafter until Mr. Wilson s death of positive pass travel benefits on NWA that Mr. Wilson may extend to other individuals, and an annual tax gross-up payment for income taxes incurred by Mr. Wilson on such travel benefits, and (iv) secretarial support for ten years and reimbursement for reasonable expenses incurred for a home office for Mr. Wilson. In addition, Northwest agreed, subject to approval by the Bankruptcy Court, to make a $2 million charitable contribution to a charity selected by Mr. Wilson. Under the agreement, Mr. Wilson agreed that, during the period ending December 31, 2008, he will not become an employee, consultant, officer, partner or director of any air carrier that competes with Northwest and will not directly or indirectly solicit or encourage any employee of Northwest or its affiliates to leave the employment of Northwest or its affiliates. The agreement with Mr. Wilson was approved by the Northwest board of directors.

In April 2008, Northwest also entered into a stipulation with Mickey P. Foret, a director of Northwest, in connection with the settlement of a claim filed on his behalf in Northwest s bankruptcy case in respect of outstanding consulting fees payable by NWA pursuant to a consulting agreement entered into by NWA with Aviation Consultants, LLC, of which Mr. Foret is the sole member, in January 2005, as well as post-employment benefits that NWA had agreed to provide to Mr. Foret in connection with the termination of his employment in October 2001. The agreement provides that Mr. Foret will be entitled to (i) a general allowed unsecured claim in the amount of $1,020,000 in Northwest s bankruptcy case, which, under the terms of the Plan of Reorganization, will entitle Mr. Foret to receive, as of the April 1, 2008 quarterly distribution date, 26,835 shares of Northwest common stock, (ii) participation by Mr. Foret, his spouse and dependent children in NWA s group medical and dental plans for the duration of Mr. Foret s and his spouse s lifetimes, provided that such coverage shall be secondary to any Medicare benefits to which Mr. Foret, his spouse and eligible dependents may be entitled and, if Mr. Foret becomes employed by another employer, such coverage will become secondary to any coverage provided by such employer, (iii) reimbursement under NWA s medical expense reimbursement plan for out-of-pocket medical expenses incurred by Mr. Foret, his spouse and eligible dependents during the remainder of Mr. Foret s lifetime, (iv) positive space pass travel benefits on regularly scheduled flights of NWA during the remainder of Mr. Foret s lifetime for the personal use of Mr. Foret, his spouse and dependent children, and (v) an annual tax gross-up payment for income taxes incurred by Mr. Foret on the value of such medical, dental and travel benefits. The agreement with Mr. Foret was reviewed and approved by the Audit Committee pursuant to the Related Person Transaction policy.

Director Independence

Each year, the Corporate Governance Committee reviews the relationships between each member of the Northwest board of directors and Northwest or any affiliate of Northwest. On the basis of its review, the Corporate Governance Committee delivers a report to the full Northwest board of directors and the Northwest board of directors makes its independence and audit committee financial expert determinations based upon the report of the Corporate Governance Committee. As a result of this review, the Northwest board of directors affirmatively determined that Messrs. Bostock, Brandon, Durham, Engler, Friedman, Katz, Postl and Slater and Ms. Goodwin (constituting a majority of the Northwest board) qualify as independent directors, as currently defined under the rules of the New York Stock Exchange; and that Messrs. Foret, Steenland, and Zoller do not qualify as independent directors. Messrs. Steenland and Zoller are not considered independent given that each of them is currently an employee of NWA and Mr. Foret is not considered independent given that he served as a consultant to NWA during the period following his resignation as Executive Vice President and Chief Financial Officer of Northwest and NWA until September 2005 and received more than $100,000 per year for his services during this period.

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In making its independence determinations, the Northwest board of directors considered that in the ordinary course of business transactions may occur between Northwest and its affiliates and companies or other entities at which some of its directors are or have been officers. In 2007, NWA s defined benefit pension plans master trust made a $50 million investment in a Blackstone real estate investment fund. Mr. Friedman is a principal of The Blackstone Group L.P., which is an affiliate of the investment fund in which the master trust made the investment. The Audit Committee approved the transaction pursuant to Northwest s policy regarding related party transactions and, upon review, the Northwest board of directors re-affirmed Mr. Friedman s independence.

NORTHWEST BOARD OF DIRECTORS AND BOARD COMMITTEES

The Northwest board of directors is responsible for overseeing the management of Northwest s business, property and affairs. In fulfilling their responsibilities, each director must exercise his or her good faith business judgment in a manner that is in the best interests of Northwest. The Northwest board of directors typically holds five regular meetings each year and holds special meetings when necessary. During 2007, the Northwest board of directors held five regularly scheduled and eleven special meetings. The Northwest board of directors will hold five regularly scheduled meetings in 2008.

The directors are expected to attend Northwest board of directors meetings, meetings of Northwest board of directors committees on which they serve and the annual meeting of stockholders, with the understanding that on occasion a director may be unable to attend a meeting. During 2007, all of Northwest s incumbent directors attended at least 75 percent of the regularly scheduled and special meetings of the Northwest board of directors and Northwest board of directors committees on which they served. Northwest s most recent annual meeting of stockholders was held on June 30, 2005 and at that meeting all but two of Northwest s former directors attended the meeting.

The Northwest board of directors has established various standing committees to assist it with the performance of its responsibilities. These committees and their members are listed below. The Northwest board of directors designates the members of these committees and the committee chairs based on the recommendations of the Corporate Governance Committee. The Northwest board of directors has adopted written charters for each of these committees and these charters are available on Northwest s website at *www.ir.nwa.com*. A copy of the charters for each of these committees may also be obtained free of charge from Northwest upon a written request addressed as set forth above under Northwest s Corporate Governance Guidelines; Code of Business Conduct. The chair of each committee develops the agenda for meetings of that committee and determines the frequency and length of committee meetings.

During 2007, the Northwest board of directors had seven standing committees. Those committees consisted of the Audit Committee, the Compensation Committee, the Corporate Governance Committee, the Finance Committee, the Marketing and Communications Committee, the People Committee, and the Safety and Security Committee. At the end of 2007, the Marketing and Communications Committee and the People Committee were combined into a single committee called the Marketing and Communications Committee. In addition, in 2007 the Northwest board of directors established an ad hoc committee called the Strategy Committee to consider matters relating to potential industry consolidation. A description of the responsibilities of each standing committee of the Northwest board of directors, their current members and meeting information for 2007 follows:

Audit Committee. The current members of the Audit Committee are Messrs. Durham (Chair), Engler and Katz, each of whom qualifies as an independent director under the rules of the New York Stock Exchange. The Audit Committee provides assistance to the Northwest board of directors in fulfilling its responsibility to stockholders and the investment community relating to corporate accounting, reporting practices of Northwest, and the quality and integrity of the financial reports of Northwest. The Audit Committee met ten times during 2007. The Northwest board of directors has determined that Messrs. Durham and Katz qualify as audit committee financial experts.

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Compensation Committee. The current members of the Compensation Committee are Messrs. Bostock (Chair), Brandon and Postl. The Compensation Committee administers Northwest s executive compensation programs and reviews and approves the compensation of the Chief Executive Officer and the other executive officers of Northwest. The Compensation Committee also reviews from time to time Northwest s compensation and benefits programs applicable generally to management employees of Northwest. The Compensation Committee met six times during 2007. None of the members of the Compensation Committee has ever been an officer or employee of Northwest or any of its affiliates and none of Northwest s executive officers served on the Northwest board of directors, the compensation committee or any similar committee of another entity of which an executive officer of such entity served on the Northwest board of directors or its Compensation Committee. For additional information on the Compensation Committee s activities, its use of outside advisors and its consideration and determination of executive compensation, see Northwest Executive Compensation Compensation Discussion and Analysis below.

Corporate Governance Committee. The current members of the Corporate Governance Committee are Messrs. Friedman (Chair). Brandon and Engler, each of whom qualifies as an independent director under the rules of the New York Stock Exchange. The Corporate Governance Committee identifies individuals qualified to become members of the Northwest board of directors and recommends to the Northwest board of directors the slate of directors to be nominated at each annual meeting of stockholders and directors to fill vacancies on the Northwest board of directors. The Corporate Governance Committee also recommends directors to be appointed to committees of the Northwest board of directors and oversees the performance evaluations of the Northwest board of directors and management. The Corporate Governance Committee considers and recommends to the Northwest board of directors from time to time revisions to NWA s Corporate Governance Guidelines and is responsible for considering related person transactions, potential conflicts of interest and violations of Northwest s Code of Business Conduct by members of the Northwest board of directors or senior management. The Corporate Governance Committee also oversees director compensation and director training. The Corporate Governance Committee met two times during 2007.

Finance Committee. The current members of the Finance Committee are Messrs. Foret (Chair), Durham and Steenland. The Finance Committee reviews Northwest s business and financial strategies, the annual operating and capital budgets and proposed capital expenditures, acquisitions and sales of Northwest s assets. The Finance Committee met seven times during 2007.

Marketing and Communications Committee. The current members of the Marketing and Communications Committee are Messrs. Postl (Chair), Bostock, Slater, Steenland and Zoller and Ms. Goodwin. The Marketing and Communications Committee provides general advice, counsel and guidance to management of Northwest with respect to the development and overall coordination of Northwest s marketing and communications activities. The Marketing and Communications Committee met two times during 2007.

People Committee. Prior to the People Committee being combined with the Marketing and Communications Committee, the People Committee consisted of Messrs. Slater (Chair), Steenland and Zoller and Ms. Goodwin. The Committee provided consultation and advice to management regarding Northwest s efforts to strengthen its relationships with union leadership and represented employees of NWA and to improve the overall morale of its employees. The People Committee met four times during 2007.

Safety and Security Committee. The current members of the Safety and Security Committee are Messrs. Katz (Chair), Slater and Zoller. The Safety and Security Committee reviews Northwest s policies and procedures regarding safety matters and passenger security issues and industry initiatives and reviews Northwest s safety performance on a regular basis. The Safety and Security Committee met four times during 2007.

Director Compensation in 2007

Prior to Northwest s emergence from bankruptcy, non-employee directors of Northwest, which included all directors other than Messrs. Wilson, Steenland and Zoller, were entitled to receive an annual retainer fee of $25,000 and an attendance fee of $1,000 for each Northwest board meeting and each Northwest board of directors committee meeting attended. The chairpersons of the standing Northwest board of directors committees were paid an additional annual fee of $5,000.

Following Northwest s emergence from bankruptcy, the Northwest board of directors retained Towers Perrin to assess the competitiveness of Northwest s director compensation program. Based on information regarding director compensation at other companies, both within and outside the airline industry, the Northwest board of directors approved changes to Northwest s compensation program for non-employee directors, which became effective on May 31, 2007. Under these changes, non-employee directors of Northwest, which includes all directors other than Messrs. Steenland and Zoller, are entitled to receive (1) an annual board retainer fee of $50,000, (2) a $5,000 annual fee for service on a committee of the Northwest board of directors, (3) an annual chairperson fee of $100,000 for the Chairman of the Northwest board of directors, $25,000 for the chairperson of the Audit Committee and $15,000 for the chairperson of each of the other board committees, and (4) a $1,500 fee for attendance at each Northwest board of directors meeting. In addition, subject to the approval by stockholders of Northwest of an amendment to the Northwest 2007 Stock Incentive Plan that would allow non-employee directors to participate in the Northwest 2007 Stock Incentive Plan, the Northwest board of directors approved the grant to each non-employee director of a restricted stock unit award covering 10,975 shares of Northwest common stock and a non-qualified stock option award covering 7,317 shares of Northwest common stock (collectively, the Director Stock Awards) under the terms of the Northwest 2007 Stock Incentive Plan. Subject to stockholder approval of the proposed amendment to the Northwest 2007 Stock Incentive Plan, the Director Stock Awards will vest in installments over four years so long as the director continues to serve on the Northwest board of directors.

In addition to the cash and equity compensation provided to the non-employee directors described below, all directors and their spouses and dependent children are eligible for positive space pass travel benefits on NWA and certain other airlines and each director will receive lifetime positive space pass travel benefits on NWA and certain other airlines after serving as a director of Northwest for five years. In April 2008 in connection with Northwest s execution of the merger agreement with Delta, the Northwest board of directors approved a modification to Northwest s policy regarding pass travel benefits for its non-employee directors under which, following a change of control, each of the current directors will be entitled to positive space pass travel benefits on NWA and any successor to NWA and such successor s affiliates during his or her lifetime, regardless of the number of years of service on the Northwest board of directors. In addition, during the period in which they serve on the Northwest board of directors, all directors are entitled to $25,000 per year of airline travel benefits on NWA that may be extended to other individuals and are reimbursed by Northwest for income taxes resulting from use of the director s airline travel benefits on NWA. All directors also are reimbursed for ordinary expenses incurred in connection with their attendance at Northwest board of directors and board committee meetings. Northwest indemnifies its directors and officers to the fullest extent permitted by law so that they will be free from undue concern about personal liability in connection with their service to Northwest. This is required under Northwest s Bylaws, and Northwest also has entered into agreements with its directors contractually obligating it to provide this indemnification to them.

In connection with the execution of the merger agreement with Delta, the Northwest board of directors approved certain changes to Northwest s director compensation program. First, the Northwest board of directors approved an extension to the post-termination exercise period for outstanding stock options previously granted to non-employee directors of Northwest, which remain subject to approval of Northwest s stockholders, so that, if a director does not continue as, or is not appointed as, a member of the Northwest board of directors of the parent entity of the surviving corporation in any change of control transaction or is otherwise removed as, or not elected to be, a member of such board (other than for cause) during the two year period following a change of control, the director would have three years to exercise his or her outstanding options. In all cases, however, the post-termination exercise period remains subject to the award s original 10-year term. In addition, the Northwest board of directors approved an amendment to the terms of outstanding stock options and restricted stock units held by non-employee directors of Northwest to provide for the automatic vesting of all outstanding awards that are unvested or subject to lapse restrictions upon the occurrence of a change of control. Finally, the Northwest board of directors approved a change to its director pass travel policy to provide, in the event of a change of control transaction, lifetime positive space pass travel privileges on NWA, any successor to NWA and their affiliates to all current Northwest board of directors members.

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2007 Director Compensation Table

The following table shows the compensation provided to the directors in 2007. Mr. Steenland s compensation is set forth below in the Summary Compensation Table.

Name	Fees Earned or Paid in Cash[(1)] ($)	Stock Awards[(2)] ($)	Option Awards[(2)] ($)	Non-Equity Incentive Plan Compensation ($)	Change in Pension Value and Nonqualified Deferred Compensation Earnings ($)	All Other Compensation[(3)] ($)	Total ($)
Current Directors:							
Roy J. Bostock	90,548					27,908	118,456
David A. Brandon	27,596					11,577	39,173
Michael J. Durham	30,750					1,448	32,198
John M. Engler	63,706					27,820	91,526
Mickey P. Foret	30,422					27,680	58,102
Robert L. Friedman	77,449					28,373	105,822
Doris Kearns Goodwin	63,206					25,094	88,300
Jeffrey G. Katz	83,491					20,083	103,574
James J. Postl	37,120						37,120
Rodney E. Slater	62,230					21,098	83,328
William S. Zoller[(4)]					93,000	299,104	392,104
Former Directors:							
Ray W. Benning, Jr.	40,107					17,243	57,350
Dennis F. Hightower	31,860					39,112	70,972
George J. Kourpias	34,932					22,337	57,269
Frederic V. Malek	24,610					21,955	46,565
Leo M. van Wijk	23,610					2,517	26,127
Gary L. Wilson[(4)]					3,000	153,315	156,315

(1) Only non-employee directors of Northwest are entitled to receive Northwest board of directors retainer fees and meeting fees.

(2) On June 28, 2007, the Northwest board of directors approved the grant to each non-employee director of a restricted stock unit award covering 10,975 shares of common stock and a non-qualified stock option award covering 7,317 shares of common stock (collectively, the Director Stock Awards) under the terms of the Northwest 2007 Stock Incentive Plan, subject to the approval by stockholders of Northwest of an amendment, which we refer to as the Stock Plan Amendment, to the Northwest 2007 Stock Incentive Plan that would allow non-employee directors to participate in the plan. Subject to stockholder approval of the Stock Plan Amendment by Northwest stockholders, the Director Stock Awards will vest in installments over four years so long as the director continues to serve on the Northwest board of directors. Since the Director Stock Awards are subject to and conditioned upon stockholder approval of the Stock Plan Amendment, Northwest did not recognize any compensation expense under FAS 123R in 2007 for these awards.

(3) See the Director All Other Compensation Table below for details regarding the amounts disclosed in this column.

(4) During 2007, Messrs. Wilson and Zoller were employees of NWA and therefore did not receive Northwest board of directors retainer fees or meeting fees. The amounts shown in the Change in Pension Value column and portions of the All Other Compensation column for Messrs. Wilson and Zoller represent compensation for services as employees of NWA.

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Director All Other Compensation Table

The amounts in the All Other Compensation column of the 2007 Director Compensation Table consist of the following items:

Name	Tax Reimbursement Payments[1]	Employee Compensation	Incremental Cost of Perquisites or Personal Benefits[2]	Bankruptcy Claim Proceeds	Employer Contributions to 401(k) Plan	Excess 401(k) Plan Cash Payments[3]	Total All Other Compensation
Current Directors:	($)	($)	($)	($)	($)	($)	($)
Roy J. Bostock	74		27,833				27,908
David A. Brandon			11,577				11,577
Michael J. Durham			1,448				1,448
John M. Engler	4,532		23,288				27,820
Mickey P. Foret			27,680				27,680
Robert L. Friedman			28,373				28,373
Doris Kearns Goodwin	688		24,406				25,094
Jeffrey G. Katz	2,036		18,047				20,083
James J. Postl							
Rodney E. Slater	4,917		16,181				21,098
William S. Zoller[4]		200,241	7,382	82,619	2,920	5,942	299,104
Former Directors:							
Ray W. Benning, Jr.	433		16,810				17,243
Dennis F. Hightower	1,598		37,514				39,112
George J. Kourpias	1,018		21,319				22,337
Frederic V. Malek	180		21,775				21,955
Leo M. van Wijk			2,517				2,517
Gary L. Wilson[5]		4,199	148,434		682		153,315

(1) The amounts shown are reimbursement payments for income taxes resulting from use of the director s pass travel benefits.

(2) The amounts shown represent the incremental cost to NWA of perquisites provided to the directors in 2007, which include (A) positive space airline pass travel benefits on NWA and certain other airlines for the personal use of the director, his or her eligible family members and other individuals designated by the director, and (B) the following benefits received by Messrs. Foret and Wilson pursuant to agreements entered into with each director in 2007 (see Certain Relationships, Related Transactions and Director Independence below): medical expense reimbursement payments to Messrs. Foret ($5,062) and Wilson ($16,014), coverage under NWA s medical and dental plans for Messrs. Foret ($11,813) and Wilson ($11,357) and their eligible family members, and the cost of providing dedicated secretarial support and office equipment and supplies for Mr. Wilson pursuant to his agreement with NWA ($73,164). For a description of the methodology used to determine the incremental cost to NWA of positive space pass travel benefits provided to the directors, see footnote (3) to the All Other Compensation Table that follows the Summary Compensation Table.

(3) The amounts shown represent non-qualified retirement benefits earned under NWA s defined contribution plans in excess of the limitations imposed by the Internal Revenue Code. All employer contribution amounts under NWA s Retirement Savings Plan that are in excess of the limitations under the Internal Revenue Code are payable to employees in cash on a semi-monthly basis. See NWA s Executive Compensation Program Retirement Benefits Excess 401(k) Cash Payments under the Compensation Discussion and Analysis section below.

(4) Mr. Zoller is a 747-400 Captain for NWA and, as such, is entitled to receive compensation applicable to his position in accordance with the collective bargaining agreement between NWA and ALPA. In addition, in connection with Northwest s emergence from bankruptcy, Mr. Zoller received a cash payment in the amount of $82,619 representing his allocated portion of the proceeds of an allowed general unsecured claim

awarded to ALPA in respect of reductions in wages and benefits for pilots of NWA under the collective bargaining agreement entered into during NWA s bankruptcy. As an employee of NWA, Mr. Zoller was eligible to participate in the health and welfare benefits offered to employees of NWA and received an employer contribution to his account under the Retirement Savings Plan based on the amount of his qualified earnings during the year.

(5) Mr. Wilson was an employee of NWA until his retirement on May 31, 2007. At the time of his retirement, his annual salary was $8,840. As an employee of NWA, Mr. Wilson was eligible to participate in the health and welfare benefits offered to employees of NWA and received an employer contribution to his account under the Retirement Savings Plan based on the amount of his qualified earnings during the year.

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SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth the holdings, as of March 31, 2008, of Northwest s capital stock of each director of Northwest, each executive officer named in the Summary Compensation Table, all directors and executive officers of Northwest as a group, and each person known to Northwest to beneficially own more than five percent of any class of Northwest s voting securities. Unless otherwise indicated, each named beneficial owner has sole voting and investment power with respect to the shares listed.

Name of Beneficial Owner	Class of Security	Number of Shares(1)	Percent of Class
Directors/Nominees for Director:			
Roy J. Bostock	Common Stock	2,200	*
David A. Brandon	Common Stock		
Michael J. Durham	Common Stock		
John M. Engler	Common Stock		
Mickey P. Foret	Common Stock		
Robert L. Friedman	Common Stock		
Doris Kearns Goodwin	Common Stock		
Jeffrey G. Katz	Common Stock		
James J. Postl	Common Stock		
Rodney E. Slater	Common Stock		
Douglas M. Steenland	Common Stock	151,607	*
William S. Zoller	Common Stock		
Named Executive Officers:			
Neal S. Cohen	Common Stock	63,885	*
David M. Davis	Common Stock	43,197	*
J. Timothy Griffin	Common Stock	53,721	*
Andrew C. Roberts	Common Stock	59,520	*
All directors and executive officers as a group (16 persons)	Common Stock	374,130	*
Other 5% Holders:			
Wellington Management Company, LLP(2) 75 State Street Boston, MA 02109	Common Stock	29,080,996	12.3
Wayzata Investment Partners LLC(3) 701 East Lake Street, Suite 300 Wayzata, MN 55391	Common Stock	15,578,000	6.6
Harbert Management Corporation(4) One Riverchase Parkway South Birmingham, Alabama 35244	Common Stock	12,572,767	5.3
Vanguard Windsor Fund(5) 100 Vanguard Blvd. Malvern, PA 19355	Common Stock	12,456,100	5.3

* Less than 1%

(1) The SEC deems a person to have beneficial ownership of all shares that such person has the right to acquire within 60 days. The figures shown include the following shares subject to stock options granted under the Northwest 2007 Stock Incentive Plan, which the individual or group has the right to acquire within 60 days of February 29, 2008: Steenland 106,038 shares; Cohen 51,678 shares; Davis 36,582 shares; Griffin 44,568 shares; Roberts 48,624 shares; and all directors and executive officers as a group 287,490 shares.

(2) Based on a Schedule 13G filed with the SEC on behalf of Wellington Management Company, LLP indicating that, at December 31, 2007, the firm, in its capacity as investment advisor, had shared voting power over 10,872,086 shares of such shares and shared power to dispose of all such shares.

(3) Based on a Schedule 13G filed with the SEC on behalf of Wayzata Investment Partners LLC indicating that, at December 31, 2007, the firm, in its capacity as an investment advisor, had sole voting power and sole dispositive power over such shares.

(4) Based on a Schedule 13G filed with the SEC on behalf of Harbert Management Corporation (HMC) and affiliated persons indicating that, at December 31, 2007, 9,744,493 of such shares were held in the Harbinger Capital Partners Master Fund I, Ltd. (the Master Fund), and 2,828,274 of such shares were held in the Harbinger Capital Partners Special Situations Fund, L.P. (the Special Situations Fund). Each fund has shared voting and shared dispositive power over the shares held in such fund.

(5) Based on a Schedule 13G filed with the SEC on behalf of Vanguard Windsor Funds indicating that, at December 31, 2007, the funds, in their capacity as investment advisors, had sole voting power over such shares.

NORTHWEST PROPOSAL 2:

ELECTION OF DIRECTORS

It is proposed that twelve directors be elected at the Northwest annual meeting to serve until the next annual meeting of stockholders and until their successors have been duly elected and qualified, or until the director s earlier resignation or removal. Each nominee is presently a director of Northwest and also serves as a director of NWA. The Corporate Governance Committee of the Northwest board of directors has recommended to the Northwest board of directors, and the Northwest board of directors has unanimously nominated, each of the twelve nominees.

The persons named in the enclosed proxy intend to vote the shares covered by proxies for the election of the director-nominees named below. The twelve nominees for election to the Northwest board of directors receiving the greatest number of affirmative votes cast by holders of Northwest common stock will be elected as directors. If any nominee shall, prior to the Northwest annual meeting, become unavailable for election as a director, which is not anticipated, the shares covered by proxies will be voted for another nominee to be selected by the Northwest board of directors.

Information Concerning Director Nominees

Information with respect to the business experience and affiliations of the director nominees follows:

Roy J. Bostock, age 67, has served as a director of Northwest since April 2005. Since 2002, he has served as a principal of Sealedge Investments, LLC (diversified private investment company), the Chairman of the Partnership for a Drug-Free America (not-for-profit organization based in New York City), and the Chairman of the Committee for Economic Development (Washington, D.C.-based public policy group). From 2000 to 2002, Mr. Bostock served as Chairman of B/Com3 (advertising), and from 1996 to 2000 he served as Chairman and Chief Executive Officer of the McManus Group (communications services). Prior to 1996, Mr. Bostock served in a variety of senior executive positions in the advertising agency business, including Chairman and Chief Executive Officer of D Arcy Masius Benton & Bowles, Inc. from 1990 to 1996. Mr. Bostock also serves as a director of Yahoo! Inc. and Morgan Stanley.

David A. Brandon, age 55, has served as a director of Northwest since May 31, 2007. Since 1999, Mr. Brandon has served as Chairman and Chief Executive Officer of Domino s Pizza, Inc. (worldwide pizza chain). From 1989 to 1998, he served as President and Chief Executive Officer of Valassis, Inc. (international marketing services and sales promotion company), and Chairman of the Board of Directors of Valassis from 1997 to 1998. Prior to joining Valassis, Mr. Brandon served in a variety of sales management positions at Procter & Gamble. He also serves on the Board of Directors of the TJX Companies, Inc., Burger King Corporation and Kaydon Corporation.

Michael J. Durham, age 57, has served as a director of Northwest since May 31, 2007. Since 2000, Mr. Durham has been founder, President and Chief Executive Officer of Cognizant Associates, Inc. (consulting firm). From October 1996 to October 1999, Mr. Durham served as a director, President and Chief Executive Officer of Sabre, Inc. (computer reservation company). Prior to joining Sabre, he served as Senior Vice President and Treasurer of AMR (airline holding company) and as Senior Vice President of Finance and Chief Financial Officer of American Airlines (airline). Mr. Durham serves as the non-executive Chairman of the Board of Asbury Automotive Group and Acxiom Corporation. He also serves on the Board of Directors of Hertz Global Holdings, Inc.

John M. Engler, age 59, has served as a director of Northwest since 2003. Since 2004, Mr. Engler has served as President & Chief Executive Officer of the National Association of Manufacturers (trade association). From 2003 to 2004, Mr. Engler was President of State and Local Government and Vice President of Government Solutions for North America for Electronic Data Systems Corporation (information technology). Mr. Engler served as Michigan's 46th governor for three terms from 1991 to 2003. He also serves on the Board of Directors of Universal Forest Products Inc. and Munder Capital Management.

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Mickey P. Foret, age 62, has served as a director of Northwest since May 31, 2007. Since September 2002, Mr. Foret has served as President of Aviation Consultants LLC (consulting firm). From September 1998 to September 2002, he served as Executive Vice President and Chief Financial Officer of NWA, and, from May 1999 to September 2002, he also served as Chairman and Chief Executive Officer of Northwest Cargo. From June 1996 to September 1997, Mr. Foret served as President and Chief Operating Officer of Atlas Air, Inc. (cargo airline), and from 1993 to 1996 he served as Executive Vice President and Chief Financial Officer of NWA. Prior to 1993, Mr. Foret served in a variety of senior executive positions at several companies including Continental Airlines, Inc. and KLH Computers, Inc. He also serves on the Board of Directors of ADC Telecommunications, Inc., Nash Finch Company and URS Corporation.

Robert L. Friedman, age 65, has served as a director of Northwest since 2002. Since 1999, Mr. Friedman has served as a Senior Managing Director of The Blackstone Group L.P. (private investment firm). In February 2003, he also became Chief Administrative Officer and Chief Legal Officer of Blackstone. Prior to 1999, he was a partner of the law firm of Simpson Thacher & Bartlett LLP. He also serves on the Board of Directors of Axis Capital Holdings Ltd. and TRW Automotive Holdings Corp.

Doris Kearns Goodwin, age 65, has served as a director of Northwest since 1997. Ms. Goodwin is a historian and author and has received numerous awards including the Pulitzer Prize in history in 1995 and the Lincoln Prize for history in 2006. She served as a member of the Harvard University Board of Overseers for a six-year term ending in 2005 and was a Professor of Government at Harvard University from 1969 to 1977.

Jeffrey G. Katz, age 52, has served as a director of Northwest since April 2005. Since June 2005, Mr. Katz has served as President and Chief Executive Officer of LeapFrog Enterprises, Inc. (manufacturer of electronic learning products). From 2000 to 2004, he served as Chairman, President and Chief Executive Officer of Orbitz Inc. (online travel distribution). Prior to joining Orbitz, Mr. Katz was President and Chief Executive Officer of Swissair Group s Swissair (airline) from 1997 until 2000. Prior to April 1997, Mr. Katz spent 17 years at American Airlines (airline) in a variety of executive roles including President of the Global Distribution System Division of Sabre Inc. (global travel distribution system).

James J. Postl, age 62, has served as a director of Northwest since May 31, 2007. In 2002, Mr. Postl retired as President and Chief Executive Officer of Pennzoil-Quaker State Company (automotive consumer products), a position he held from 2000 to 2002. From 1998 to 2000, he served as President and Chief Operating Officer of Pennzoil; from 1996 to 1998, he served as President of Nabisco Biscuit Company (manufacturer of food products); and from 1994 to 1996, he served as President of Nabisco International. Prior to 1996, Mr. Postl spent 19 years at PepsiCo in a variety of management roles. He also serves on the Board of Directors of Centex Corporation, Cooper Industries and the American Balanced Fund.

Rodney E. Slater, age 53, has served as a director of Northwest since May 31, 2007. Mr. Slater serves as a partner in the law firm of Patton Boggs LLP (law firm), and the head of the firm s Public Policy and Transportation Practice Group. From 1997 to 2001, he served as U.S. Secretary of Transportation. From 1993 to 1996, Mr. Slater served as Director of the U.S. Highway Administration. He also serves on the Board of Directors of ICX Technologies, Kansas City Southern, and Southern Development Bancorp.

Douglas M. Steenland, age 56, has served as a director of Northwest since 2001 and as President and Chief Executive Officer of Northwest and NWA since October 2004. Mr. Steenland has served in a number of executive positions since joining NWA in 1991, including President from April 2001 to October 2004, Executive Vice President and Chief Corporate Officer from September 1999 to April 2001, Executive Vice President Alliances, General Counsel and Secretary from January 1999 to September 1999, Executive Vice President, General Counsel and Secretary from June 1998 to January 1999, and Senior Vice President, General Counsel and Secretary from 1994 to 1998. Prior to joining NWA, Mr. Steenland was a senior partner at the Washington, D.C. law firm of Verner, Lipfert, Bernhard, McPherson and Hand.

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William S. Zoller, age 59, has served as a director of Northwest since April 2006. Captain Zoller has been a NWA pilot for over 25 years, previously served as an Executive Vice President of the Air Line Pilots Association, International from 2000 to 2002, and served as Chairman of the Northwest Airlines Master Executive Council of ALPA from 1996 to 2000. He also serves as a member of the Industrial Relations Center Advisory Council for the Carlson School of Management at the University of Minnesota.

The Northwest board of directors recommends a vote FOR each of the nominees listed above.

NORTHWEST PROPOSAL 3:

RATIFICATION OF APPOINTMENT OF INDEPENDENT AUDITOR

The Audit Committee of the Northwest board of directors has appointed Ernst & Young LLP, who we refer to as Ernst & Young, to serve as Northwest s independent auditor for 2008. Stockholder ratification is not required for the appointment of Ernst & Young as Northwest s independent auditor for 2008 because the Audit Committee has responsibility for the appointment of Northwest s independent registered public accountants. The appointment is being submitted for ratification with a view toward soliciting the opinion of stockholders, which opinion will be taken into consideration in future deliberations. No determination has been made as to what action the Northwest board of directors or the Audit Committee would take if stockholders do not ratify the appointment. Ratification of the appointment of Ernst & Young as Northwest s independent auditor for 2008 requires the affirmative vote of a majority of the votes cast on the proposal at the Northwest annual meeting.

Representatives of Ernst & Young will be present at the Northwest annual meeting to answer questions. They also will have the opportunity to make a statement if they desire to do so.

The Northwest board of directors recommends a vote FOR ratification of the appointment of Ernst & Young as Northwest s independent auditor for 2008.

Information About the Northwest Audit Committee

The current members of the Audit Committee are Messrs. Durham (Chair), Engler and Katz. The Northwest board of directors has determined that each of the members of the Audit Committee is independent as defined by the rules of the New York Stock Exchange. The Audit Committee provides assistance to the Northwest board of directors in fulfilling its responsibility to stockholders and the investment community relating to corporate accounting, reporting practices, and the quality and integrity of the financial reports of Northwest. The Audit Committee met ten times during 2007. The Northwest board of directors also has determined that Messrs. Durham and Katz qualify as audit committee financial experts as defined by the rules of the SEC. Northwest s Audit Committee charter can be found under Governance in the Investor Relations section of Northwest s web site at *www.nwa.com*, and copies of the charter will be furnished to interested stockholders without charge, upon request. Written requests for such copies should be addressed as set forth above under Northwest s Corporate Governance Guidelines; Code of Business Conduct.

Report of the Audit Committee

The Audit Committee of the Northwest board of directors is comprised of directors who are independent under the NYSE listing standards and operates under a written charter adopted by the Northwest board of directors. The Audit Committee reviews Northwest s financial reporting process on behalf of the Northwest board of directors. Northwest management has the primary responsibility for the financial statements, the financial reporting process and Northwest s internal controls. The Audit Committee also appoints the Northwest s independent accountants, subject to approval of the stockholders.

In this context, the Audit Committee has met and held discussions with management and the independent accountants. Management represented to the Audit Committee that Northwest s audited consolidated financial statements were prepared in accordance with generally accepted accounting principles, and the Audit Committee has reviewed and discussed the audited consolidated financial statements with management and the independent accountants. The Audit Committee discussed with the independent accountants matters required to be discussed by Statement on Auditing Standards No. 61, as amended or modified (Communication with Audit Committees).

Northwest s independent accountants also provided to the Audit Committee the written disclosures required by Independence Standards Board Standard No. 1 (Independence Discussion with Audit Committees). The Audit Committee discussed with the independent accountants that firm s independence, and considered whether the non-audit services provided by the firm to Northwest are compatible with maintaining the firm s independence.

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Based on the Audit Committee s discussion with management and the independent accountants, and the Audit Committee s review of the representation of management and the report of the independent accountants to the Audit Committee, the Audit Committee recommended that the Northwest board of directors include the audited consolidated financial statements in Northwest s Annual Report on Form 10-K for the year ended December 31, 2007 filed with the SEC on February 29, 2008, which we refer to, as amended, as the Northwest Annual Report, and in this joint proxy statement/prospectus.

Audit Committee

Michael J. Durham (Chair)

John M. Engler

Jeffrey G. Katz

Audit Fees

The aggregate fees billed to Northwest by Ernst & Young for services rendered during 2007 and 2006 were as follows:

Audit Fees. Fees for audit services totaled approximately $4,433,590 in 2007 and approximately $3,386,266 in 2006, including fees associated with the annual audit of the financial statements, audit of internal controls over financial reporting, the reviews of the Northwest s quarterly reports on Form 10-Q, and services in connection with regulatory filings.

Audit-Related Fees. Fees for audit-related services totaled approximately $514,102 in 2007 and approximately $573,296 in 2006. Audit related services principally include accounting consultations, audits of NWA's employee benefit plans, and other audits required by regulation or contract.

Tax Fees. Fees for tax services, including tax compliance, tax advice and tax planning including expatriate tax services, totaled approximately $236,025 in 2007 and approximately $115,809 in 2006.

All Other Fees. Northwest did not incur fees except as indicated in the above categories.

Audit Committee Pre-Approval Policy

Consistent with SEC policies regarding auditor independence, the Audit Committee of the Northwest board of directors has responsibility for appointing, setting compensation for and overseeing the work of the independent auditor. In recognition of this responsibility, the Audit Committee has established a policy to pre-approve all audit and permissible non-audit services provided by the independent auditor.

Prior to engagement of the independent auditor for each year's audit, Northwest management will submit to the Audit Committee for approval an aggregate of services expected to be rendered during that year for each of four categories of services.

1. *Audit* services include audit work performed in the preparation of financial statements, as well as work that generally only the independent auditor can reasonably be expected to provide, including comfort letters, statutory audits and attest services. Such services also include an audit of internal control over financial reporting as required by Section 404 of the Sarbanes-Oxley Act of 2002.

2. *Audit Related* services are for assurance and related services that are traditionally performed by the independent auditor, including employee benefit plan audits, special procedures required to meet certain regulatory requirements, and consultation regarding financial accounting and/or reporting standards.

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3. *Tax services* include all services performed by the independent auditor's tax personnel except those services specifically related to the audit of the financial statements, and includes fees in the areas of tax compliance and tax advice.

4. *Other Fees* are those associated with services not included in the other categories. Northwest generally does not request such services from the independent auditor.

Prior to engagement, the Audit Committee pre-approves these services. The fees are budgeted and the Audit Committee requires the independent auditor and Northwest management to report actual fees versus the budget periodically throughout the year by category of service. During the year, circumstances may arise when it may become necessary to engage the independent auditor for additional services that are permitted under the SEC auditor independence rules but are not contemplated in the original pre-approval. These services most often fall into one of two categories: due diligence (e.g., in relation to acquisitions or divestitures) reported as a component of audit-related services, and tax planning reported as a component of tax services. In those instances, the Audit Committee requires specific pre-approval before engaging the independent auditor.

The Audit Committee may delegate pre-approval authority to one or more of its members. The member to whom such authority is delegated must report, for informational purposes only, any pre-approval decisions to the Audit Committee at its next scheduled meeting.

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NORTHWEST PROPOSAL 4:

APPROVAL OF AMENDMENT TO THE

NORTHWEST AIRLINES CORPORATION

2007 STOCK INCENTIVE PLAN

Under Northwest s Plan of Reorganization, Northwest s stock plans and all outstanding stock awards as of the effective date of the Plan of Reorganization were cancelled. The Northwest board of directors adopted the Northwest 2007 Stock Incentive Plan, effective as of May 31, 2007, and Northwest s unsecured creditors approved the Northwest 2007 Stock Incentive Plan in connection with the approval of Northwest s Plan of Reorganization. The Northwest 2007 Stock Incentive Plan is an incentive compensation plan under which Northwest may grant non-qualified stock options, stock appreciation rights, restricted stock, restricted stock units and other stock-based awards to employees of Northwest and its subsidiaries who are selected to receive an award under the Northwest 2007 Stock Incentive Plan.

In June 2007, in connection with its adoption of changes to its director compensation program following Northwest s emergence from bankruptcy, the Northwest board of directors adopted, subject to approval of Northwest s stockholders, an amendment to the Northwest 2007 Stock Incentive Plan, which we refer to as the Plan Amendment, to allow for awards under the Northwest 2007 Stock Incentive Plan to be granted to non-employee directors of Northwest, and, as discussed above under Director Compensation in 2007, the Northwest board of directors approved, subject to stockholder approval, the Director Stock Awards to the non-employee directors of Northwest. The Plan Amendment provides that the definition of a participant under the Northwest 2007 Stock Incentive Plan be expanded to include, not only employees of Northwest and its subsidiaries who are selected by the Compensation Committee of the Northwest board of directors to receive an award under the Northwest 2007 Stock Incentive Plan, but also members of the Northwest board of directors. The Plan Amendment does not change the number of shares of Northwest common stock available for issuance pursuant to the Northwest 2007 Stock Incentive Plan. It is the judgment of the Northwest board of directors that approval of the Plan Amendment is in the best interests of Northwest and its stockholders.

Summary of the Northwest Airlines Corporation 2007 Stock Incentive Plan

The following is a summary of the terms of the Northwest 2007 Stock Incentive Plan, as amended by the Plan Amendment. The full text of the amended and restated Northwest 2007 Stock Incentive Plan is attached as Appendix B and the following summary is qualified in its entirety by reference to Appendix B.

Administration. The Northwest 2007 Stock Incentive Plan provides that it shall be administered by the Compensation Committee of the Northwest board of directors or another committee designated by the Northwest board of directors. The Compensation Committee currently consists of three independent directors (Messrs. Bostock, Brandon and Postl). The Compensation Committee has sole authority, among other things, to designate participants to receive awards under the Northwest 2007 Stock Incentive Plan, to determine the type of awards to be granted to participants under the Northwest 2007 Stock Incentive Plan, to determine the terms and conditions of each award, and to interpret and administer the Northwest 2007 Stock Incentive Plan.

Shares. No more than 21,333,248 may be issued under the 2007 Northwest Stock Incentive Plan, subject to adjustment in the event of certain changes in Northwest s structure affecting the Northwest common stock. If an award entitles the participant to receive or purchase shares of Northwest common stock, the number of shares covered by the award or to which the award relates is deducted on the date of grant of the award from the total number of shares available for grant under the Northwest 2007 Stock Incentive Plan. To the extent shares covered by an award are not issued or are forfeited, or if an award otherwise terminates without delivery of any shares, then such shares will again be available for future distribution under the Northwest 2007 Stock Incentive Plan. In the event of certain changes in Northwest s structure affecting the Northwest common stock, the Compensation Committee may make appropriate adjustments in the number of shares that may be awarded, the number of shares covered by awards then outstanding under the Northwest 2007 Stock Incentive Plan and, where applicable, the exercise price of outstanding awards under the Northwest 2007 Stock Incentive Plan.

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Participation. Awards under the Northwest 2007 Stock Incentive Plan may be made to employees of Northwest or its subsidiaries who are selected by the Compensation Committee to receive an award and to non-employee directors of Northwest. The number of participants participating in the Northwest 2007 Stock Incentive Plan will vary from year to year. Currently, approximately 5,800 employees of Northwest and its subsidiaries participate in the Northwest 2007 Stock Incentive Plan. The Northwest 2007 Stock Incentive Plan imposes no limit on the number of participants, and does not specify the type or amount of awards that may be granted to a single participant, except that no participant may receive in any fiscal year stock options and stock appreciation rights covering more than two (2) million shares of Northwest common stock, performance-based awards denominated in shares of Northwest stock covering more than two (2) million shares of Northwest stock, and no more than $10 million in performance-based awards that are not denominated in shares. In addition, under the Northwest 2007 Stock Incentive Plan, to the extent the participant received an award in connection with Northwest s emergence from bankruptcy, such participant will not be eligible to receive another award for a period of four (4) years after the grant of the emergence awards except for awards granted in connection with a participant s promotion or a material increase in the participant s job responsibilities or if the Compensation Committee of the Northwest board of directors determines that, based on special circumstances, the award is in the best interests of Northwest.

Awards under the Northwest 2007 Stock Incentive Plan. The Compensation Committee has the authority to grant the following types of awards under the Northwest 2007 Stock Incentive Plan: (1) non-qualified stock options, (2) stock appreciation rights, (3) restricted stock and restricted stock units, (4) other stock-based awards and/or (5) performance awards. Each of these awards may be granted alone, in conjunction with, or in tandem with, other awards under the Northwest 2007 Stock Incentive Plan and/or awards outside of the Northwest 2007 Stock Incentive Plan.

1. *Stock Options.* Non-qualified stock options, which we refer to as Options, may be granted for such number of shares of Northwest common stock as the Compensation Committee may determine. Options are exercisable at such times and subject to such terms and conditions, including the option price and the term, as the Compensation Committee determines. The exercise price for any Option may not be less than the fair market value of Northwest s common stock as of the date of grant. Unless otherwise determined by the Compensation Committee, payment of the option price may be in cash, with shares of Northwest common stock having a fair market value equal to the option price, by delivery of irrevocable instructions to a financial institution pursuant to a cashless exercise program or by the withholding of shares otherwise issuable upon exercise of the option.

2. *Stock Appreciation Rights.* Stock appreciation rights, which we refer to as SARs, may be granted independently of any stock option or in conjunction with all or part of a stock option and, if granted in tandem with a stock option, will be exercisable only when the underlying stock option is exercisable. Once a tandem SAR has been exercised, the portion of the stock option underlying the SAR terminates. Upon exercise of a SAR, the participant will be entitled to receive an amount in cash and/or in shares of Northwest common stock equal to the excess of the then fair market value of the stock over the base price, multiplied by the number of SARs being exercised.

3. *Restricted Stock and Restricted Stock Units.* Restricted stock and restricted stock units, which we refer to as RSUs, may be granted with such restrictions as the Compensation Committee may determine. During the restriction period, the restricted stock or RSUs remain subject to forfeiture.

4. *Other Stock-Based Awards.* The Compensation Committee may also grant other types of awards that are valued, in whole or in part, by reference to or otherwise based on Northwest s common stock. Such awards will be made upon terms and conditions as the Compensation Committee may in its discretion provide.

5. *Performance Awards.* Certain awards under the Northwest 2007 Stock Incentive Plan may be granted in a manner that is deductible by Northwest under Section 162(m) of the Code, which we refer to as Performance-Based Awards. Such Performance-Based Awards will be based upon one or more of the following

factors: consolidated earnings before or after taxes (including earnings before interest, taxes, depreciation and amortization), net income, operating income; earnings per share, book value per share, return on shareholders equity, expense management, return on investment, improvements in capital structure, profitability of an identifiable business unit or product, maintenance or improvement of profit margins, stock price, market share, revenues or sales, costs, cash flow, working capital, return on assets and total shareholder return. With respect to Performance-Based Awards, (i) the Compensation Committee will establish in writing the objective performance-based goals applicable to a given period of service no later than 90 days after the commencement of such period of service (but in no event after 25% of such period has elapsed) and (ii) no awards will be payable to any participant for a given period of service until the Compensation Committee certifies that the objective performance goals (and any other material terms) applicable to such period have been satisfied.

Non-Transferability. Unless otherwise provided by the Compensation Committee, awards under the Northwest 2007 Stock Incentive Plan are non-transferable during the lifetime of the participants.

Termination of Employment; Change of Control. The provisions relating to the treatment of outstanding awards granted pursuant to the Northwest 2007 Stock Incentive Plan upon the termination of a participant s employment with Northwest or a subsidiary of Northwest are set forth in the award documentation pertaining to specific awards. With respect to previously granted RSUs, Options and SARs, those provisions generally provide that, unless otherwise determined by the Compensation Committee, (i) if a participant voluntarily terminates his or her employment, any unvested RSUs and any unexercised Options or SARs shall be forfeited and the participant will have ninety (90) days to exercise any portion of such Options or SARs that was exercisable on the date of the participant s termination of employment; (ii) if a participant s employment is terminated by Northwest or a subsidiary of Northwest for cause, any unvested RSUs and any unexercised Options or SARs will be forfeited and the participant will not be entitled to exercise any portion of such Options or SARs, (iii) upon a termination of the participant s employment by Northwest or a subsidiary of Northwest other than for cause, 50% of the unvested portion of any outstanding RSUs and 50% of any unexercised Options or SARs will automatically vest upon such termination of employment and the participant will have ninety (90) days to exercise any portion of such Options or SARs that was exercisable on the date of such termination of employment, (iv) upon the death or disability of a participant, a pro rata share of any RSUs, Options or SARs subject to vesting on the next vesting date will automatically vest and the participant, or the participant s estate or a person who acquires the right by bequest or inheritance, will have one (1) year following the participant s death or disability to exercise any portion of the Options or SARs that was exercisable on the date of the participant s death or disability. The Compensation Committee may amend any Option, SAR, RSU, restricted stock award, performance award or other stock-based award to accelerate the exercise or vesting date. Under an amendment to the Northwest 2007 Stock Incentive Plan adopted by the Northwest board of directors in April 2008, in connection with the execution of the Northwest merger agreement, upon the occurrence of a change of control, any outstanding awards that are then unexercisable, unvested or subject to lapse restrictions will automatically become exercisable, vested or no longer subject to such lapse restrictions and if a participant s employment is terminated without cause or if the participant resigns for good reason, in each case within two years following a change of control, the participant will have until the earlier of three (3) years from the date of termination or the original expiration date of the award to exercise any unexercised portion of the outstanding Options or SARs.

Effective Date; Amendment. The 2007 Northwest Stock Incentive Plan became effective as of the effective date of Northwest s Plan of Reorganization. The Northwest board of directors may amend the Northwest 2007 Stock Incentive Plan, but it may not, without approval of its stockholders, (i) increase the maximum number of shares of Northwest common stock that may be issued under the Northwest 2007 Stock Incentive Plan, (ii) change the number of shares subject to awards granted to employees of Northwest or its subsidiaries at specified levels in connection with Northwest s emergence from bankruptcy, (iii) change the limitations on additional awards that may be granted to individual participants or the number of shares of Northwest common stock for which awards may be granted to any one participant (except as permitted by the Northwest 2007 Stock Incentive Plan), or (iv) take any other action that requires stockholder approval to comply with any tax or regulatory requirement.

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Federal Income Tax Aspects

The following is a summary of certain U.S. federal income tax consequences of awards made under the Northwest 2007 Stock Incentive Plan, based upon the laws currently in effect. The discussion is general in nature and does not take into account a number of considerations which may apply in light of the individual circumstances of a participant under the Northwest 2007 Stock Incentive Plan. The income tax consequences under applicable state and local tax laws may not be the same as under U.S. federal income tax laws.

Non-Qualified Stock Options. No income is recognized by the participant at the time a non-qualified stock option is granted. Generally upon exercise of a non-qualified stock option, the participant will recognize ordinary income in an amount equal to the excess, if any, of the fair market value of the shares on the date of exercise over the exercise price. Northwest will be entitled to a tax deduction at the same time and in the same amount. Any gain (or loss) recognized upon subsequent transfer of the shares will be either short-term or long-term capital gain or loss, depending upon the length of time that the participant has held the shares.

Stock Appreciation Rights. No income will be recognized by a participant in connection with the grant of a SAR. When the SAR is exercised, the participant will generally recognize ordinary income in the year of exercise in an amount equal to the amount of cash and the fair market value of any shares received. Northwest will be entitled to a deduction at the same time and in the same amount. If the participant received common stock upon exercise of a SAR, any post-exercise gain or loss recognized upon subsequent transfer of the shares will be treated in the same manner discussed above under Non-Qualified Stock Options.

Restricted Stock and Restricted Stock Units. A participant receiving restricted stock or restricted stock units generally will recognize ordinary income equal to the fair market value of the restricted stock or restricted stock units at the time the stock is no longer subject to risk of forfeiture (less any consideration paid), or at the time the units settle. Northwest will generally be entitled to a deduction at the same time and in the same amount. The holding period to determine whether the participant has long-term or short-term capital gain or loss on a subsequent sale generally begins when the stock is no longer subject to risk of forfeiture or when the units settle, and the participant s tax basis for such stock or units will generally equal the fair market value of such stock on the date when the stock is no longer subject to forfeiture or the fair market value of such stock on the date when the units settle.

However, with respect to restricted stock, a participant may elect, under Section 83(b) of the Code, within 30 days of the transfer of the stock, to recognize taxable ordinary income on the date of transfer equal to the excess of the fair market value of the shares of restricted stock (determined without regard to restrictions, other than any restriction which by its terms will never lapse) over the purchase price of the restricted stock. By reason of such an election, the participant s holding period will commence on the date following the date of grant, the participant s tax basis will be equal to the fair market value of the shares on the date of grant (determined without regard to restrictions, other than any restriction which by its terms will never lapse), and no additional income will be recognized upon the lapse of restrictions on the shares. Likewise, Northwest generally will be entitled to a deduction on the date of transfer equal to the amount that is taxable as ordinary income to the participant. If shares are forfeited after making such an election, the participant will be entitled to a capital loss for tax purposes only in an amount equal to the purchase price of the forfeited shares.

Other Stock-Based Awards. Amounts received by a participant pursuant to the grant of any other stock-based award are generally taxed at ordinary rates when received. However, if such awards consist of property subject to restrictions, the amounts generally will not be taxed until the restrictions lapse or until the participant makes an election under Section 83(b) of the Code. Subject to Section 162(m) of the Code, Northwest is generally allowed an income tax deduction, equal to the amount recognized as ordinary income by the participant, at the time such amount is taxed.

Parachute Payment. If the exercisability of an option or the elimination of the restrictions on stock acquired under the Northwest 2007 Stock Incentive Plan is accelerated or if a condition relating to the exercise of an

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option is eliminated as a result of a change in control, all or a portion of the value of the option or stock at that time may be a parachute payment for purposes of determining whether a 20 percent excise tax is payable by the recipient as a result of the receipt of an excess parachute payment pursuant to Section 4999 of the Code. Northwest will not be entitled to a deduction for any amounts considered an excess parachute payment.

The foregoing general tax discussion is solely intended for the information of stockholders considering how to vote with respect to this proposal and not as tax guidance to participants in the Northwest 2007 Stock Incentive Plan. Participants are should consult their own tax advisors regarding the federal, state, local, foreign and other tax consequences to them of participating in the Northwest 2007 Stock Incentive Plan.

Northwest 2007 Stock Incentive Plan Benefits

If the Plan Amendment is approved by Northwest stockholders, it will result in the issuance of the contingent Director Stock Awards described above. The following table provides information regarding the number of shares of Northwest common stock covered by and the grant date fair value of the Director Stock Awards.

New Plan Benefits

Amended Northwest 2007 Stock Incentive Plan

	Stock Awards		Option Awards	
Name and Position	**Dollar Value ($)**	**Number of Shares**	**Dollar Value ($)**	**Number of Options**
Douglas M. Steenland, President and Chief Executive Officer				
Neal S. Cohen, Executive Vice President Strategy & International; CEO Regional Airlines				
David M. Davis, Executive Vice President & Chief Financial Officer				
J. Timothy Griffin, Executive Vice President Marketing & Distribution				
Andrew C. Roberts, Executive Vice President Operations				
Executive Group				
Non-Executive Director Group		109,750		73,170
Non-Executive Officer Employee Group				

Equity Compensation Plan Information

The table below provides information relating to Northwest s equity compensation plans as of December 31, 2007:

Plan category	**Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)**	**Weighted-average exercise price of outstanding options, warrants and rights (b)**	**Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))(c)**
Equity compensation plans approved by Northwest stockholders	14,144,499	21.63(1)	5,987,683
Equity compensation plans not approved by Northwest stockholders			
Total	14,144,499	21.63(1)	5,987,683

(1) Excludes restricted stock units, which by their nature do not have an exercise price.

See Item 8. Consolidated Financial Statements and Supplementary Data, Note 11 Stock-Based Compensation in Northwest s Form 10-K/A for the year ended December 31, 2007, which was filed on April 29, 2008 for additional information regarding Northwest s equity compensation plans.

On , 2008, the closing sales price of Northwest s common stock on the New York Stock Exchange was $ per share.

Under NYSE rules, approval of the Plan Amendment requires the affirmative vote of holders of a majority of the votes cast on the proposal at the Northwest annual meeting, provided that a majority of the outstanding shares of Northwest common stock entitled to vote are voted on the proposal.

The Northwest board of directors recommends a vote FOR approval of the

amendment to the Northwest 2007 Stock Incentive Plan.

NORTHWEST PROPOSAL 5:

ADJOURNMENT OF ANNUAL MEETING

Northwest is asking its stockholders to vote on a proposal to adjourn the Northwest annual meeting, if necessary or appropriate, in order to allow for the solicitation of additional proxies.

Votes Required

Adjournment of the Northwest annual meeting, if necessary or appropriate, to solicit additional proxies if there are not sufficient votes to approve each of the foregoing Northwest proposals, requires the affirmative vote of a majority of the votes cast on the proposal at the Northwest annual meeting.

The Northwest board of directors recommends a vote FOR approval

to adjourn the Northwest annual meeting, if necessary or appropriate.

NORTHWEST PROPOSAL 6-[ ]:

STOCKHOLDER PROPOSALS

If a majority of the votes cast on any of the foregoing proposals at the Northwest annual meeting are voted in favor of any such following proposals, then the proposals will be approved.

NORTHWEST EXECUTIVE COMPENSATION

Compensation Discussion and Analysis

Overview

The Compensation Committee of the Northwest board of directors, which is presently comprised of Messrs. Bostock (Chairman), Brandon and Postl, administers NWA s executive compensation programs. The role of the Compensation Committee is to oversee NWA s compensation and benefit plans and policies, administer Northwest s stock plans, and review and approve all compensation decisions relating to executive officers of NWA, including the president and chief executive officer and the other executive officers named in the Summary Compensation Table included below, who we refer to as the Named Executive Officers. The Compensation Committee also reviews from time to time NWA s compensation and benefits programs applicable generally to management employees of NWA. The Compensation Committee s charter reflects these responsibilities and is periodically reviewed by the Compensation Committee and the Northwest board of directors. The President and Chief Executive Officer, together with the Senior Vice President Human Resources & Labor Relations, makes recommendations to the Compensation Committee regarding compensation of the other executive officers. The Compensation Committee s charter can be found under Governance in the Investor Relations section of Northwest s web site at *www.nwa.com*.

Northwest Performance in 2007

Northwest successfully completed its Chapter 11 restructuring and emerged from bankruptcy on May 31, 2007. As a result of its restructuring efforts since Northwest filed for bankruptcy protection in September 2005, Northwest has significantly reduced its overall debt, reduced its annual aircraft ownership expenses and put in place a debtor-in-possession and exit financing facility that has provided significant interest expense savings for Northwest. NWA also right-sized and re-optimized its fleet and now operates the world s largest Airbus 330 fleet and the youngest international fleet of any U.S. carrier, has affirmed its position as the North American launch carrier of the new Boeing 787 aircraft, and has begun taking deliveries of the 72 76-seat regional jets ordered by NWA in 2006. NWA also achieved its cost savings goals for both labor and non-labor costs.

As a result of executing its restructuring plans, Northwest achieved significant improvement in its financial results for 2007. Northwest reported a pre-tax profit of $764 million (excluding reorganization items), which represents a 154 percent improvement over its pre-tax profit for 2006. 2007 represents the second consecutive year of profitability for Northwest since the U.S. network carrier environment began to deteriorate in 2000, and the third highest annual pre-tax profit in Northwest s history. Northwest s pre-tax margin for 2007 was 6.1 percent, the highest among all U.S. network carriers.

As a result of NWA s strong financial performance during 2007, NWA has distributed over $125 million in profit sharing, performance incentives and reliability payments to union and salaried employees of NWA at the manager level and below. This was the highest employee incentive payout in NWA history. A more detailed analysis of its financial and operating performance in 2007 is contained in the Management s Discussion and Analysis section of the Northwest Annual Report.

General Compensation Philosophy

NWA believes that compensation paid to executive officers should be closely aligned with NWA s performance, and that such compensation should assist NWA in attracting and retaining key executives critical to its long term success. NWA also believes compensation should be structured to ensure that a significant portion of compensation opportunity will be directly related to Northwest s stock performance and other factors that directly and indirectly influence stockholder value.

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NWA s executive compensation programs are designed to achieve three principal objectives:

Attract, motivate and retain talent. NWA operates in an intensely competitive environment and believes its success is closely related to the retention of highly talented employees and a strong management team. NWA s employees are the key to differentiating the airline in the marketplace. A competitive executive compensation program is essential to creating a business that produces sustainable profitability.

Link pay to performance. A cornerstone of NWA s compensation philosophy is the close linkage between executive pay and the overall performance of NWA. At NWA, individual performance and relative industry performance based on key performance indicators are significant factors in determining executive compensation.

Align management s interests with stockholder interests. In order to properly align the interests of management with stockholders, NWA has historically delivered a portion of its executive compensation in the form of long term equity-based compensation subject to vesting schedules that require continued service with NWA.

NWA s Executive Compensation Program

The principal elements of NWA s executive compensation program are described below.

Base Salary. In 2005 and 2006, base salaries for NWA officers were reduced on average by 23.5% as a result of labor cost reductions associated with NWA s bankruptcy restructuring efforts. Five percent of the salary reductions were temporary reductions to continue in effect during NWA s bankruptcy proceedings. In connection with NWA s emergence from bankruptcy on May 31, 2007, NWA discontinued the five percent temporary salary reductions for all NWA officers, including the Named Executive Officers. In addition, Mr. Davis base salary was increased from $332,500 to $423,938 in connection with his promotion to Executive Vice President and Chief Financial Officer in June 2007. None of the other Named Executive Officers received base salary increases during 2007. In the future, changes in the base salaries of executive officers of NWA, including the Named Executive Officers, will be considered annually by the Compensation Committee and in connection with a promotion or other change in responsibilities. Base salaries are influenced by individual performance, experience in the position and scope of responsibilities, results achieved, future potential, internal equity and salary levels for similar positions at comparable companies.

Annual Cash Incentive Plan. Approximately 370 management employees of NWA, including the Named Executive Officers, participate in the Annual Cash Incentive Plan. Compensation provided under the Annual Cash Incentive Plan depends on the achievement of an income contribution target established by the Compensation Committee at the beginning of each year based on the annual budget approved by the Northwest board of directors, and an assessment of individual performance at the end of the year in accordance with NWA s performance measurement system for salaried employees. Northwest s actual adjusted income contribution is defined as Northwest s operating income (excluding depreciation, amortization and aircraft rental expense) adjusted to exclude the impact of any extraordinary, unusual or special items and other items that are deemed to be outside of management s control such as increases or decreases in operating expense due to the price of fuel and foreign currency exchange. In addition, Northwest must meet a minimum profitability threshold for the year in order for there to be payouts in excess of target payout amounts. Target payouts under the Annual Cash Incentive Plan are established as a percentage of the participant s base salary. Mr. Steenland s target payout percentage is 100% of his annual salary and the target payout percentage for the other Named Executive Officers is 60% of their annual salary. The annual incentive payment for individual participants in the plan, including the Named Executive Officers, may be increased or decreased based on individual performance; however, the total pool available for annual incentive payments to participants in any year is fixed based on the level of Northwest performance and the total base salary amounts for all participants. At the end of each year, the Compensation Committee reviews

performance data with management and determines the extent to which Northwest s financial goals have been achieved. An individual s potential payout may range from 0% to 200% of his or her target payout amount depending on Northwest and individual performance.

For 2007, Northwest s income contribution target was $2,306 million and the minimum profitability threshold for the year was $1. The potential payouts for 2007 under the Annual Cash Incentive Plan for the Named Executive Officers are set forth below in the Grants of Plan-Based Awards in 2007 Table. Northwest s actual adjusted income contribution performance for the year was $2,318 million, which was 100.5% of the income contribution target. Based on Northwest s performance, the payout percentage for the financial performance component for 2007 was 104.9% of such target. The 2007 Annual Cash Incentive Plan payout amounts for the Named Executive Officers are included in the Summary Compensation Table under the Non-Equity Incentive Plan Compensation column. In January 2008 the Compensation Committee approved an income contribution target for 2008 based on the 2008 budget approved by the Northwest board of directors.

Long Term Cash Incentive Plan. Officers of NWA selected by the Compensation Committee to receive an award are eligible to participate in the Long Term Cash Incentive Plan. This plan provides for cash payments based on the relative adjusted operating margin performance of NWA during two-year performance periods measured against five other major U.S. network airlines, including American, United, Delta, Continental and US Airways. Adjusted operating margin for each airline is defined as operating income as a percentage of revenue with operating income adjusted to exclude the impact of fuel prices and any extraordinary, unusual or special items. Mr. Steenland s target payout percentage under the Long Term Cash Incentive Plan is 150% of his annual salary and the target payout percentage for the other Named Executive Officers is 70% of their annual salary.

Actual payout amounts under the Long Term Cash Incentive Plan are approved by the Compensation Committee each year and may range between 0% and 200% of the target payout level, based on Northwest s adjusted operating margin performance relative to the airline peer group during the performance period and Northwest s satisfaction of a net profitability threshold for each year during the performance period, as shown below. Payouts are also conditioned on the participant maintaining a minimum individual performance rating during the applicable performance period.

50% Payout	Northwest ranks third among the airline peer group based on an adjusted operating margin performance measure
100% Payout	Northwest ranks second among the airline peer group based on an adjusted operating margin performance measure
150% Payout	Northwest ranks first among the airline peer group based on an adjusted operating margin performance measure or Northwest ranks second on such measure and Northwest achieves a net profitability threshold established by the Compensation Committee for the years during the performance period
200% Payout	Northwest ranks first among the airline peer group based on an adjusted operating margin performance measure and achieves a net profitability threshold established by the Compensation Committee for the years during the performance period

Northwest s relative operating margin performance during the two year performance period ended December 31, 2007 resulted in a payout of 200% of target payout levels. The net profitability threshold established for 2006 and 2007 was $1. The incentive payments for the two year performance period ended December 31, 2007 earned by each of the Named Executive Officers are included in the Summary Compensation Table under the Non-Equity Incentive Plan Compensation column. In early 2007, each of the Named Executive Officers was granted an award under the Long Term Cash Incentive Plan for the two year performance period ending on December 31, 2008. These awards are set forth below in the Grants of Plan Based Awards in 2007 Table.

E-Commerce Incentive Compensation Program. In 2000, the Northwest board of directors adopted the Northwest Airlines Corporation E-Commerce Incentive Compensation Program, which we refer to as the E-Commerce Plan, as an incentive to management to create, develop and maximize the value of specified equity investments of Northwest and its affiliates. The program has been highly successful for Northwest. Management was instrumental in developing a number of e-commerce or internet-based businesses, including Orbitz, LLC and Hotwire, Inc. To date, as a result of the sale of a number of these investments, NWA has generated aggregate cash proceeds of approximately $190 million and a return on the group of investments of approximately 442%. The $190 million in cash investment proceeds is separate and apart from any revenues generated by NWA s operations. Under the E-Commerce Plan, 200 Points or 20% of the value of the investments in excess of the sum of the cost of such investments plus a minimum compounded annual return of 15% was set aside for awards to key employees of NWA.
NWA has disposed of all of the investments covered by the E-Commerce Plan; however, in 2007 certain redemption amounts with respect to awards granted in prior periods continued to be subject to vesting based on the participant s continued employment with NWA. 2007 earnings on redemption amounts under outstanding awards that remain subject to vesting for each of the Named Executive Officers are included in the Summary Compensation Table under the Non-Equity Incentive Plan Compensation column. In addition, in November 2007, the Compensation Committee granted to Mr. Cohen an award of 2 points out of the remaining points available for allocation under the E-Commerce Plan in recognition of Mr. Cohen s leadership and contributions to the successful formation of NWA s regional carrier group, including the commencement of revenue service in May 2007 by NWA s wholly-owned subsidiary, Compass Airlines, Inc., and NWA s acquisition in April 2007 of Mesaba Aviation, Inc. Vesting of the award was subject to Mr. Cohen s continued employment until April 1, 2008. The payout amount under Mr. Cohen s award is included in the Summary Compensation Table under the Non-Equity Incentive Plan Compensation column and is also set forth below in the Grants of Plan Based Awards in 2007 Table.

Equity Based Compensation.
Under Northwest s plan of reorganization, all outstanding stock awards previously granted under Northwest s stock incentive plans were cancelled on May 31, 2007, the effective date of the plan of reorganization. In connection with Northwest s emergence from bankruptcy and after consultation with the official committee of unsecured creditors appointed in Northwest s bankruptcy case, the Northwest board of directors approved the Northwest 2007 Stock Incentive Plan. The Bankruptcy Court approved the Northwest 2007 Stock Incentive Plan in connection with its confirmation of Northwest s plan of reorganization and in doing so, complimented NWA s management on its performance during the bankruptcy case. Under the Northwest 2007 Stock Incentive Plan, the Compensation Committee has the authority to grant cash awards and/or equity-based awards including stock options, stock appreciation rights, restricted stock, restricted stock units and other stock-based awards, including performance-based awards, to employees of NWA. A total of 21,333,248 shares of common stock or approximately 8% of the total shares of common stock to be issued in connection with Northwest s emergence from bankruptcy were made available for grant pursuant to the Northwest 2007 Stock Incentive Plan (such number may be adjusted pursuant to the provisions of the Northwest 2007 Stock Incentive Plan).

In connection with Northwest s emergence from bankruptcy, the Compensation Committee approved the grant of awards covering a total of approximately 13,597,834 shares of common stock in the form of stock options, stock appreciation rights and restricted stock units to approximately 400 employees of NWA and certain subsidiaries of NWA, including the Named Executive Officers. Approximately 60% of these awards were granted in the form of restricted stock units and approximately 40% were granted in the form of non-qualified stock options and stock appreciation rights. The stock options, restricted stock units and stock appreciation rights will vest, subject to the participant s continued employment with NWA or a subsidiary of NWA, in equal semi-annual installments over four years. The

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Compensation Committee also approved the grant of restricted stock units covering a total of approximately 1,618,583 shares of common stock to approximately 5,400 employees worldwide at the manager level and below. These awards will vest in full one year after the date of grant.

Each of the Named Executive Officers was granted restricted stock units and stock options as part of the emergence awards granted in connection with Northwest s emergence from bankruptcy. These awards are included below in the Grants of Plan-Based Awards in 2007 Table. The Compensation Committee intended, and the Northwest 2007 Stock Incentive Plan provides, that the individuals receiving emergence awards, including the Named Executive Officers, would not receive any additional awards under the Northwest 2007 Stock Incentive Plan during the four years following the effective date of the plan of reorganization, except in the case of a promotion, a material increase in the employee s job responsibilities or in special circumstances determined by the Compensation Committee to be in the best interests of Northwest. In determining the size of restricted stock unit and stock option awards to the Named Executive Officers and other management employees, the Compensation Committee considered the amount of equity-based awards held by individuals holding similar positions at comparable companies, Northwest performance and achievement of Northwest s restructuring objectives, individual performance and leadership potential, as well as the allocation of the total pool of shares available for grant in connection with the emergence awards among the individuals holding positions at various levels.

Retirement Benefits. NWA maintains the following retirement plans, in which some or all of the Named Executive Officers participate:

Retirement Savings Plan for Salaried Employees. The Retirement Savings Plan for Salaried Employees, which we refer to as Retirement Savings Plan, is a funded and tax-qualified 401(k) retirement plan that is offered to all salaried employees of NWA, including the Named Executive Officers. The plan permits employees to contribute a portion of their pay for the year to the plan on a pretax or after tax basis. Effective September 1, 2005, as a result of freezing pension benefit accruals under NWA s defined benefit pension plans (see Frozen Defined Benefit Pension Plans below), NWA began making employer contributions to participants accounts in the Retirement Savings Plan to replace benefit accruals under the defined benefit plans for service on and after September 1, 2005. The employer contributions are a percentage of pay (salary and cash incentive compensation) that varies based on the participant s age and years of service. The following table shows the rates of NWA contributions to the Retirement Savings Plan in effect during 2007.

Age plus Vesting Service	NWA Contribution (as a percent of pay)
Less than 30	5%
30 through 39	6%
40 through 49	7%
50 through 59	9%
60 through 69	10%
70 through 79	12%
80 and over	15%

The amounts contributed by NWA in 2007 to the accounts of the Named Executive Officers under the Retirement Savings Plan are shown below in the All Other Compensation Table that follows the Summary Compensation Table and included in the Summary Compensation Table. Benefits under the plan are payable to participants upon retirement or termination of employment.

Excess 401(k) cash payments. Contributions that cannot be made to the Retirement Savings Plan due to limits on contributions under the Code are made to each executive in cash on a semi-monthly basis. These cash payments are not entitled to the deferred tax benefit associated with the Retirement Savings Plan. NWA provides this benefit so that executives and other employees who are subject to the Code limits obtain the same rate of employer

contributions, as a percentage of pay, as all other salaried employees. The excess 401(k) cash payments made to the Named Executive Officers in 2007 are shown in the All Other Compensation Table that follows the Summary Compensation Table and are included in the Summary Compensation Table.

Frozen Defined Benefit Pension Plans. Historically, the Named Executive Officers participated in three defined benefit pension plans the Northwest Airlines Pension Plan for Salaried Employees, which we refer to as Salaried Pension Plan (a qualified plan under which benefits are subject to the Code limitations, the Northwest Airlines Excess Pension Plan for Salaried Employees, which we refer to as the Excess Pension Plan (a nonqualified, unfunded plan that provides retirement benefits that would otherwise be provided under the Salaried Pension Plan but for limitations under the Code), and the Supplemental Executive Retirement Plan, which we refer to as the SERP, which is described below. Historically, under these plans salaried employees hired on or before January 1, 2001 receive benefits based on the higher of a final average earnings formula and a cash balance formula. Benefits for salaried employees hired after January 1, 2001 are based solely on a cash balance formula, which provides a benefit based on career pay rather than final average earnings. The formula used to compute participant benefits under the final average earnings formula is 60% of a participant s final average earnings less 15% of participant s covered compensation multiplied by actual service divided by 30 years. Final average earnings are the highest consecutive 60 months of pay during the participant s employment. Under the cash balance formula, a percentage of a participant s pay was credited to a hypothetical account which grows with interest. A participant s pay credit under the cash balance formula was based on the participant s age plus vesting service and ranges from 6% to 18% of pay. Interest is credited at 1% over the one-year Treasury bill rate with a floor rate of 3.5%. Pension benefit accruals under both the Salaried Pension Plan and the Excess Pension Plan were frozen effective August 31, 2005 and replaced by an employer contribution to NWA s Retirement Savings Plan and related excess cash payments. The present values of each Named Executive Officer s accumulated pension benefits as of December 31, 2007 under the Salaried Pension Plan and the Excess Pension Plan are included in the 2007 Pension Benefits table set forth below.

Supplemental Executive Retirement Plan. The SERP is a nonqualified, unfunded plan, under which NWA provides eligible executives, including Messrs. Steenland, Cohen, Griffin and Roberts, supplemental pension benefits over and above the executive s benefits under the Salaried Pension Plan and the Excess Pension Plan. The SERP was designed to attract mid-career senior executives by granting executives additional credited years of service or additional pay credits during specified periods of time as provided in individual agreements entered into with the particular executive. The additional benefit accruals are earned by the executive over a period of years if the executive remains employed by NWA during such period, and, in the case of Mr. Steenland, if his employment is terminated in specified circumstances. In the case of Mr. Steenland, NWA agreed to provide up to six additional years of service credit to him over the six year period commencing April 1, 2006, so long as he remains employed by NWA during such period. Under the SERP, participants final average compensation for purposes of determining pension benefits under the final average earnings formula is defined as the average of the executive s monthly earnings for the highest 36 months (whether or not consecutive) during the participant s employment. The present value of each Named Executive Officer s accumulated pension benefit under the SERP as of December 31, 2007 is included in the 2007 Pension Benefits Table set forth below. Historically, benefit accruals under the SERP were determined based on the final average earnings formula and the cash balance formula used to determine benefit accruals under the Salaried Pension Plan and the Excess Pension Plan. Consistent with the Salaried Pension Plan and the Excess Pension Plan, benefits accumulated under the final average earnings

formula and the cash balance formula were frozen effective August 31, 2005. Benefit accruals under the SERP for service on and after September 1, 2005 are determined by a formula based on pay and interest credits, as provided in the executive s individual agreement entered into pursuant to the SERP. Vested pension benefits under the SERP are payable as a lump sum upon the participant's termination of employment. All benefits under the SERP are unfunded and are payable by NWA from its general assets.

Perquisites. NWA provides its Named Executive Officers with other personal benefits that it believes are reasonable, competitive and consistent with NWA s overall executive compensation program. In 2007 these benefits included reimbursement payments for specified medical expenses; positive space airline pass travel benefits on NWA and other airlines for the personal use of each Named Executive Officer, his eligible family members and other individuals designated by the Named Executive Officer; excess liability insurance coverage; reimbursement for the cost of specified club memberships; financial and tax planning services; car allowances and an annual physical examination for each Named Executive Officer. In addition, from time to time NWA makes tickets to cultural and sporting events available to the Named Executive Officers for business purposes. If not utilized for business purposes, they are made available to the Named Executive Officers and other employees for personal use. The incremental costs incurred by NWA in 2007 to provide these benefits to the Named Executive Officers are shown in the All Other Compensation Table that follows the Summary Compensation Table and are included in the Summary Compensation Table.

New Plans and Arrangements Adopted in Connection with Potential Merger

On April 14, 2008, Northwest and Delta entered into the merger agreement, pursuant to which Northwest and Delta will combine their businesses through a merger. In connection with the execution of the merger agreement, in April 2008 the Compensation Committee and the Northwest board of directors approved various amendments to existing compensation plans and arrangements applicable to employees of NWA, and some new compensation plans and arrangements in which the Named Executive Officers will participate. A description of these amendments and the new plans and arrangements follows. As part of considering a potential merger transaction with Delta, the Compensation Committee evaluated the compensation and benefit arrangements in which Delta s senior management participates and compared those arrangements to similar arrangements applicable to NWA s senior management. The Compensation Committee also considered the retention issues NWA is expected to face in light of the required regulatory review period for the proposed merger and the anticipated relocation of the combined companies headquarters to Atlanta following the merger. The Compensation Committee retained Towers Perrin to assist it in reviewing the types of arrangements implemented for senior management in other change of control transactions and the range of costs associated with such arrangements. The Compensation Committee evaluated the projected costs associated with the plans and arrangements considered by the Compensation Committee under various assumptions and compared those costs to the range of cost estimates associated with the implementation of similar plans and arrangements by other companies in similar change of control transactions. Following an extensive evaluation, the Compensation Committee and the Northwest board of directors determined that the proposed plans and arrangements were appropriate and necessary in the context of the merger.

Amendments to Management Compensation Agreements. NWA entered into amendments to the existing management compensation agreements with its officers, including each of the Named Executive Officers other than Mr. Steenland. Under the amendments, the definition of good reason was modified to be more protective of certain elements of the officer s compensation and benefits following a change of control. In addition to the existing events that constitute good reason, the definition of good reason was amended to include, following a change of control: (1) a material reduction in the officer s short-term or long-term cash incentive compensation opportunities; (2) if NWA or its successor does not keep in effect compensation, incentive, retirement, health and welfare benefits, or perquisite programs, under which the officer receives benefits substantially comparable in the aggregate to those in effect prior to the change of control (other than a reduction pursuant to an equivalent reduction in such benefits for all full time domestic salaried employees); and (3) the relocation of the officer s

principal place of employment by more than 50 miles. In addition, those Named Executive Officers whose previously granted post-employment confirmed space pass travel privileges have not yet vested (Messrs. Cohen and Davis) will become vested in those privileges on an accelerated basis in the event their employment with NWA is terminated without cause or by the officer for good reason (each, as defined in the amended agreements) within two years after a change of control. In addition, under the amendments, certain officers (including the Named Executive Officers) who would be retiree-eligible at the time of their termination of employment will be entitled to receive tax gross-up payments for the imputed income resulting from their use of such pass travel privileges following termination of employment. Following a change of control, the officer will be entitled to receive from NWA, any successor of NWA and their affiliates post-employment pass travel privileges on terms and conditions no less favorable than those to which the officer was entitled immediately prior to the change of control. The amendments also provide for a gross-up payment not to exceed $1,000,000 for excise taxes incurred by any officer under Sections 280G and 4999 of the Code, subject to specified limitations (including a cutback (that is, no gross-up payment) if the amount of the payments subject to the excise tax exceed the applicable safe harbor by less than 10% (within the meaning of Sections 280G and 4999 of the Code and the applicable regulations thereunder)).

Amendments to Stock Incentive Plan and Outstanding Equity Awards. Northwest amended the Northwest 2007 Stock Incentive Plan and the outstanding awards under the Northwest 2007 Stock Incentive Plan to provide, among other things, for the automatic vesting of all outstanding awards that are unvested or subject to lapse restrictions upon the occurrence of a change of control. In addition, the amendments provide that, if a participant s employment is terminated without cause or for good reason (each, as defined in the Northwest 2007 Stock Incentive Plan) within two years after a change of control, the participant will have up to three years following such termination to exercise the participant s outstanding options. Outstanding options previously granted to members of the Northwest board of directors, which remain subject to approval by Northwest stockholders (which approval is being sought pursuant to Northwest Proposal 4 of this joint proxy statement/prospectus) were similarly amended so that, if a director does not continue as, or is not appointed as, a member of the board of directors of the parent entity resulting from the transaction constituting the change of control transaction or is otherwise removed as, or not elected to be, a member of such board of directors (other than for cause) during the two year period following a change of control, the director would have three years to exercise his or her outstanding options. In all cases, however, the post-termination exercise period remains subject to the award s original 10-year term.

Amendments to Existing Incentive Compensation Plans. NWA amended the terms of the Annual Cash Incentive Plan and the Long Term Incentive Plan in order to provide some protections to participants in those plans (including the Named Executive Officers) in the event of a change of control. The amendments provide that, in the event of a change of control, the administrator of the plans may not reduce any amounts otherwise payable under the plan for any performance periods in which the change of control occurs or terminate any outstanding incentive opportunity for such performance periods. In addition, the amendments provide that the administrator of each plan will, in good faith, make any adjustment that it reasonably determines to be equitable to the performance measures for the performance period in which a change of control occurs, to reflect any change in the business of NWA or its successor. The amendment to the Annual Cash Incentive Plan also provides that (x) in the event of a change of control, subject to the participant s continued employment with NWA through the date the annual incentive compensation becomes payable to such participant, NWA will pay to the participant the greater of his or her target incentive payment or the amount of his or her incentive payment based on Northwest s actual performance for the performance period, and (y) in the event a participant s employment is terminated by NWA or its successor without cause or by the participant for good reason following a change of control, (i) the participant will receive a pro-rated portion of his or her target incentive payment for the performance period in which the change of control occurs, and (ii) if such termination of employment occurs after the end of the applicable performance period and before the payment of any incentive payment for such period, the participant will be entitled to the greater of his or her target incentive payment or the amount of his or her incentive payment based on Northwest s actual performance for the performance period.

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Retention Agreement and Amendment to CEO Management Compensation Agreement. NWA entered into a retention agreement and amendment to Mr. Steenland s management compensation agreement, which we refer to as the Retention Agreement. Under Mr. Steenland s previously existing management compensation agreement, which we refer to as the Existing Agreement, which is described under Management Compensation Agreements below, Mr. Steenland is entitled to resign for any reason during the thirty day period commencing on May 31, 2008, which is the first anniversary of the effective date of Northwest s plan of reorganization, and to receive certain severance payments and benefits set forth in his Existing Agreement. Under the Retention Agreement, Mr. Steenland waived his right to resign during this period and receive such severance benefits in exchange for the grant to Mr. Steenland of 375,000 restricted retention units, each of which represents the right to receive, subject to the terms and conditions set forth in the Retention Agreement, an amount in cash equal to the fair market value of a share of common stock of Northwest (not to exceed $22.00 per share for this purpose) multiplied by the number of vested units pursuant to the terms of the Retention Agreement. The restricted retention units will vest subject to Mr. Steenland s continued employment as follows: (1) if the merger agreement is terminated without the merger having occurred, then the units will vest in installments of 25% each on the first four anniversaries of the date of the termination of the merger agreement, and (2) if Mr. Steenland s employment is terminated by NWA other than for cause or by Mr. Steenland for good reason (each as defined in the Retention Agreement) or due to Mr. Steenland s death or disability, or if the merger is consummated, then the unvested portion of the units will become immediately vested in full. If Mr. Steenland s employment is terminated for any other reason, any unvested units will be forfeited. The Retention Agreement provides that Mr. Steenland will be obligated to re-pay to NWA a pro-rated portion of any payments received by him upon the vesting of any of the restricted retention units in the event Mr. Steenland joins certain competitors of NWA within the one year period following his termination of employment with NWA, based upon the percentage of such one year period that had not elapsed as of such date, and contains a provision prohibiting Mr. Steenland from soliciting employees of NWA for employment with another entity during such period. The Retention Agreement also provides that, in the event of a change of control, Mr. Steenland will be entitled to receive from NWA, any successor of NWA and their affiliates post-employment pass travel privileges on terms and conditions no less favorable than those to which Mr. Steenland was entitled to immediately prior to the change of control, until age 65, and Mr. Steenland s post-termination medical and dental benefits will be provided on an after-tax basis with Mr. Steenland paying the same percentage of the premium cost as that payable by active officers of NWA from time to time, but in any event not to exceed 25% of the premium cost for such coverage.

Compensation Committee Report

The Compensation Committee reviewed and discussed with management the Compensation Discussion and Analysis above and, based on such review and discussions, it recommended to the Northwest board of directors that the Compensation Discussion and Analysis be included in Northwest Annual Report and in this joint proxy statement/prospectus.

Compensation Committee

Roy J. Bostock (Chair)

David A. Brandon

James J. Postl

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Summary Compensation Table

The following table sets forth information regarding the compensation of NWA s Named Executive Officers in 2007 and 2006:

Name and Principal Position	Salary ($)	Bonus ($)	Stock Awards[1] ($)	Option Awards[1] ($)	Non-Equity Incentive Plan Compensation[2] ($)	Change in Pension Value and Nonqualified Deferred Compensation Earnings[3] ($)	All Other Compensation[4] ($)	Total ($)
Douglas M. Steenland President & Chief Executive Officer								
2007	531,919		3,508,423	758,117	2,239,093	365,000	329,035	7,731,587
2006	516,384			333,514	994,146	516,000	297,353	2,657,397
Neal S. Cohen Executive Vice President Strategy & International; CEO Regional Airlines								
2007	413,706	100,000(5)	1,709,802	431,394	1,161,640	130,000	129,601	4,076,143
2006	388,086	100,000(5)		100,616	399,599	161,000	72,238	1,221,539
David M. Davis Executive Vice President & Chief Financial Officer								
2007	374,007		1,210,355	376,601	687,649	3,000	72,663	2,724,275
J. Timothy Griffin Executive Vice President Marketing & Distribution								
2007	413,706		1,474,622	333,432	857,224	493,000	199,496	3,771,480
2006	401,616			125,403	345,398	34,000	186,287	1,092,704
Andrew C. Roberts Executive Vice President Operations								
2007	413,706		1,608,821	437,248	884,134	100,000	121,493	3,565,402
2006	361,783			63,337	399,599	166,000	83,425	1,074,144

(1) The amounts set forth in these columns do not represent any amounts that the Named Executive Officers are entitled to receive; rather they represent the compensation expense recognized by Northwest for financial statement reporting purposes with respect to 2007 for the grant date fair value of the awards granted to each of the Named Executive Officers in 2007 in accordance with Statement on Financial Accounting Standards No. 123 (revised 2004), Share Based Payments. As stated in footnote (6) to the Grants of Plan-Based Awards in 2007 Table, the value of the restricted stock unit awards granted to the Named Executive Officers in 2007 based on the closing sales price of a share of common stock on May 13, 2008 ($8.55) is substantially lower than the grant date value of such awards and the intrinsic value of the stock options granted to each of the Named Executive Officers in 2007 based on the May 13, 2008 closing stock price would be zero because the exercise price of each option was higher than the stock price on such date. The restricted stock units and the stock options will vest, subject to the executive s continued employment with NWA or a subsidiary of NWA, in equal semi-annual installments over four years. The stock options were granted with an exercise price equal to the closing price of a share of common stock on the date of grant and have a ten year term.

Pursuant to SEC rules, the amounts shown under Option Awards reflect (A) a deduction of the 2006 compensation expense recognized by Northwest for outstanding stock options previously held by the Named Executive Officers,

which were cancelled pursuant to Northwest s plan of reorganization, and (B) exclude for both years the impact of estimated forfeitures related to service-based vesting conditions. See note 10 to Northwest s consolidated financial statements included in the Northwest Annual Report for a discussion of the assumptions used in the valuation of the stock option awards.

(2) This column includes: (A) the following amounts earned under the Annual Cash Incentive Plan for 2007: Mr. Steenland ($565,094), Mr. Cohen ($263,711), Mr. Davis ($263,711), Mr. Griffin ($263,711) and Mr. Roberts ($263,711); (B) the following amounts earned pursuant to previously granted awards under the Long Term Cash Incentive Plan for the two year performance period ending December 31, 2007: Mr. Steenland ($1,635,189), Mr. Cohen ($593,513), Mr. Davis ($423,938), Mr. Griffin ($593,513) and Mr. Roberts ($593,513); (C) the redemption value of an award granted to Mr. Cohen in November 2007 under the E-Commerce Plan of 2 points, which, when vested, equaled $277,506; and (D) 2007 earnings on outstanding unvested awards previously granted under the E-Commerce Plan as follows: Mr. Steenland ($38,810), Mr. Cohen ($26,910) and Mr. Roberts ($26,910). See NWA s Executive Compensation Program under the Compensation Discussion and Analysis section above for a description of the incentive compensation plans referred to in this footnote.

(3) This column represents the increase in the present value of accumulated pension benefits for each of the Named Executive Officers under the Salaried Pension Plan, the Excess Pension Plan, and, for Messrs. Steenland, Cohen, Griffin and Roberts, the SERP. See NWA s Executive Compensation Program Retirement Benefits under the Compensation Discussion and Analysis section above for a description of these plans. A description of the assumptions used to determine these amounts is included below in footnote 2 to the 2007 Pension Benefits Table.

(4) See the All Other Compensation Table below for details regarding the amounts disclosed in the All Other Compensation column.

(5) The amounts shown for Mr. Cohen reflect retention payments in the amount of $100,000 each paid to him in 2007 and 2006 pursuant to his Management Compensation Agreement. The agreement entered into in connection with Mr. Cohen s hiring provides that he will receive annual retention payments equal to $100,000 each on May 1 of 2006, 2007, 2008, 2009 and 2010 so long as he is employed by NWA on such dates.

All Other Compensation Table

The following table describes each component of the All Other Compensation column of the Summary Compensation Table.

Name	Tax Reimbursement Payments ($)	Employer Contributions to 401(k) Plan[1] ($)	Excess 401(k) Plan Cash Payments[2] ($)	Life Insurance Premiums ($)	Incremental Cost of Perquisites or Personal Benefits[3] ($)	Total All Other Compensation ($)
Douglas M. Steenland	58,552	27,000	135,974	40,000	67,509	329,035
Neal S. Cohen	16,766	20,250	57,069		35,516	129,601
David M. Davis	9,972	15,750	20,739		26,202	72,663
J. Timothy Griffin	43,626	22,500	58,338	44,000	31,032	199,496
Andrew C. Roberts	15,016	20,250	48,069		38,158	121,493

(1) As discussed in footnote (3) to the Summary Compensation Table, effective August 31, 2005, NWA amended the Salaried Pension Plan and the Excess Pension Plan to freeze future benefit accruals under those plans and amended the Retirement Savings Plan to provide for a NWA contribution to participants accounts for service on and after September 1, 2005.

(2) This column includes NWA contributions that would have been made for the benefit of the Named Executive Officers under NWA s Retirement Savings Plan but are in excess of the limitations imposed by the Code. In connection with the amendments to the Retirement Savings Plan discussed in footnote (1) above, beginning September 1, 2005, all employer contribution amounts to NWA s Retirement Savings Plan that are in excess of the limitations under the Code are payable to employees in cash on a semi-monthly basis. See NWA s Executive Compensation Program Retirement Benefits Excess 401(k) cash payments under the Compensation Discussion and Analysis section above.

(3) This column represents the incremental cost incurred by NWA in providing perquisites to the Named Executive Officers in 2007. These perquisites include reimbursement payments for certain medical expenses, complimentary travel benefits on NWA and other airlines for the personal use of each Named Executive Officer, his eligible family members and other individuals designated by the Named Executive Officer, excess liability insurance coverage, club memberships, financial and tax planning services, car allowances and an annual physical examination for each Named Executive Officer. The incremental cost of airline travel benefits provided for the personal use of the Named Executive Officer and their eligible family members is based on the methodology previously used by Northwest to estimate, for financial reporting purposes under an incremental cost approach, the cost of carrying a passenger flying on a frequent flyer mileage award, which is based on the average cost per passenger for food and beverage, fuel, insurance, security, miscellaneous claims and NWA s frequent flyer distribution and administration expenses. The incremental cost of the airline travel benefits the Named Executive Officers are entitled to make available for other individuals is based on the lowest published fare for the particular NWA flight plus an additional fee for first or business class service. Many of the officers who are entitled to such benefits choose to donate these benefits to charitable organizations. The incremental cost of the airline travel benefits provided to Mr. Steenland in 2007 was $25,736. See NWA s Executive Compensation Program Perquisites under Compensation Discussion and Analysis above.

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Grants of Plan-Based Awards in 2007

The following table provides information about awards granted to the Named Executive Officers during 2007 under the Annual Cash Incentive Plan, the Long Term Cash Incentive Plan, the E-Commerce Plan and the Northwest 2007 Stock Incentive Plan. These incentive compensation plans are described in the Compensation Discussion and Analysis section under NWA s Executive Compensation Programs.

		Estimated Future Payouts Under Non-Equity Incentive Plan Awards[1]			Estimated Future Payouts Under Equity Incentive Plan Awards			All Other Stock Awards: Number of Shares of Stock or Units[4]	All Other Option Awards: Number of Securities Underlying Options[5]	Exercise or Base Price of Option Awards	Grant Date Fair Value of Stock and Option Awards[6]
Name	Grant Date	Thresh-old ($)	Target ($)	Maxi-mum ($)	Thresh-old ($)	Target ($)	Maxi-mum ($)	(#)	(#)	($/sh)	($)
Douglas M. Steenland	1/25/2007(2)	0	545,063	1,090,126							
	1/25/2007(3)	0	817,595	1,635,189							
	5/31/07							715,821			18,002,898
	6/14/07								159,071	22.68	2,050,950
	6/28/07								159,071	22.26	2,006,713
	7/13/07								159,072	21.07	1,899,447
Neal S. Cohen	1/25/2007(2)	0	254,363	508,726							
	1/25/2007(3)	0	296,757	593,513							
	5/31/07							348,850			8,773,578
	6/14/07								77,522	22.68	999,515
	6/28/07								77,522	22.26	977,955
	7/13/07								77,523	21.07	925,687
	11/29/2007(7)	(7)	277,506	(7)							
David M. Davis	1/25/2007(2)	0	254,363	508,726							
	1/25/2007(3)	0	296,757	593,513							
	5/31/07							246,947			6,210,717
	6/14/07								54,877	22.68	707,546
	6/28/07								54,877	22.26	692,284
	7/13/07								54,877	21.07	655,275
J. Timothy Griffin	1/25/2007(2)	0	254,363	508,726							
	1/25/2007(3)	0	296,757	593,513							
	5/31/07							300,866			7,566,780
	6/14/07								66,859	22.68	862,033
	6/28/07								66,859	22.26	843,440
	7/13/07								66,859	21.07	798,350
Andrew C. Roberts	1/25/2007(2)	0	254,363	508,726							
	1/25/2007(3)	0	296,757	593,513							
	5/31/07							328,247			8,255,412
	6/14/07								72,944	22.68	940,489
	6/28/07								72,944	22.26	920,203
	7/13/07								72,943	21.07	870,998

(1) These columns show the potential value of the payout for each Named Executive Officer with respect to awards granted under the Annual Cash Incentive Plan, the Long Term Cash Incentive Plan and the E-Commerce Plan if the threshold, target or maximum goals under each plan are achieved. The potential payouts under the Annual Cash Incentive Plan and the Long Term Cash Incentive Plan are performance-driven and therefore at risk. These incentive plans are described above in the Compensation Discussion and Analysis section under NWA s Executive Compensation Programs.

(2) These awards were granted for 2007 under the Annual Cash Incentive Plan. The plan provides for different payout amounts based on Northwest s achievement of an income contribution target established by the Compensation Committee at the beginning of the year and an assessment of individual performance during the year, as well as achievement of a net profitability threshold for payouts in excess of target payout amounts. Target payout amounts are established as a percentage of the participant s annual salary. The amounts shown are based on the executives current annual salary levels; however, actual payouts will be based on the executives annual salaries in effect at the time of the payout.

(3) These awards were granted pursuant to the Long Term Cash Incentive Plan for the two year performance period beginning January 1, 2007. The plan provides for different payout amounts based on Northwest s rank among the companies in its industry peer group in average operating margin during the two

years included in the performance period and Northwest s achievement of a net profitability threshold in each year included in the performance period. The payouts are also contingent upon the participant maintaining a minimum

individual performance rating during the performance period. The amounts shown are based on the executives current annual salary levels; however, actual payouts will be based on the executives annual salaries in effect at the time of the payout.

(4) Amounts in this column represent restricted stock unit awards granted under the Northwest 2007 Stock Incentive Plan on May 31, 2007 in connection with Northwest s emergence from bankruptcy. The FAS123R grant date value of these awards is $25.15 per share.

(5) Amounts in this column represent stock options granted under the Northwest 2007 Stock Incentive Plan to the Named Executive Officers in 2007 in connection with Northwest s emergence from bankruptcy. The FAS123R grant date fair value of the stock option awards granted on June 14, 2007, June 28, 2007 and July 13, 2007 is $12.89 per share, $12.62 per share and $11.94 per share, respectively.

(6) The amounts shown in the table represent the grant date fair value of the awards granted to the Named Executive Officers. Based on the closing sales price of a share of common stock on May 13, 2008 ($8.55), the intrinsic value of the stock options granted to each of the Named Executive Officers in 2007 would be zero because the exercise price of each option was higher than such stock price and the value of the restricted stock unit awards granted to each of the Named Executive Officers in 2007 would be as follows: Mr. Steenland ($6,120,270), Mr. Cohen ($2,982,668), Mr. Davis ($2,111,397), Mr. Griffin ($2,572,404), and Mr. Roberts ($2,806,512).

(7) In November 2007, Northwest granted an award to Mr. Cohen pursuant to the E-Commerce Plan relating to equity investments by NWA in a number of e-commerce or internet-based businesses. Each Point represents, when vested, the right to receive a payment equal to 0.1% of the market value attributable to the group of investments for which the Points were awarded. The Points subject to the award vested on April 1, 2008. The amount shown represents the potential aggregate payout amount attributable to the disposition of NWA s investment in Orbitz, one of the e-commerce businesses covered by the award. In November 2004, NWA sold its shares of common stock of Orbitz to an indirect wholly owned subsidiary of Cendant Corporation in connection with a tender offer to purchase all of the outstanding shares of class A and class B common stock of Orbitz.

Management Compensation Agreements

NWA has entered into management compensation agreements with each of the Named Executive Officers. The agreements do not provide any minimum term of employment and the executive's employment under his agreement is terminable by either party for any reason upon 30 days written notice. The following description of these agreements does not include the modifications that were adopted in April 2008 in connection with Northwest s execution of the merger agreement with Delta. These modifications are described in the Compensation Discussion and Analysis section under the caption New Plans and Arrangements Adopted in Connection with Potential Merger.

The agreement with Mr. Steenland, which was entered into on September 14, 2005, provides that Mr. Steenland will receive a base salary and will participate in NWA s compensation and benefit plans. He is also entitled to lifetime positive space travel benefits on NWA s flights for the personal use of Mr. Steenland, his spouse, dependent children and other individuals designated by Mr. Steenland, specified life insurance benefits, coverage under NWA s medical and dental plans for the remainder of his and his spouse s lifetimes, and reimbursement for medical expenses not covered under NWA s medical plans. In addition, as stated above, NWA has agreed to provide Mr. Steenland under the SERP up to six additional years of service credit over the six year period commencing April 1, 2006, so long as he remains employed by NWA during such period or if his employment is terminated in specified circumstances.

On April 14, 2008, NWA entered into new management compensation agreements with Messrs. Cohen, Davis and Roberts. In general, the prior management compensation agreements entered into with these executives were updated to conform them to similar agreements entered into with other senior officers and, in the case of Messrs. Davis and Roberts, to reflect their promotions to executive vice president positions. In the case of Messrs. Cohen and Davis, their agreements were also updated to delete certain provisions that relate to benefits each executive received when he joined NWA and therefore are no longer applicable. The agreements with Messrs. Cohen, Davis, Griffin and Roberts entitle each executive to receive a base salary and to participate in NWA s compensation and benefit plans. Each of these executives is entitled, for the remainder of their lifetimes, to positive space travel benefits on NWA s flights and coverage under NWA s medical and dental plans following termination of employment, subject, in the case of Messrs. Cohen and Davis, to the executive remaining employed by NWA through a specified date or if the executive s employment is terminated prior to such date without cause or for good reason. In addition, in connection with his joining NWA in May 2005, NWA agreed to pay Mr. Cohen annual retention payments of $100,000 each on May 1 of each of five years beginning in 2006 so long as he continues to be employed by NWA on those dates.

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Under the management compensation agreements entered into with each of the Named Executive Officers, NWA has agreed to provide each executive with specified severance payments and benefits in the event the executive s employment is terminated under various circumstances. A description of the potential payments and benefits that each of the Named Executive Officers would be entitled to receive in these circumstances is included below under the caption Potential Payments upon Termination or Change in Control.

Outstanding Equity Awards at 2007 Fiscal Year-End

The following table summarizes the unexercised option awards and unvested stock awards to the Named Executive Officers that were outstanding as of December 31, 2007.

	Option Awards[1]					Stock Awards[2]			
Name	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable[1]	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Unearned Options (#)	Option Exercise Price ($)	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested (#)	Market Value of Shares or Units of Stock That Have Not Vested ($)	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested (#)	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested ($)
Douglas M. Steenland	35,346	123,725		22.68	6/13/17	556,765	8,078,660		
	35,346	123,725		22.26	6/27/17				
	35,346	123,726		21.07	7/12/17				
Neal S. Cohen	17,226	60,296		22.68	6/13/17	271,336	3,937,085		
	17,226	60,296		22.26	6/27/17				
	17,226	60,297		21.07	7/12/17				
David M. Davis	12,194	42,683		22.68	6/13/17	192,075	2,787,008		
	12,194	42,683		22.26	6/27/17				
	12,194	42,683		21.07	7/12/17				
J. Timothy Griffin	14,856	52,003		22.68	6/13/17	234,014	3,395,543		
	14,856	52,003		22.26	6/27/17				
	14,856	52,003		21.07	7/12/17				
Andrew C. Roberts	16,208	56,736		22.68	6/13/17	255,311	3,704,563		
	16,208	56,736		22.26	6/27/17				
	16,208	56,735		21.07	7/12/17				

(1) The stock options become exercisable in nine equal installments commencing on the grant date of each option (June 14, 2007, June 28, 2007 and July 13, 2007, respectively) and on each six month anniversary thereof.
(2) The restricted stock unit awards vest in nine equal installments commencing on the grant date of the awards (May 31, 2007) and on each six month anniversary thereof.

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Option Exercises and Stock Vested

The following table sets forth information regarding the value realized by the Named Executive Officers in connection with the exercise of stock options and the vesting of restricted stock units during 2007.

	Option Awards		Stock Awards	
Name	**Number of Shares Acquired on Exercise (#)**	**Value Realized on Exercise ($)**	**Number of Shares Acquired on Vesting (#)**	**Value Realized on Exercise ($)(1)**
Douglas M. Steenland			159,056	3,445,948(2)
Neal S. Cohen			77,514	1,679,341
David M. Davis			54,872	1,188,802
J. Timothy Griffin			66,852	1,448,349
Andrew C. Roberts			72,936	1,580,158

(1) These columns show the number and value of restricted stock units that vested on May 31, 2007 and November 30, 2007 at a value of $25.15 and $18.18 per share, respectively, which represent the closing sale price of a share of common stock on each vesting date.

(2) The amount for Mr. Steenland does not represent any cash payments to Mr. Steenland. Mr. Steenland has elected to hold the shares of common stock issued to him upon the vesting of his restricted stock award. As of , 2008, these shares had a value of $ based on the closing sales price of a share of common stock on such date ($).

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2007 Pension Benefits

The following table shows the present value of accumulated benefits at December 31, 2007 for the Named Executive Officers under the Salaried Pension Plan, the Excess Pension Plan and the SERP based on the assumptions described in note (2) below. These retirement plans are described in the Compensation Discussion and Analysis section under NWA s Executive Compensation Program Retirement Plans. All benefits under the Excess Pension Plan and the SERP are unfunded and are payable by NWA from its general assets.

Name	Plan Name	Number of Years Credited Service (#)[1]	Present Value of Accumulated Benefit ($)[2]	Payments During Last Fiscal Year ($)
Douglas M. Steenland	Pension Plan for Salaried Employees	14.1667	487,000	
	Excess Pension Plan for Salaried Employees	14.1667	1,266,000	
	Supplemental Executive Retirement Plan	30.9167	2,736,000	
Neal S. Cohen	Pension Plan for Salaried Employees	9.25	140,000	
	Excess Pension Plan for Salaried Employees	9.25	115,000	
	Supplemental Executive Retirement Plan	14.5833	487,000	
David M. Davis	Pension Plan for Salaried Employees	5.2500	28,000	
	Excess Pension Plan for Salaried Employees			
	Supplemental Executive Retirement Plan			
J. Timothy Griffin	Pension Plan for Salaried Employees	12.2500	427,000	
	Excess Pension Plan for Salaried Employees	12.2500	822,000	
	Supplemental Executive Retirement Plan	22.2500	1,025,000	
Andrew C. Roberts	Pension Plan for Salaried Employees	8.0000	160,000	
	Excess Pension Plan for Salaried Employees	8.0000	172,000	
	Supplemental Executive Retirement Plan	18.0000	502,000	

(1) For salaried employees hired by NWA on or before January 1, 2001 and for rehired employees who were previously employed by NWA on or before January 1, 2001, which includes all of the Named Executive Officers, the accumulated benefits under the Salaried Pension Plan are the greater of the benefits calculated under the final average earnings formula and those calculated under the cash balance formula. An employee may retire at the normal retirement age of 65 regardless of years of service with NWA, or may retire as early as age 55 with 10 years of service.

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The years of service credited under the Salaried Pension Plan and the Excess Pension Plan for each of the Named Executive Officers shown in the table above represent actual service with NWA through August 31, 2005, the date on which future benefit accruals under the Salaried Pension Plan and the Excess Pension Plan were frozen. As of December 31, 2007, each of the Named Executive Officers who participate in the SERP was credited under the SERP with continuing service plus the additional number of years of service shown in the table below. The present value of the benefit attributable to the additional years of service granted to each Named Executive Officer in the SERP is also shown in the table below.

Name	Number of Additional Credited Years of Service (#)	Present Value of Accumulated Benefit ($)
Douglas M. Steenland	16.75	2,502,000
Neal S. Cohen	5.33	487,000
J. Timothy Griffin	10	870,000
Andrew C. Roberts	10	448,000

(2) As discussed in the Compensation Discussion and Analysis section under NWA s Executive Compensation Retirement Benefits Frozen Defined Benefit Pension Plans , effective August 31, 2005, NWA amended the Salaried Pension Plan and the Excess Pension Plan to freeze future benefit accruals under those plans and amended the Retirement Savings Plan to provide for an employer contribution to participants accounts for service on and after September 1, 2005. Contributions to the Retirement Savings Plan for each of the Named Executive Officers in 2007 are included in the All Other Compensation column of the Summary Compensation Table.

An actuarial present value of the benefits is calculated by estimating expected future payments starting at an assumed retirement age, weighting the estimated payments by the estimated probability of surviving to each post-retirement age, and discounting the weighted payments at an assumed discount rate to reflect the time value of money. The actuarial present value represents an estimate of the amount which, if invested as of December 31, 2007 at the assumed discount rate, would be sufficient on an average basis to provide estimated future payments based on the current accumulated benefit. Estimated future payments are assumed to be in the form of a single lump-sum payment at retirement determined using interest rate and mortality table assumptions applicable under current Internal Revenue Service regulations for qualified pension plans. The assumed retirement age for each executive is the earliest age at which the executive could retire without any benefit reduction due to age. Actual benefit present values will vary from these estimates depending on many factors, including an executive s actual retirement age, final service, future compensation levels, interest rate movements and regulatory changes. The assumptions on which the present values of accumulated benefits shown in the 2007 Pension Benefits Table above are based are those used in determining the annual pension benefit obligation in Northwest s consolidated financial statements and are summarized in the table below. These assumptions were also used to determine the change in pension value included in the Summary Compensation Table.

Pension Plan Assumptions

Assumptions as of	12/31/07	12/31/06			
Discount Rate:					
Salaried Pension Plan	6.21%	5.93%			
Excess Pension Plan	6.15%	5.93%			
SERP	5.80%	5.93%			
Cash balance interest crediting rate	5%	6%			
Basis for conversion of final average earnings annuities to lump sum amounts	5%, PPA Mortality	6%, 1994 GAR Unisex			
Assumed Retirement Date:					
Salaried Pension Plan	Total		$1,839,852	$1,830,155	1.56 %

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Note 3. Farmer Mac Guaranteed Securities and USDA Guaranteed Securities

The following table sets forth information about on-balance sheet Farmer Mac Guaranteed Securities and USDA Guaranteed Securities as of September 30, 2011 and December 31, 2010.

	September 30, 2011		
	Available-for-Sale	Trading	Total
		(in thousands)	
Farmer Mac I	$ 2,815,467	$ -	$ 2,815,467
Farmer Mac II	36,599	-	36,599
Rural Utilities	1,447,934	-	1,447,934
Farmer Mac Guaranteed Securities	4,300,000	-	4,300,000
USDA Guaranteed Securities	1,193,015	233,383	1,426,398
Total	$ 5,493,015	$ 233,383	$ 5,726,398
Amortized cost	$ 5,357,804	$ 235,572	$ 5,593,376
Unrealized gains	135,418	1,483	136,901
Unrealized losses	(207)	(3,672)	(3,879)
Fair value	$ 5,493,015	$ 233,383	$ 5,726,398

	December 31, 2010		
	Available-for-Sale	Trading	Total
		(in thousands)	
Farmer Mac I	$ 942,809	$ -	$ 942,809
Farmer Mac II	37,637	-	37,637
Rural Utilities	1,926,818	-	1,926,818
Farmer Mac Guaranteed Securities	2,907,264	-	2,907,264
USDA Guaranteed Securities	1,005,679	311,765	1,317,444
Total	$ 3,912,943	$ 311,765	$ 4,224,708
Amortized cost	$ 3,880,418	$ 315,655	$ 4,196,073
Unrealized gains	50,583	106	50,689
Unrealized losses	(18,058)	(3,996)	(22,054)
Fair value	$ 3,912,943	$ 311,765	$ 4,224,708

The temporary unrealized losses presented above are principally due to wider spreads on mortgage securities and changes in interest rates from the date of acquisition to September 30, 2011 and December 31, 2010, as applicable. As of September 30, 2011, the unrealized losses presented above are related to Farmer Mac II Guaranteed Securities and USDA Guaranteed Securities. As of December 31, 2010, the unrealized losses presented above are related to Farmer Mac I, Farmer Mac II Guaranteed Securities and USDA Guaranteed Securities. USDA Guaranteed Securities and the USDA-guaranteed portions underlying Farmer Mac II Guaranteed Securities are backed by the full faith and credit of the United States. Farmer Mac has concluded that none of the unrealized losses on its available-for-sale Farmer Mac Guaranteed Securities and USDA Guaranteed Securities represent other-than-temporary impairment as of September 30, 2011 and December 31, 2010. Farmer Mac does not intend to sell these securities and it is not more likely than not that Farmer Mac will be required to sell the securities before recovery of the amortized cost basis.

On January 25, 2010, Farmer Mac contributed substantially all of the assets comprising the Farmer Mac II program, in excess of $1.1 billion, to Farmer Mac's subsidiary, Farmer Mac II LLC. The assets that Farmer Mac contributed to Farmer Mac II LLC consisted primarily of USDA-guaranteed portions that had not been securitized by Farmer Mac (i.e., not transferred to a trust from which Farmer Mac II Guaranteed Securities were issued) but also included $35.0 million of Farmer Mac II Guaranteed Securities. Other than the guarantee already in place on the transferred Farmer Mac II Guaranteed Securities, Farmer Mac did not guarantee the timely payment of principal and interest on the $1.1 billion of contributed USDA-guaranteed portions. The contributed USDA-guaranteed portions had previously been presented as Farmer Mac II Guaranteed Securities on the condensed consolidated financial statements of Farmer Mac and are now presented as "USDA Guaranteed Securities" on the condensed consolidated balance sheets. The assets of Farmer Mac II LLC will only be available to creditors of Farmer Mac after all obligations owed to creditors of and equity holders in Farmer Mac II LLC have been satisfied.

Farmer Mac realized no gains or losses from the sale of Farmer Mac Guaranteed Securities and USDA Guaranteed Securities for the three and nine months ended September 30, 2011 and 2010.

The table below presents a sensitivity analysis for the Corporation's on-balance sheet Farmer Mac Guaranteed Securities and USDA Guaranteed Securities as of September 30, 2011 and December 31, 2010.

	September 30, 2011	December 31, 2010
	(dollars in thousands)	
Fair value of beneficial interests retained in Farmer Mac Guaranteed Securities and USDA Guaranteed Securities	$ 5,726,398	$ 4,224,708
Weighted-average remaining life (in years)	3.7	3.5
Weighted-average prepayment speed (annual rate)	3.2 %	3.5 %
Effect on fair value of a 10% adverse change	$ (1,112)	$ (18)
Effect on fair value of a 20% adverse change	$ (2,135)	$ (17)
Weighted-average discount rate	2.3 %	2.3 %
Effect on fair value of a 10% adverse change	$ (36,114)	$ (20,257)
Effect on fair value of a 20% adverse change	$ (72,098)	$ (40,315)

These sensitivities are hypothetical. Changes in fair value based on 10 percent or 20 percent variations in assumptions generally cannot be extrapolated because the relationship of the change in assumptions to the change in fair value may not be linear. Also, the effect of a variation in a particular assumption on the fair values is calculated without changing any other assumption. In fact, changes in one factor may result in changes in another (for example, increases in market interest rates may result in lower prepayments), which might amplify or counteract the sensitivities.

Farmer Mac securitizes three types of assets: agricultural real estate mortgage loans, USDA-guaranteed portions, and rural utilities loans. Farmer Mac manages the credit risk of its securitized loans, both on- and off-balance sheet, together with its on-balance sheet loans and the loans underlying its off-balance sheet LTSPCs.

As part of fulfilling its guarantee obligations for Farmer Mac Guaranteed Securities and commitments to purchase eligible loans underlying LTSPCs, Farmer Mac purchases defaulted loans, all of which are at least 90 days delinquent at the time of purchase, out of the loan pools underlying those securities and LTSPCs, and records the purchased loans as such on its balance sheet.

The table below presents the outstanding principal balances for Farmer Mac loans, LTSPCs, Farmer Mac Guaranteed Securities and USDA Guaranteed Securities as of September 30, 2011 and December 31, 2010.

Outstanding Balance of Loans, Loans Underlying Farmer Mac Guaranteed Securities and LTSPCs, and USDA Guaranteed Securities

	September 30, 2011	December 31, 2010
	(in thousands)	
On-balance sheet:		
Farmer Mac I:		
Loans	$ 1,192,486	$ 972,206
Loans held in trusts:		
Beneficial interests owned by Farmer Mac	236	3,697
Beneficial interests owned by third party investors	712,690	821,411
Farmer Mac Guaranteed Securities - AgVantage	2,741,000	941,500
Farmer Mac II:		
USDA Guaranteed Securities	1,380,836	1,297,439
Farmer Mac Guaranteed Securities	36,316	39,856
Rural Utilities:		
Loans	474,220	339,963
Loans held in trusts:		
Beneficial interests owned by Farmer Mac	386,800	400,228
Farmer Mac Guaranteed Securities - AgVantage	1,410,800	1,887,200
Total on-balance sheet	$ 8,335,384	$ 6,703,500
Off-balance sheet:		
Farmer Mac I:		
Farmer Mac Guaranteed Securities - AgVantage	$ 970,000	$ 2,945,000
LTSPCs	1,811,280	1,754,597
Farmer Mac Guaranteed Securities	660,673	750,217
Farmer Mac II:		
Farmer Mac Guaranteed Securities	45,977	48,103
Rural Utilities:		
Farmer Mac Guaranteed Securities - AgVantage	18,079	15,292
Total off-balance sheet	$ 3,506,009	$ 5,513,209
Total	$ 11,841,393	$ 12,216,709

When particular criteria are met, such as the default of the borrower, Farmer Mac becomes entitled to purchase the defaulted loans underlying Farmer Mac Guaranteed Securities (commonly referred to as “removal-of-account” provisions). Farmer Mac records all such defaulted loans at their unpaid principal balance during the period in which Farmer Mac becomes entitled to purchase the loans and therefore gains effective control over the transferred loans. Subsequent to the purchase, such defaulted loans are treated as nonaccrual loans and, therefore, interest is accounted for on the cash basis. Any decreases in expected cash flows are recognized as impairment.

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The following table presents information related to Farmer Mac's acquisition of defaulted loans for the three and nine months ended September 30, 2011 and 2010 and the outstanding balances and carrying amounts of all such loans as of September 30, 2011 and December 31, 2010, respectively.

	For the Three Months Ended		For the Nine Months Ended	
	September 30, 2011	September 30, 2010	September 30, 2011	September 30, 2010
	(in thousands)			
Unpaid principal balance at acquisition date	$2,921	$ 1,914	$ 21,266	$ 5,317
Contractually required payments receivable	2,922	1,965	21,314	5,435
Impairment recognized subsequent to acquisition	42	376	3,812	2,116
Recovery/release of allowance for defaulted loans	5	10	19	2,934

	September 30, 2011	December 31, 2010
	(in thousands)	
Outstanding balance	$38,641	$ 34,473
Carrying amount	30,816	30,365

Net credit losses and 90-day delinquencies as of and for the periods indicated for loans held and loans underlying Farmer Mac I Guaranteed Securities and LTSPCs are presented in the table below. Information is not presented for loans underlying AgVantage securities, USDA Guaranteed Securities, Farmer Mac II Guaranteed Securities, or rural utilities loans held or underlying Farmer Mac Guaranteed Securities – Rural Utilities. Each AgVantage security is a general obligation of an issuing institution approved by Farmer Mac and is secured by eligible loans in an amount at least equal to the outstanding principal amount of the security. Farmer Mac excludes the loans that secure AgVantage securities from the credit risk metrics it discloses because of the credit quality of the issuing institutions, the collateralization level for the securities, and because delinquent loans are required to be removed from the pool of pledged loans and replaced with current eligible loans. As of September 30, 2011, there were no probable losses inherent in Farmer Mac's AgVantage securities due to the credit quality of the obligors, as well as the underlying collateral. As of September 30, 2011, Farmer Mac had not experienced any credit losses on any AgVantage securities. The USDA-guaranteed portions presented as USDA Guaranteed Securities, as well as those that collateralize Farmer Mac II Guaranteed Securities, are guaranteed by the USDA. Each USDA guarantee is an obligation backed by the full faith and credit of the United States. As of September 30, 2011, neither Farmer Mac nor Farmer Mac II LLC had experienced any credit losses on any USDA Guaranteed Securities or Farmer Mac II Guaranteed Securities. As of September 30, 2011, there were no delinquencies and no probable losses inherent in Farmer Mac's rural utilities loans held or in any Farmer Mac Guaranteed Securities – Rural Utilities. As of September 30, 2011 and 2010, Farmer Mac had not experienced any credit losses on any of those loans or securities.

	90-Day Delinquencies (1)			Net Credit Losses/(Recoveries) For the Nine Months Ended	
	As of September 30, 2011	As of December 31, 2010	As of September 30, 2010	September 30, 2011	September 30, 2010
			(in thousands)		
On-balance sheet assets:					
Farmer Mac I:					
Loans	$35,860	$ 37,665	$ 40,846	$ 334	$ (275)
Total on-balance sheet	$35,860	$ 37,665	$ 40,846	$ 334	$ (275)
Off-balance sheet assets:					
Farmer Mac I:					
LTSPCs	$8,988	$ 32,583	$ 23,954	$ -	$ -
Total off-balance sheet	$8,988	$ 32,583	$ 23,954	$ -	$ -
Total	$44,848	$ 70,248	$ 64,800	$ 334	$ (275)

(1) Includes Farmer Mac I loans held and loans underlying Farmer Mac I Guaranteed Securities and LTSPCs that are 90 days or more past due, in foreclosure, restructured after delinquency, and in bankruptcy, excluding loans performing under either their original loan terms or a court-approved bankruptcy plan.

Note 4. Comprehensive Income

Comprehensive income represents all changes in stockholders' equity except those resulting from investments by or distributions to stockholders, and is comprised primarily of net income and unrealized gains and losses on securities available-for-sale, net of related taxes.

The following table sets forth Farmer Mac's comprehensive income for the three and nine months ended September 30, 2011 and 2010:

	For the Three Months Ended		For the Nine Months Ended	
	September 30, 2011	September 30, 2010	September 30, 2011	September 30, 2010
	(in thousands)			
Net (loss)/income	$(16,766)	$ 12,263	$ 19,261	$ 33,942
Available-for-sale securities, net of tax:				
Net unrealized holding gains	49,661	15,852	70,573	44,206
Reclassification adjustment for realized gains (1)	(383)	(15)	(3,133)	(206)
Net change from available-for-sale securities (2)	49,278	15,837	67,440	44,000
Financial derivatives, net of tax:				
Reclassification for amortization of financial derivatives transition adjustment (3)	-	26	-	78
Other comprehensive income, net of tax	49,278	15,863	67,440	44,078
Comprehensive income	32,512	28,126	86,701	78,020
Less: Comprehensive income attributable to non-controlling interest	5,547	5,546	16,641	15,160
Total comprehensive income	$26,965	$ 22,580	$ 70,060	$ 62,860

(1) Includes the reclassification of deferred gains recognized on certain Farmer Mac II Guaranteed Securities and USDA Guaranteed Securities of $0.3 million and $3.0 million, after tax, for the three and nine months ended September 30, 2011, respectively.

(2) Unrealized gains on available for sale securities are shown net of income tax expense of $26.5 million and $8.5 million for the three months ended September 30, 2011 and 2010, respectively, and $36.3 million and $23.7 million for the nine months ended September 30, 2011 and 2010, respectively.

(3) Amortization of the financial derivatives transition adjustment is shown net of income tax expense of $14,000 and $42,000 for the three and nine months ended September 30, 2010, respectively.

During the three and nine months ended September 30, 2011, Farmer Mac reclassified $0.3 million and $3.0 million (of a total $7.0 million), respectively, of after-tax unrealized gains into earnings related to fair value changes of Farmer Mac II Guaranteed Securities and USDA Guaranteed Securities designated as available-for-sale that were transferred to Farmer Mac II LLC in January 2010. Included in these reclassifications are amortization amounts of $1.8 million that relate to prior periods, beginning with first quarter 2010. These gains are presented as "Other income" on the condensed consolidated statements of operations. Farmer Mac will recognize in earnings the remainder of these deferred gains over the estimated remaining lives of the underlying USDA-guaranteed portions. There will, however, be no net effect on income on a consolidated basis because these gains will be offset by the amortization of premium expense on the assets held by Farmer Mac II LLC.

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The following table presents Farmer Mac's accumulated other comprehensive income as of September 30, 2011 and December 31, 2010 and changes in the components of accumulated other comprehensive income for the nine months ended September 30, 2011 and the year ended December 31, 2010.

	September 30, 2011	December 31, 2010
	(in thousands)	
Available-for-sale securities:		
Beginning balance	$18,275	$ 3,300
Net unrealized gains, net of tax	67,440	14,975
Ending balance	$85,715	$ 18,275
Financial derivatives:		
Beginning balance	$-	$ (46)
Amortization of financial derivatives transition adjustment, net of tax	-	46
Ending balance	$-	$ -
Accumulated other comprehensive income, net of tax	$85,715	$ 18,275

Note 5. Off-Balance Sheet Guarantees and Long Term Standby Purchase Commitments

Farmer Mac offers approved lenders two credit enhancement alternatives to increase their liquidity or lending capacity while retaining the cash flow benefits of their loans: (1) Farmer Mac Guaranteed Securities, which are available through the Farmer Mac I program, the Farmer Mac II program or the Rural Utilities program, and (2) LTSPCs, which are available through the Farmer Mac I program or the Rural Utilities program. For securitization trusts where Farmer Mac is the primary beneficiary, as described in Note 1(g), the trust assets and liabilities are included on Farmer Mac's condensed consolidated balance sheet. Upon consolidation, Farmer Mac eliminates the portion of the guarantee and commitment fees receivable and guarantee and commitment obligations related to the consolidated trusts. For the remainder of these transactions, or in the event of deconsolidation, both of these alternatives result in the creation of off-balance sheet obligations for Farmer Mac. Farmer Mac accounts for these transactions and other financial guarantees in accordance with accounting guidance on accounting for guarantees. Farmer Mac records, at the inception of a guarantee, a liability for the fair value of its obligation to stand ready to perform under the terms of each guarantee and an asset that is equal to the fair value of the fees that will be received over the life of each guarantee. The fair values of the guarantee obligation and asset at inception are based on the present value of expected cash flows using management's best estimate of certain key assumptions, which include prepayment speeds, forward yield curves and discount rates commensurate with the risks involved. Because the cash flows of these instruments may be interest rate path dependent, these values and projected discount rates are derived using a Monte Carlo simulation model. The guarantee obligation and corresponding asset are subsequently amortized into guarantee and commitment fee income in relation to the decline in the unpaid principal balance on the underlying agricultural real estate mortgage and rural utilities loans.

Off-Balance Sheet Farmer Mac Guaranteed Securities

Eligible loans and other eligible assets may be placed into trusts that are used as vehicles for the securitization of the transferred assets and the Farmer Mac-guaranteed beneficial interests in the trusts are sold to investors. Proceeds from new securitizations during the nine months ended September 30, 2011 and 2010 were $13.9 million and $18.9 million, respectively. The following table summarizes cash flows received from and paid to trusts used for Farmer Mac securitizations:

	For the Nine Months Ended	
	September 30, 2011	September 30, 2010
	(in thousands)	
Proceeds from new securitizations	$ 13,869	$ 18,860
Guarantee fees received	6,042	5,610
Purchases of assets from the trusts	(7,292)	(3,456)
Servicing advances	(28)	(14)
Repayments of servicing advances	24	22

The following table presents the maximum principal amount of potential undiscounted future payments that Farmer Mac could be required to make under all off-balance sheet Farmer Mac Guaranteed Securities as of September 30, 2011 and December 31, 2010, not including offsets provided by any recourse provisions, recoveries from third parties or collateral for the underlying loans.

Outstanding Balance of Off-Balance Sheet Farmer Mac Guaranteed Securities

	September 30, 2011	December 31, 2010
	(in thousands)	
Farmer Mac I:		
Farmer Mac Guaranteed Securities - AgVantage	$ 970,000	$ 2,945,000
Farmer Mac Guaranteed Securities	660,673	750,217
Farmer Mac II:		
Farmer Mac Guaranteed Securities	45,977	48,103
Rural Utilities:		
Farmer Mac Guaranteed Securities - AgVantage	18,079	15,292
Total off-balance sheet Farmer Mac Guaranteed Securities	$ 1,694,729	$ 3,758,612

For those securities issued or modified on or after January 1, 2003, Farmer Mac has recorded a liability for its obligation to stand ready under the guarantee in the guarantee and commitment obligation on the condensed consolidated balance sheet. This liability approximated $12.8 million as of September 30, 2011 and $17.7 million as of December 31, 2010. Upon adoption of the accounting guidance on consolidation on January 1, 2010, Farmer Mac eliminated $15.5 million of the guarantee and commitment obligation related to the consolidated trusts. During second quarter 2010, Farmer Mac deconsolidated $414.5 million of certain securitization trusts created when loans subject to LTSPCs were converted to Farmer Mac I Guaranteed Securities because Farmer Mac was no longer determined to be the primary beneficiary when the counterparty to the transaction ceased being a related party as a

result of changes to the membership of Farmer Mac's board of directors. This deconsolidation resulted in an increase to the guarantee and commitment obligation of $2.7 million as of June 30, 2010. See Note 1(g) for more information. As of September 30, 2011, the weighted-average remaining maturity of all loans underlying off-balance sheet Farmer Mac Guaranteed Securities, excluding AgVantage securities, was 13.5 years. As of September 30, 2011, the weighted-average remaining maturity of the off-balance sheet AgVantage securities was 5.7 years. For information on Farmer Mac's methodology for determining the reserve for losses on off-balance sheet Farmer Mac Guaranteed Securities, see Note 1(b).

LTSPCs

An LTSPC is a commitment by Farmer Mac to purchase eligible loans from a segregated pool of loans under enumerated circumstances, either for cash or in exchange for Farmer Mac Guaranteed Securities, on one or more undetermined future dates. As consideration for its assumption of the credit risk on loans underlying an LTSPC, Farmer Mac receives a commitment fee payable monthly in arrears in an amount approximating what would have been the guarantee fee if the transaction were structured as Farmer Mac Guaranteed Securities.

The maximum principal amount of potential undiscounted future payments that Farmer Mac could be requested to make under all LTSPCs, not including offsets provided by any recourse provisions, recoveries from third parties or collateral for the underlying loans, was $1.8 billion as of September 30, 2011 and December 31, 2010.

As of September 30, 2011, the weighted-average remaining maturity of all loans underlying LTSPCs was 13.4 years. For those LTSPCs issued or modified on or after January 1, 2003, Farmer Mac has recorded a liability for its obligation to stand ready under the commitment in the guarantee and commitment obligation on the condensed consolidated balance sheet. This liability approximated $14.1 million as of September 30, 2011 and $12.6 million as of December 31, 2010.

Note 6. Equity

Common Stock

Farmer Mac has three classes of common stock outstanding:

- Class A voting common stock, which may be held only by banks, insurance companies and other financial institutions or similar entities that are not institutions of the Farm Credit System. By federal statute, no holder of Class A voting common stock may directly or indirectly be a beneficial owner of more than 33 percent of the outstanding shares of that class of stock;
- Class B voting common stock, which may be held only by institutions of the Farm Credit System. There are no restrictions on the maximum holdings of Class B voting common stock; and
- Class C non-voting common stock, which has no ownership restrictions.

From first quarter 2009 through third quarter 2011, Farmer Mac paid a quarterly dividend of $0.05 per share on all classes of the Corporation's common stock. Farmer Mac's ability to declare and pay a dividend could be restricted if it failed to comply with regulatory capital requirements.

Preferred Stock

As of September 30, 2011 and December 31, 2010, Farmer Mac had 57,578 shares of Series C preferred stock outstanding. The Series C preferred stock is a component of Stockholders' Equity on the condensed consolidated balance sheets. The 57,578 shares of Series C preferred stock outstanding as of September 30, 2011 and December 31, 2010, were all held by National Rural Utilities Cooperative Finance Corporation ("CFC"), a related party.

Farmer Mac's ability to declare and pay dividends on its outstanding preferred stock could be restricted if it failed to comply with regulatory capital requirements. All series of Farmer Mac's preferred stock are included as components of core capital for regulatory and statutory capital compliance measurements.

Non-Controlling Interest in Farmer Mac II LLC

On January 25, 2010, Farmer Mac completed a private offering of $250.0 million of securities issued by a newly formed Delaware statutory trust. The trust securities represent undivided beneficial ownership interests in 250,000 shares of non-cumulative perpetual preferred stock (the "Farmer Mac II LLC Preferred Stock") of Farmer Mac's subsidiary, Farmer Mac II LLC, a Delaware limited liability company. The Farmer Mac II LLC Preferred Stock has a liquidation preference of $1,000 per share.

Dividends on the Farmer Mac II LLC Preferred Stock will be payable if, when and as declared by Farmer Mac II LLC's board of directors, quarterly, on a non-cumulative basis, on March 30, June 30, September 30, and December 30 of each year. For each quarterly period from the date of issuance to but excluding the payment date occurring on March 30, 2015, the dividend rate on the Farmer Mac II LLC Preferred Stock will be 8.875 percent per annum. For each quarterly period from March 30, 2015 to but excluding the payment date occurring on March 30, 2020, the dividend rate on the Farmer Mac II LLC Preferred Stock will be 10.875 percent per annum. For each quarterly period beginning on March 30, 2020, the dividend rate on the Farmer Mac II LLC Preferred Stock will be an annual rate equal to three-month LIBOR plus 8.211 percent. Dividends on the Farmer Mac II LLC Preferred Stock will be non-cumulative, so dividends that are not declared for a payment date will not accrue. The Farmer Mac II LLC Preferred Stock is permanent equity of Farmer Mac II LLC and is presented as "Non-controlling interest – preferred stock" within permanent equity on the condensed consolidated balance sheets of Farmer Mac. Farmer Mac II LLC incurred $8.1 million of direct costs related to the issuance of the Farmer Mac II LLC Preferred Stock, which reduced the amount of non-controlling interest – preferred stock. The accrual of declared dividends is presented as "Net income attributable to non-controlling interest – preferred stock dividends" on the condensed consolidated statements of operations on a pre-tax basis. The consolidated tax benefit is included in income tax expense.

Farmer Mac used part of the proceeds from the sale of $250.0 million of the Farmer Mac II LLC Preferred Stock to repurchase and retire all $150.0 million of the outstanding Series B Preferred Stock, which was newly issued during 2008 and reported as Mezzanine Equity on the condensed consolidated balance sheets.

Statutory and Regulatory Capital Requirements

Farmer Mac is subject to, and as of September 30, 2011 was in compliance with, its three statutory and regulatory capital requirements:

- Minimum capital – Farmer Mac's minimum capital level is equal to the sum of 2.75 percent of Farmer Mac's aggregate on-balance sheet assets, as calculated for regulatory purposes, plus 0.75 percent of the aggregate off-balance sheet obligations of Farmer Mac, including Farmer Mac Guaranteed Securities and LTSPCs;
- Critical capital – Farmer Mac's critical capital level is equal to 50 percent of the minimum capital requirement at that time; and
- Risk-based capital – the Farm Credit Administration ("FCA") has established a risk-based capital stress test for Farmer Mac.

As of September 30, 2011, Farmer Mac's minimum and critical capital requirements were $336.6 million and $168.3 million, respectively, and Farmer Mac's core capital level (common and preferred stock outstanding plus non-controlling interest – preferred stock, additional paid-in-capital and retained earnings) was $461.3 million, $124.7 million above the minimum capital requirement and $293.0 million above the critical capital requirement. As of December 31, 2010, Farmer Mac's minimum and critical capital requirements were $301.0 million and $150.5 million, respectively, and its actual core capital level was $460.6 million, $159.6 million above the minimum capital requirement and $310.1 million above the critical capital requirement.

Based on the new risk-based capital stress test that became effective in second quarter 2011, Farmer Mac's risk-based capital requirement as of September 30, 2011 was $110.9 million and Farmer Mac's regulatory capital (core capital plus the allowance for losses) of $479.0 million exceeded that requirement by approximately $368.1 million. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Regulatory Matters" for more information about changes to the risk-based capital stress test applicable to Farmer Mac.

Note 7. Fair Value Disclosure

Fair Value Measurement

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (also referred to as an exit price).

In determining fair value, Farmer Mac uses various valuation approaches, including market, income and/or cost approaches. The fair value hierarchy requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. When available, the fair value of Farmer Mac's financial instruments is based on quoted market prices, valuation techniques that use observable market-based inputs or unobservable inputs that are corroborated by market data. Pricing information obtained from third parties is internally validated for reasonableness prior to use in the condensed consolidated financial statements.

When observable market prices are not readily available, Farmer Mac estimates fair value using techniques that rely on alternate market data or internally-developed models using significant inputs that are generally less readily observable. Market data includes prices of financial instruments with similar maturities and characteristics, interest rate yield curves, measures of volatility and prepayment rates. If market data needed to estimate fair value is not available, Farmer Mac estimates fair value using internally-developed models that employ a discounted cash flow approach. Even when market assumptions are not readily available, Farmer Mac's assumptions reflect those that market participants would likely use in pricing the asset or liability at the measurement date.

The fair value hierarchy ranks the quality and reliability of the information used to determine fair values. The hierarchy gives highest priority to unadjusted quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The standard describes the following three levels used to classify fair value measurements:

Level 1 Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.

Level 2 Quoted prices in markets that are not active or financial instruments for which all significant inputs are observable, either directly or indirectly.

Level 3 Prices or valuations that require unobservable inputs that are significant to the fair value measurement.

Farmer Mac performs a detailed analysis of the assets and liabilities carried at fair value to determine the appropriate level based on the transparency of the inputs used in the valuation techniques. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, an instrument's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. Farmer Mac's assessment of the significance of a particular input to the fair value measurement of an instrument requires judgment and consideration of factors specific to the instrument. While Farmer Mac believes its valuation methods are appropriate and consistent with those of other market participants, using different methodologies or assumptions to determine fair value could result in a materially different estimate of the fair value of some financial instruments.

The following is a description of the fair value techniques used for instruments measured at fair value as well as the general classification of such instruments pursuant to the valuation hierarchy described above. Fair value measurements related to financial instruments that are reported at fair value in the consolidated financial statements each period are referred to as recurring fair value measurements. Fair value measurements related to financial instruments that are not reported at fair value each period but are subject to fair value adjustments in certain circumstances are referred to as non-recurring fair value measurements.

Recurring Fair Value Measurements and Classification

Available-for-Sale and Trading Investment Securities

The fair value of investments in U.S. Treasuries is based on unadjusted quoted prices in active markets. Farmer Mac classifies these fair value measurements as level 1.

For a significant portion of Farmer Mac's investment portfolio, including most asset-backed securities, corporate debt securities, senior agency debt securities, Government/GSE guaranteed mortgage-backed securities and preferred stock issued by GSEs, fair value is primarily determined using a reputable and nationally recognized third party pricing service. The prices obtained are non-binding and generally representative of recent market trades. The fair value of certain asset-backed and Government guaranteed mortgage-backed securities are estimated based on quotations from brokers or dealers. Farmer Mac corroborates its primary valuation source by obtaining a secondary price from another independent third party pricing service. Farmer Mac classifies these fair value measurements as level 2.

For investment securities that are thinly traded or not quoted, Farmer Mac estimates fair value using internally-developed models that employ a discounted cash flow approach. Farmer Mac maximizes the use of observable market data, including prices of financial instruments with similar maturities and characteristics, interest rate yield curves, measures of volatility and prepayment rates. Farmer Mac generally considers a market to be thinly traded or not quoted if the following conditions exist: (1) there are few transactions for the financial instruments; (2) the prices in the market are not current; (3) the price quotes vary significantly either over time or among independent pricing services or dealers; or (4) there is a limited availability of public market information. Farmer Mac classifies these fair value measurements as level 3.

Farmer Mac classifies its estimates of fair value for auction-rate certificates ("ARCs") as level 3 measurements. Farmer Mac uses unadjusted quotes from a broker specializing in these types of securities to determine the estimated fair value of these investments as of each quarter end. Farmer Mac believes these quotes are the best indication of fair value as of the measurement date, although there is uncertainty regarding the ability to transact at such levels. Considering (1) there is no active secondary market for these securities, although limited observable transactions do occasionally occur, (2) price quotes vary significantly among dealers or independent pricing services, if provided at all, and (3) there is little transparency in the price determination, Farmer Mac believes these measurements are appropriately classified as level 3.

Net transfers in and/or out of the different levels within the fair value hierarchy are based on the fair values of the assets as of the beginning of the quarterly reporting period. Farmer Mac made no transfers within the fair value hierarchy for the fair value measurements of its investment securities during the three months ended September 30, 2011 and 2010 and during the first nine months of 2011. During the first nine months of 2010, Farmer Mac transferred its investments in the subordinated debt and preferred stock of CoBank, ACB and its investment in the preferred stock of AgFirst Farm Credit Bank, with par values of $70.0 million, $88.5 million and $88.0 million, respectively, as of December 31, 2009, from level 3 measurements to level 2 measurements. Taking into consideration its own recently executed trades during first quarter 2010, along with an increase in observable trading activity for these securities, Farmer Mac determined that the best estimates of fair value for these securities as of March 31, 2010 and continuing through September 30, 2011, were the fair values provided by an independent third party pricing service. Farmer Mac transferred these securities out of level 3 based on their fair values as of the beginning of the first quarter 2010.

Available-for-Sale and Trading Farmer Mac Guaranteed Securities and USDA Guaranteed Securities

Farmer Mac estimates the fair value of its Farmer Mac Guaranteed Securities and USDA Guaranteed Securities by discounting the projected cash flows of these instruments at projected interest rates. The fair values are based on the present value of expected cash flows using management's best estimate of certain key assumptions, which include prepayment speeds, forward yield curves and discount rates commensurate with the risks involved. Farmer Mac classifies these measurements as level 3 because there is limited market activity and therefore little or no price transparency. On a sample basis, Farmer Mac corroborates the fair value of its Farmer Mac Guaranteed Securities and USDA Guaranteed Securities by obtaining a secondary valuation from an independent third party service.

Farmer Mac made no transfers within the fair value hierarchy for the fair value measurements of Farmer Mac Guaranteed Securities and USDA Guaranteed Securities for the three months ended September 30, 2011 and 2010 and during the first nine months of 2011. Transfers out of level 3 for the first nine months of 2010 resulted from the consolidation of certain trusts whereby the underlying assets were no longer reported at fair value on a recurring basis. Transfers out of level 3 were based on the fair values of the assets as of the beginning of the quarterly reporting period and are described in more detail below.

Upon the adoption of the accounting guidance on consolidation on January 1, 2010, Farmer Mac was deemed to be the primary beneficiary of certain VIEs where Farmer Mac held beneficial interests in trusts used as vehicles for the securitization of agricultural real estate mortgage loans or rural utilities loans. Prior to 2010, Farmer Mac presented these beneficial interests as "Farmer Mac Guaranteed Securities" on the condensed consolidated balance sheet and reported them at their fair value. Upon consolidation, Farmer Mac transferred these assets from "Farmer Mac Guaranteed Securities" to "Loans held for investment in consolidated trusts." These loans are reported at their amortized cost and are no longer included in recurring fair value measurements. Farmer Mac transferred these securities out of level 3 based on their fair values as of the beginning of the first quarter 2010.

Financial Derivatives

The fair value of exchange-traded U.S. Treasury futures is based on unadjusted quoted prices for identical financial instruments. Farmer Mac classifies these fair value measurements as level 1.

Farmer Mac's derivative portfolio consists primarily of interest rate swaps, credit default swaps and forward sales contracts on the debt of other GSEs. Farmer Mac estimates the fair value of these financial instruments based upon the counterparty valuations. Farmer Mac internally values its derivative portfolio using a discounted cash flow valuation technique and obtains a secondary valuation for certain interest rate swaps to corroborate the counterparty valuations. Farmer Mac also regularly reviews the counterparty valuations as part of the collateral exchange process. Farmer Mac classifies these fair value measurements as level 2.

Certain basis swaps are nonstandard interest rate swap structures and are therefore internally modeled using significant assumptions and unobservable inputs, resulting in level 3 classification. Farmer Mac uses a discounted cash flow valuation technique, using management's best estimate of certain key assumptions, which include prepayment speeds, forward yield curves and discounted rates commensurate with the risks involved.

As of September 30, 2011 and December 31, 2010, the consideration of credit risk related to both Farmer Mac and the counterparties resulted in an adjustment to the valuations of Farmer Mac's derivative portfolio of $0.7 million and $(0.4) million, respectively. See Note 1(c) for further information regarding Farmer Mac's derivative portfolio.

Nonrecurring Fair Value Measurements and Classification

Loans Held for Sale

Loans held for sale are reported at the lower of cost or fair value in the condensed consolidated balance sheets. Farmer Mac internally models the fair value of loans by discounting the projected cash flows of these instruments at projected interest rates. The fair values are based on the present value of expected cash flows using management's best estimate of certain key assumptions, which include prepayment speeds, forward yield curves and discount rates commensurate with the risks involved. The fair values of these instruments are classified as level 3 measurements. As of September 30, 2011, Farmer Mac had recorded no adjustment to report loans held for sale at the lower of cost or fair value. As of December 31, 2010, Farmer Mac recorded an adjustment of $8.7 million to report loans held for sale at the lower of cost or fair value.

Loans Held for Investment

Certain loans in Farmer Mac's held for investment loan portfolio are measured at fair value when they are determined to be impaired. Impaired loans are reported at fair value less estimated cost to sell. The fair value of the loan is generally based on the fair value of the underlying property, which is determined by third-party appraisals when available. When third-party appraisals are not available, fair value is estimated based on factors such as prices for comparable properties in similar geographical areas and/or assessment through observation of such properties. Farmer Mac classifies these fair values as level 3 measurements.

Real Estate Owned (REO)

Farmer Mac initially records REO properties at fair value less costs to sell and subsequently records them at the lower of carrying value or fair value less costs to sell. The fair value of REO is determined by third-party appraisals when available. When third-party appraisals are not available, fair value is estimated based on factors such as prices for comparable properties in similar geographical areas and/or assessment through observation of such properties. Farmer Mac classifies the REO fair values as level 3 measurements. Farmer Mac uses net realizable value as a reasonable estimation of fair value in the tables below.

Fair Value Classification and Transfers

As of September 30, 2011, Farmer Mac's assets and liabilities recorded at fair value include financial instruments valued at $5.8 billion whose fair values were estimated by management in the absence of readily determinable fair values (i.e., level 3). These financial instruments measured as level 3 represented 51 percent of the total assets and 74 percent of financial instruments measured at fair value as of September 30, 2011. As of December 31, 2010, Farmer Mac's asset and liabilities recorded at fair value included financial instruments valued at $4.6 billion whose fair values were estimated by management in the absence of readily determinable fair values (i.e., level 3). These financial instruments measured as level 3 represented 49 percent of the total assets and 71 percent of financial instruments measured at fair value as of December 31, 2010.

The following tables present information about Farmer Mac's asset and liabilities measured at fair value on a recurring and nonrecurring basis as of September 30, 2011 and December 31, 2010, respectively, and indicate the fair value hierarchy of the valuation techniques used by Farmer Mac to determine such fair value.

Assets and Liabilities Measured at Fair Value as of September 30, 2011

	Level 1 (in thousands)	Level 2	Level 3	Total
Recurring:				
Assets:				
Investment Securities:				
Available-for-sale:				
Floating rate auction-rate certificates backed by Government guaranteed student loans	$-	$-	$62,243	$62,243
Floating rate asset-backed securities	-	175,127	-	175,127
Floating rate corporate debt securities	-	51,998	-	51,998
Floating rate Government/GSE guaranteed mortgage-backed securities	-	614,546	-	614,546
Fixed rate GSE guaranteed mortgage-backed securities	-	3,867	-	3,867
Floating rate GSE subordinated debt	-	62,749	-	62,749
Fixed rate GSE preferred stock	-	83,309	-	83,309
Fixed rate corporate debt	-	33,920	-	33,920
Fixed rate U.S. Treasuries	579,424	-	-	579,424
Fixed rate Senior agency debt	-	162,972	-	162,972
Total available-for-sale	579,424	1,188,488	62,243	1,830,155
Trading:				
Floating rate asset-backed securities	-	-	1,763	1,763
Fixed rate GSE preferred stock	-	80,959	-	80,959
Total trading	-	80,959	1,763	82,722
Total Investment Securities	579,424	1,269,447	64,006	1,912,877
Farmer Mac Guaranteed Securities:				
Available-for-sale:				
Farmer Mac I	-	-	2,815,467	2,815,467
Farmer Mac II	-	-	36,599	36,599
Rural Utilities	-	-	1,447,934	1,447,934
Total Farmer Mac Guaranteed Securities	-	-	4,300,000	4,300,000
USDA Guaranteed Securities:				
Available-for-sale	-	-	1,193,015	1,193,015
Trading	-	-	233,383	233,383
Total USDA Guaranteed Securities	-	-	1,426,398	1,426,398
Financial derivatives	-	46,254	-	46,254
Total Assets at fair value	$579,424	$1,315,701	$5,790,404	$7,685,529
Liabilities:				
Financial derivatives	$10	$164,636	$1,987	$166,633
Total Liabilities at fair value	$10	$164,636	$1,987	$166,633
Nonrecurring:				
Assets:				
Loans held for sale	$-	$-	$-	$-
Loans held for investment	-	-	11,190	11,190

REO	-	-	1,540	1,540
Total Nonrecurring Assets at fair value	$-	$-	$12,730	$12,730

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Assets and Liabilities Measured at Fair Value as of December 31, 2010

	Level 1 (in thousands)	Level 2	Level 3	Total
Recurring:				
Assets:				
Investment Securities:				
Available-for-sale:				
Floating rate auction-rate certificates backed by Government guaranteed student loans	$-	$-	$64,335	$64,335
Floating rate asset-backed securities	-	29,458	-	29,458
Floating rate corporate debt securities	-	163,188	-	163,188
Floating rate Government/GSE guaranteed mortgage-backed securities	-	576,780	-	576,780
Fixed rate GSE guaranteed mortgage-backed securities	-	4,821	-	4,821
Floating rate GSE subordinated debt	-	55,329	-	55,329
Fixed rate GSE preferred stock	-	84,828	-	84,828
Fixed rate U.S. Treasuries	692,994	-	-	692,994
Fixed rate Senior agency debt	-	5,500	-	5,500
Total available-for-sale	692,994	919,904	64,335	1,677,233
Trading:				
Floating rate asset-backed securities	-	-	1,400	1,400
Fixed rate GSE preferred stock	-	84,696	-	84,696
Total trading	-	84,696	1,400	86,096
Total Investment Securities	692,994	1,004,600	65,735	1,763,329
Farmer Mac Guaranteed Securities:				
Available-for-sale:				
Farmer Mac I	-	-	942,809	942,809
Farmer Mac II	-	-	37,637	37,637
Rural Utilities	-	-	1,926,818	1,926,818
Total available-for-sale	-	-	2,907,264	2,907,264
Total Farmer Mac Guaranteed Securities	-	-	2,907,264	2,907,264
USDA Guaranteed Securities:				
Available-for-sale	-	-	1,005,679	1,005,679
Trading	-	-	311,765	311,765
Total USDA Guaranteed Securities	-	-	1,317,444	1,317,444
Financial derivatives	-	41,492	-	41,492
Total Assets at fair value	$692,994	$1,046,092	$4,290,443	$6,029,529
Liabilities:				
Financial derivatives	$6	$110,291	$3,390	$113,687
Total Liabilities at fair value	$6	$110,291	$3,390	$113,687
Nonrecurring:				
Assets:				
Loans held for sale	$-	$-	$331,076	$331,076
Loans held for investment	-	-	11,971	11,971
REO	-	-	1,925	1,925
Total Nonrecurring Assets at fair value	$-	$-	$344,972	$344,972

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The following tables present additional information about assets and liabilities measured at fair value on a recurring and nonrecurring basis classified as level 3 measurements. Net transfers in and/or out of level 3 are based on the fair values of the assets and liabilities as of the beginning of the quarterly reporting period.

Level 3 Assets and Liabilities Measured at Fair Value for the Three Months Ended September 30, 2011

	Beginning Balance (in thousands)	Purchases	Sales	Settlements	Realized and Unrealized Gains/(Losses) included in Income	Unrealized Gains/(Losses) included in Other Comprehensive Income	Transfers In	Transfers Out	Ending Balance
Recurring:									
Assets:									
Investment Securities:									
Available-for-sale:									
Floating rate auction-rate certificates backed by Government guaranteed student loans	$64,682	$-	$-	$-	$-	$(2,439)	$-	$-	$62,243
Trading:									
Floating rate asset-backed securities(1)	2,209	-	-	(136)	(310)	-	-	-	1,763
Total Investment Securities	66,891	-	-	(136)	(310)	(2,439)	-	-	64,006
Farmer Mac Guaranteed Securities:									
Available-for-sale:									
Farmer Mac I	1,759,205	1,001,500	-	(2,009)	-	56,771	-	-	2,815,467
Farmer Mac II	36,530	1,264	(1,208)	(990)	-	1,003	-	-	36,599
Rural Utilities	1,448,230	-	-	-	-	(296)	-	-	1,447,934
Total Farmer Mac Guaranteed Securities	3,243,965	1,002,764	(1,208)	(2,999)	-	57,478	-	-	4,300,000
USDA Guaranteed Securities:									
Available-for-sale	1,120,397	85,894	-	(33,179)	-	19,903	-	-	1,193,015
Trading(2)	249,074	-	-	(17,124)	1,433	-	-	-	233,383
Total USDA Guaranteed Securities	1,369,471	85,894	-	(50,303)	1,433	19,903	-	-	1,426,398

Total Assets at fair value	$4,680,327	$1,088,658	$(1,208)	$(53,438)	$1,123	$74,942	$-	$-	$5,790,404
Liabilities:									
Financial derivatives(3)	$(1,755)	$-	$-	$-	$(232)	$-	$-	$-	$(1,987)
Total Liabilities at fair value	$(1,755)	$-	$-	$-	$(232)	$-	$-	$-	$(1,987)
Nonrecurring:									
Assets:									
Loans held for sale	$441,890	$-	$-	$-	$-	$-	$-	$(441,890)	$-
Loans held for investment	12,246	-	-	-	(113)	-	179	(1,122)	11,190
REO	705	-	(82)	-	(165)	-	1,082	-	1,540
Total Nonrecurring Assets at fair value	$454,841	$-	$(82)	$-	$(278)	$-	$1,261	$(443,012)	$12,730

(1) Unrealized losses are attributable to assets still held as of September 30, 2011 and are recorded in (losses)/gains on trading assets.

(2) Includes unrealized gains of $0.6 million attributable to assets still held as of September 30, 2011 that are recorded in (losses)/gains on trading assets.

(3) Unrealized losses are attributable to liabilities still held as of September 30, 2011 and are recorded in losses on financial derivatives.

Level 3 Assets and Liabilities Measured at Fair Value for the Three Months Ended September 30, 2010

	Beginning Balance	Purchases, Sales, Issuances and Settlements, net	Realized and Unrealized Gains/(Losses) included in Income	Unrealized Gains/(Losses) included in Other Comprehensive Income	Net Transfers In and/or Out	Ending Balance
			(in thousands)			
Recurring:						
Assets:						
Investment securities:						
Available-for-sale:						
Floating rate auction-rate certificates backed by Government guaranteed student loans	$ 63,344	$ -	$ -	$ 2,342	$ -	$ 65,686
Floating rate GSE subordinated debt	-	-	-	-	-	-
Fixed rate GSE preferred stock	-	-	-	-	-	-
Total available-for-sale investment securities	63,344	-	-	2,342	-	65,686
Trading:						
Floating rate asset-backed securities(1)	1,412	(185)	142	-	-	1,369
Fixed rate GSE preferred stock	-	-	-	-	-	-
Total trading investment securities	1,412	(185)	142	-	-	1,369
Total investment securities	64,756	(185)	142	2,342	-	67,055
Farmer Mac Guaranteed Securities:						
Available-for-sale:						
Farmer Mac I	47,821	547,942	-	13,031	-	608,794
Farmer Mac II	40,436	1,214	-	330	-	41,980
Rural Utilities	1,629,883	150,000	-	3,810	-	1,783,693
Total available-for-sale	1,718,140	699,156	-	17,171	-	2,434,467
Trading:						
Farmer Mac II	-	-	-	-	-	-
Rural Utilities	-	-	-	-	-	-
Total trading	-	-	-	-	-	-
Total Farmer Mac Guaranteed Securities	1,718,140	699,156	-	17,171	-	2,434,467
USDA Guaranteed Securities:						
Available-for-sale	880,424	88,117	-	2,360	-	970,901
Trading(2)	386,496	(29,890)	(2,067)	-	-	354,539
Total USDA Guaranteed Securities	1,266,920	58,227	(2,067)	2,360	-	1,325,440

Total Assets at fair value	$ 3,049,816	$ 757,198	$ (1,925)	$ 21,873	$ -	$ 3,826,962
Liabilities:						
Financial derivatives(3)	$ (3,678)	$ -	$ 57	$ -	$ -	$ (3,621)
Total Liabilities at fair value	$ (3,678)	$ -	$ 57	$ -	$ -	$ (3,621)
Nonrecurring:						
Assets:						
Loans held for sale, at lower of cost or fair value	$ 163,065	$ -	$ (906)	$ -	$ 33,533	$ 195,692
Loans held for investment, at fair value	4,256	-	(374)	-	(406)	3,476
REO	-	-	(1,483)	-	5,202	3,719
Total nonrecurring Assets at fair value	$ 167,321	$ -	$ (2,763)	$ -	$ 38,329	$ 202,887

(1) Unrealized gains are attributable to assets still held as of September 30, 2010 and are recorded in (losses)/gains on trading assets.

(2) Includes unrealized losses of $3.6 million attributable to assets still held as of September 30, 2010 that are recorded in (losses)/gains on trading assets.

(3) Unrealized gains are attributable to liabilities still held as of September 30, 2010 and are recorded in losses on financial derivatives.

Level 3 Assets and Liabilities Measured at Fair Value for the Nine Months Ended September 30, 2011

	Beginning Balance	Purchases	Sales	Settlements	Realized and Unrealized Gains/(Losses) included in Income	Unrealized Gains/(Losses) included in Other Comprehensive Income	Transfers In	Transfers Out	Ending Balance
	(in thousands)								
Recurring:									
Assets:									
Investment Securities:									
Available-for-sale:									
Floating rate auction-rate certificates backed by Government guaranteed student loans	$64,335	$-	$-	$-	$-	$(2,092)	$-	$-	$62,243
Trading:									
Floating rate asset-backed securities(1)	1,400	-	-	(686)	1,049	-	-	-	1,763
Total Investment Securities	65,735	-	-	(686)	1,049	(2,092)	-	-	64,006
Farmer Mac Guaranteed Securities:									
Available-for-sale:									
Farmer Mac I	942,809	1,801,500	-	(2,023)	-	73,181	-	-	2,815,467
Farmer Mac II	37,637	3,268	(3,213)	(3,484)	-	2,391	-	-	36,599
Rural Utilities	1,926,818	-	-	(476,401)	-	(2,483)	-	-	1,447,934
Total Farmer Mac Guaranteed Securities	2,907,264	1,804,768	(3,213)	(481,908)	-	73,089	-	-	4,300,000
USDA Guaranteed Securities:									
Available-for-sale	1,005,679	300,705	-	(142,965)	-	29,596	-	-	1,193,015
Trading(2)	311,765	-	-	(80,082)	1,700	-	-	-	233,383
Total USDA Guaranteed Securities	1,317,444	300,705	-	(223,047)	1,700	29,596	-	-	1,426,398
Total Assets at fair value	$4,290,443	$2,105,473	$(3,213)	$(705,641)	$2,749	$100,593	$-	$-	$5,790,404
Liabilities:									
	$(3,390)	$-	$-	$-	$1,403	$-	$-	$-	$(1,987

Financial derivatives(3)									
Total Liabilities at fair value	$(3,390)	$-	$-	$-	$1,403	$-	$-	$-	$(1,987
Nonrecurring:									
Assets:									
Loans held for sale	$331,076	$-	$-	$(4,617)	$(964)	$-	$116,395	$(441,890)	$-
Loans held for investment	11,971	-	-	-	(308)	-	802	(1,275)	11,190
REO	1,925	-	(1,088)	-	(586)	-	1,289	-	1,540
Total Nonrecurring Assets at fair value	$344,972	$-	$(1,088)	$(4,617)	$(1,858)	$-	$118,486	$(443,165)	$12,730

(1) Unrealized gains are attributable to assets still held as of September 30, 2011 and are recorded in (losses)/gains on trading assets.

(2) Includes unrealized losses of $2.0 million attributable to assets still held as of September 30, 2011 that are recorded in (losses)/gains on trading assets.

(3) Unrealized gains are attributable to liabilities still held as of September 30, 2011 and are recorded in losses on financial derivatives.

Level 3 Assets and Liabilities Measured at Fair Value for the Nine Months Ended September 30, 2010

	Beginning Balance	Purchases, Sales, Issuances and Settlements, net	Realized and Unrealized Gains/(Losses) included in Income	Unrealized Gains/(Losses) included in Other Comprehensive Income	Net Transfers In and/or Out	Ending Balance
			(in thousands)			
Recurring:						
Assets:						
Investment securities:						
Available-for-sale:						
Floating rate auction-rate certificates backed by Government guaranteed student loans	$ 72,884	$ -	$ -	$ (7,198)	$ -	$ 65,686
Floating rate GSE subordinated debt	47,562	-	-	-	(47,562)	-
Fixed rate GSE preferred stock	89,211	-	-	-	(89,211)	-
Total available-for-sale investment securities	209,657	-	-	(7,198)	(136,773)	65,686
Trading:						
Floating rate asset-backed securities(1)	1,824	(587)	132	-	-	1,369
Fixed rate GSE preferred stock	88,148	-		-	(88,148)	-
Total trading investment securities	89,972	(587)	132	-	(88,148)	1,369
Total investment securities	299,629	(587)	132	(7,198)	(224,921)	67,055
Farmer Mac Guaranteed Securities:						
Available-for-sale:						
Farmer Mac I	56,864	542,677	-	14,638	(5,385)	608,794
Farmer Mac II	764,792	1,411	-	(1,039)	(723,184)	41,980
Rural Utilities	1,703,211	62,201	-	18,281	-	1,783,693
Total available-for-sale	2,524,867	606,289	-	31,880	(728,569)	2,434,467
Trading:						
Farmer Mac II	422,681	-		-	(422,681)	-
Rural Utilities	451,448	-	-	-	(451,448)	-
Total trading	874,129	-	-	-	(874,129)	-
Total Farmer Mac Guaranteed Securities	3,398,996	606,289	-	31,880	(1,602,698)	2,434,467
USDA Guaranteed Securities:						
Available-for-sale	-	225,696	-	22,021	723,184	970,901
Trading(2)	-	(76,679)	8,537	-	422,681	354,539
Total USDA Guaranteed Securities	-	149,017	8,537	22,021	1,145,865	1,325,440
Total Assets at fair value	$ 3,698,625	$ 754,719	$ 8,669	$ 46,703	$ (681,754)	$ 3,826,962

Liabilities:						
Financial derivatives(3)	$ (3,653)	$ -	$ 32	$ -	$ -	$ (3,621)
Total Liabilities at fair value	$ (3,653)	$ -	$ 32	$ -	$ -	$ (3,621)
Nonrecurring:						
Assets:						
Loans held for sale, at lower of cost or fair value	$ 28,505	$ -	$ (3,090)	$ -	$ 170,277	$ 195,692
Loans held for investment, at fair value	-	-	(1,042)	-	4,518	3,476
REO	-		(1,483)		5,202	3,719
Total Nonrecurring Assets at fair value	$ 28,505	$ -	$ (5,615)	$ -	$ 179,997	$ 202,887

(1) Unrealized gains are attributable to assets still held as of September 30, 2010 and are recorded in (losses)/gains on trading assets.
(2) Includes unrealized gains of $4.0 million attributable to assets still held as of September 30, 2010 that are recorded in (losses)/gains on trading assets.
(3) Unrealized gains are attributable to liabilities still held as of September 30, 2010 and are recorded in losses on financial derivatives.

Fair Value Option

Accounting guidance on the fair value option for financial instruments permits entities to make a one-time irrevocable election to report financial instruments at fair value with changes in fair value recorded in earnings as they occur. This guidance provides entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions.

Farmer Mac made no fair value option elections for the three and nine months ended September 30, 2011 and 2010. For the three and nine months ended September 30, 2011, Farmer Mac recorded net losses on trading assets of $3.3 million and $1.4 million, respectively, for changes in fair values of assets previously selected for the fair value option, compared to net losses of $1.9 million and net gains of $6.6 million, respectively, for the same periods ended September 30, 2010. These changes in fair value are presented as “(Losses)/gains on trading assets” in the condensed consolidated statements of operations.

Disclosures about Fair Value of Financial Instruments

The following table sets forth the estimated fair values and the carrying amounts for financial assets, liabilities and guarantees and commitments as of September 30, 2011 and December 31, 2010 in accordance with accounting guidance on disclosures about fair value of financial instruments.

	September 30, 2011		December 31, 2010	
	Fair Value	Carrying Amount	Fair Value	Carrying Amount
	(in thousands)			
Financial assets:				
Cash and cash equivalents	$825,014	$825,014	$729,920	$729,920
Investment securities	1,912,877	1,912,877	1,763,329	1,763,329
Farmer Mac Guaranteed Securities	4,300,000	4,300,000	2,907,264	2,907,264
USDA Guaranteed Securities	1,426,398	1,426,398	1,317,444	1,317,444
Loans	2,890,590	2,796,532	2,642,399	2,558,599
Financial derivatives	46,254	46,254	41,492	41,492
Interest receivable	79,579	79,579	90,295	90,295
Guarantee and commitment fees receivable:				
LTSPCs	22,018	14,980	14,191	13,666
Farmer Mac Guaranteed Securities	17,922	15,267	19,058	21,086
Financial liabilities:				
Notes payable:				
Due within one year	5,835,888	5,831,259	4,510,758	4,509,419
Due after one year	4,255,812	4,060,382	3,530,656	3,430,656
Debt securities of consolidated trusts held by third parties	774,518	713,546	883,669	827,411
Financial derivatives	166,633	166,633	113,687	113,687
Accrued interest payable	48,998	48,998	57,131	57,131
Guarantee and commitment obligations:				
LTSPCs	21,123	14,085	13,152	12,627
Farmer Mac Guaranteed Securities	15,473	12,818	15,653	17,681

The carrying amount of cash and cash equivalents, certain short-term investment securities, interest receivable and accrued interest payable is a reasonable estimate of their approximate fair value. Farmer Mac estimates the fair value of its loans, guarantee and commitment fees receivable/obligation and notes payable by discounting the projected cash flows of these instruments at projected interest rates. The fair values are based on the present value of expected cash flows using management’s best estimate of certain key assumptions, which include prepayment speeds, forward yield curves and discount rates commensurate with the risks involved. Because the cash flows of these instruments may be interest rate path dependent, these values and projected discount rates are derived using a Monte Carlo simulation model. Different market assumptions and estimation methodologies could significantly affect estimated fair value amounts.

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Note 8. Business Segment Reporting

Farmer Mac accomplishes its congressional mission of providing liquidity and lending capacity to rural lenders through three programs – Farmer Mac I, Farmer Mac II and Rural Utilities. Prior to first quarter 2010, Farmer Mac reported its financial results as a single segment using GAAP-basis income. Beginning in first quarter 2010, Farmer Mac revised its segment financial reporting, by using core earnings, a non-GAAP financial measure, to reflect the manner in which management has begun assessing the Corporation's performance since the contribution of substantially all of the Farmer Mac II program business to a subsidiary, Farmer Mac II LLC. Farmer Mac uses core earnings to measure corporate economic performance and develop financial plans because, in management's view, core earnings is a valuable alternative measure in understanding Farmer Mac's economic performance, transaction economics and business trends. Core earnings differs from GAAP net income by excluding the effects of fair value accounting guidance, which are not expected to have a permanent effect on capital. Core earnings also differs from GAAP net income by excluding specified infrequent or unusual transactions that Farmer Mac believes are not indicative of future operating results and that may not reflect the trends and economic financial performance of the Corporation's core business. This non-GAAP financial measure may not be comparable to similarly labeled non-GAAP financial measures disclosed by other companies.

The financial information presented below reflects the accounts of Farmer Mac and its subsidiaries on a consolidated basis. Accordingly, the core earnings for Farmer Mac's reportable operating segments will differ from the stand-alone financial statements of Farmer Mac's subsidiaries. These differences will be due to various factors, including the reversal of unrealized gains and losses related to fair value changes of trading assets and financial derivatives, as well as the allocation of certain expenses such as dividends and interest expense related to the issuance of capital and the incurrence of indebtedness managed at the corporate level. The allocation of general and administrative expenses that are not directly attributable to an operating segment may also result in differences. The assets of Farmer Mac's subsidiary Farmer Mac II LLC will only be available to creditors of Farmer Mac after all obligations owed to creditors of and equity holders in Farmer Mac II LLC have been satisfied. As of September 30, 2011, Farmer Mac II LLC held assets with a fair value of $1.5 billion, had debt outstanding of $167.0 million, had preferred stock outstanding with a liquidation preference of $250.0 million and had $1.0 billion of common stock outstanding, all of which is held by Farmer Mac.

Management has determined that the Corporation's operations consist of three reportable segments – Farmer Mac I, Farmer Mac II and Rural Utilities. Farmer Mac uses these three segments to generate revenue and manage business risk, and each segment is based on distinct products and distinct business activities. In addition to these three program operating segments, a corporate segment is presented. That segment represents activity in Farmer Mac's liquidity investment portfolio and other corporate activities. The segment financial results include directly attributable revenues and expenses. Corporate charges for administrative expenses that are not directly attributable to an operating segment are allocated based on headcount.

Each of the program operating segments generates revenue through purchasing loans or securities, committing to purchase loans or guaranteeing securities backed by eligible loans. Purchases of both program assets and assets held in Farmer Mac's liquidity investment portfolio are funded through debt issuance of various maturities. Management makes decisions about pricing, funding and guarantee and commitment fee levels based on inherent credit risks, resource allocation and target returns on equity separately for each segment.

Under the Farmer Mac I program, Farmer Mac purchases or commits to purchase eligible mortgage loans secured by first liens on agricultural real estate, including through the issuance of LTSPCs. Farmer Mac also guarantees securities representing interests in, or obligations secured by, pools of eligible agricultural real estate mortgage loans, and may purchase those securities.

Under the Farmer Mac II program, Farmer Mac II LLC purchases USDA-guaranteed portions of loans, which are presented as "USDA Guaranteed Securities" on the condensed consolidated balance sheets. Farmer Mac currently operates only that part of the Farmer Mac II program that involves the guarantee of Farmer Mac II Guaranteed Securities to investors other than Farmer Mac or Farmer Mac II LLC.

Under the Rural Utilities program, Farmer Mac's business activities include loan purchases, guarantees and purchases of securities with respect to eligible rural utilities loans. To date, all of the business under the Rural Utilities program has been with one lender, CFC, a related party.

The following tables present non-GAAP core earnings for Farmer Mac's reportable operating segments and a reconciliation to GAAP net income for the three and nine months ended September 30, 2011 and 2010.

Core Earnings by Business Segment
For the Three Months Ended September 30, 2011

	Farmer Mac I	Farmer Mac II	Rural Utilities	Corporate	Reconciling Adjustments	GAAP Amounts
			(in thousands)			
Interest income (1)	$ 38,949	$ 14,370	$ 13,135	$ 6,880	$ (2,213)	$ 71,121
Interest income related to consolidated trusts owned by third parties reclassified to guarantee fee income	(782)	-	-	-	782	-
Interest expense (2)	(24,625)	(11,665)	(10,089)	(3,408)	10,375	(39,412)
Net effective spread	13,542	2,705	3,046	3,472	8,944	31,709
Guarantee and commitment fees	5,562	51	1,317	-	(782)	6,148
Other income/(expense) (3)	236	26	-	(946)	(60,869)	(61,553)
Non-interest income/(loss)	5,798	77	1,317	(946)	(61,651)	(55,405)
Release of loan losses	349	-	-	-	-	349
Release of losses	452	-	-	-	-	452
Other non-interest expense	(3,891)	(710)	(1,319)	(2,082)	-	(8,002)
Non-interest expense (4)	(3,439)	(710)	(1,319)	(2,082)	-	(7,550)
Core earnings before income taxes	16,250	2,072	3,044	444	(52,707) (5)	(30,897)
Income tax (expense)/benefit	(5,687)	(725)	(1,065)	3,161	18,447	14,131
Core earnings before preferred stock dividends and attribution of income to non-controlling interest	10,563	1,347	1,979	3,605	(34,260) (5)	(16,766)
Preferred stock dividends	-	-	-	(719)	-	(719)
Non-controlling interest	-	-	-	(5,547)	-	(5,547)
Segment core earnings	$ 10,563	$ 1,347	$ 1,979	$ (2,661)	$ (34,260) (5)	$ (23,032)
Total assets at carrying value	$ 4,790,409	$ 1,483,750	$ 2,356,590	$ 2,799,758	$ -	$ 11,430,507
Total principal balance of on- and off-balance sheet program assets	8,088,365	1,463,129	2,289,899	-	-	11,841,393

(1) Includes reconciling adjustments for yield maintenance income, discount amortization on certain prepaid loans and amortization of premiums on assets consolidated at fair value to reflect core earnings amounts.

(2) Based on effective funding cost determined for each operating segment, including expenses related to interest rate swaps, which are included in losses on financial derivatives on the GAAP financial statements.

(3) Includes reconciling adjustments for the reclassification of yield maintenance income, discount amortization on certain prepaid loans, expenses related to interest rate swaps and fair value adjustments on loans held for sale, financial derivatives and trading assets. Also includes a reconciling adjustment related to the recognition of deferred gains over the estimated lives of certain Farmer Mac II Guaranteed Securities and USDA Guaranteed Securities.

(4) Includes directly attributable costs and an allocation of indirectly attributable costs based on headcount.

(5) Net adjustments to reconcile core earnings before income taxes; core earnings before preferred stock dividends and attribution of income to non-controlling interest; and segment core earnings to corresponding GAAP measures: income before income taxes, net income and net income available to common stockholders, respectively.

Core Earnings by Business Segment
For the Three Months Ended September 30, 2010

	Farmer Mac I	Farmer Mac II	Rural Utilities	Corporate	Reconciling Adjustments	GAAP Amounts
			(in thousands)			
Interest income (1)	$ 24,748	$ 14,430	$ 14,074	$ 6,430	$ (1,107)	$ 58,575
Interest income related to consolidated trusts owned by third parties reclassified to guarantee fee income	(952)	-	-	-	952	-
Interest expense (2)	(16,130)	(11,773)	(10,959)	(3,625)	8,961	(33,526)
Net effective spread	7,666	2,657	3,115	2,805	8,806	25,049
Guarantee and commitment fees	5,492	52	1,385	-	(952)	5,977
Other income/(expense) (3)	1,548	295	1	(385)	(10,787)	(9,328)
Non-interest income/(loss)	7,040	347	1,386	(385)	(11,739)	(3,351)
Provision for loan losses	(412)	-	-	-	-	(412)
Provision for losses	(105)	-	-	-	-	(105)
Other non-interest expense	(4,632)	(579)	(1,170)	(1,652)	-	(8,033)
Non-interest expense (4)	(4,737)	(579)	(1,170)	(1,652)	-	(8,138)
Core earnings before income taxes	9,557	2,425	3,331	768	(2,933) (5)	13,148
Income tax (expense)/benefit	(3,345)	(849)	(1,166)	3,448	1,027	(885)
Core earnings before preferred stock dividends, attribution of income to non-controlling interest, and loss on retirement of preferred stock	6,212	1,576	2,165	4,216	(1,906) (5)	12,263
Preferred stock dividends	-	-	-	(720)	-	(720)
Non-controlling interest	-	-	-	(5,546)	-	(5,546)
Segment core earnings	$ 6,212	$ 1,576	$ 2,165	$ (2,050)	$ (1,906) (5)	$ 5,997
Total assets at carrying value	$ 2,393,213	$ 1,388,054	$ 2,431,811	$ 2,009,664	$ -	$ 8,222,742

Total principal balance of on- and off-balance sheet program assets	7,761,847	1,365,993	2,353,453	-	-	11,481,293

(1) Includes reconciling adjustments for yield maintenance income, discount amortization on certain prepaid loans and amortization of premiums on assets consolidated at fair value to reflect core earnings amounts.
(2) Based on effective funding cost determined for each operating segment, including expenses related to interest rate swaps, which are included in losses on financial derivatives on the GAAP financial statements.
(3) Includes reconciling adjustments for the reclassification of yield maintenance income, discount amortization on certain prepaid loans, expenses related to interest rate swaps and fair value adjustments on loans held for sale, financial derivatives and trading assets.
(4) Includes directly attributable costs and an allocation of indirectly attributable costs based on headcount.
(5) Net adjustments to reconcile core earnings before income taxes; core earnings before preferred stock dividends, attribution of income to non-controlling interest, and loss on retirement of preferred stock; and segment core earnings to corresponding GAAP measures: income before income taxes, net income, and net income available to common stockholders, respectively.

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Core Earnings by Business Segment
For the Nine Months Ended September 30, 2011

	Farmer Mac I	Farmer Mac II	Rural Utilities	Corporate	Reconciling Adjustments	GAAP Amounts
			(in thousands)			
Interest income (1)	$ 105,583	$ 42,080	$ 39,928	$ 21,100	$ (6,646)	$ 202,045
Interest income related to consolidated trusts owned by third parties reclassified to guarantee fee income	(2,495)	-	-	-	2,495	-
Interest expense (2)	(67,301)	(33,984)	(30,793)	(10,722)	28,695	(114,105)
Net effective spread	35,787	8,096	9,135	10,378	24,544	87,940
Guarantee and commitment fees	17,151	154	4,045	-	(2,495)	18,855
Other income/(expense) (3)	2,459	131	-	(1,686)	(68,002)	(67,098)
Non-interest income/(loss)	19,610	285	4,045	(1,686)	(70,497)	(48,243)
Provision for loan losses	(1,092)	-	-	-	-	(1,092)
Release of losses	3,321	-	-	-	-	3,321
Other non-interest expense	(12,651)	(2,085)	(3,698)	(6,306)	-	(24,740)
Non-interest expense (4)	(9,330)	(2,085)	(3,698)	(6,306)	-	(21,419)
Core earnings before income taxes	44,975	6,296	9,482	2,386	(45,953) (5)	17,186
Income tax (expense)/benefit	(15,741)	(2,203)	(3,319)	7,255	16,083	2,075
Core earnings before preferred stock dividends and attribution of income to non-controlling interest	29,234	4,093	6,163	9,641	(29,870) (5)	19,261
Preferred stock dividends	-	-	-	(2,159)	-	(2,159)
Non-controlling interest	-	-	-	(16,641)	-	(16,641)
Segment core earnings	$ 29,234	$ 4,093	$ 6,163	$ (9,159)	$ (29,870) (5)	$ 461
Total assets at carrying value	$ 4,790,409	$ 1,483,750	$ 2,356,590	$ 2,799,758	$ -	$ 11,430,507
Total principal balance of on- and off-balance sheet program assets	8,088,365	1,463,129	2,289,899	-	-	11,841,393

(1)

Includes reconciling adjustments for yield maintenance income, discount amortization on certain prepaid loans and amortization of premiums on assets consolidated at fair value to reflect core earnings amounts.

(2) Based on effective funding cost determined for each operating segment, including expenses related to interest rate swaps, which are included in losses on financial derivatives on the GAAP financial statements.

(3) Includes reconciling adjustments for the reclassification of yield maintenance income, discount amortization on certain prepaid loans, expenses related to interest rate swaps and fair value adjustments on loans held for sale, financial derivatives and trading assets. Also includes a reconciling adjustment related to the recognition of deferred gains over the estimated lives of certain Farmer Mac II Guaranteed Securities and USDA Guaranteed Securities.

(4) Includes directly attributable costs and an allocation of indirectly attributable costs based on headcount.

(5) Net adjustments to reconcile core earnings before income taxes; core earnings before preferred stock dividends and attribution of income to non-controlling interest; and segment core earnings to corresponding GAAP measures: income before income taxes, net income and net income available to common stockholders, respectively.

Core Earnings by Business Segment
For the Nine Months Ended September 30, 2010

	Farmer Mac I	Farmer Mac II	Rural Utilities	Corporate	Reconciling Adjustments	GAAP Amounts
			(in thousands)			
Interest income (1)	$ 80,512	$ 40,863	$ 42,011	$ 19,303	$ (6,055)	$ 176,634
Interest income related to consolidated trusts owned by third parties reclassified to guarantee fee income	(3,701)	-	-	-	3,701	-
Interest expense (2)	(54,461)	(33,495)	(33,557)	(10,876)	26,029	(106,360)
Net effective spread	22,350	7,368	8,454	8,427	23,675	70,274
Guarantee and commitment fees	16,527	403	4,377	-	(3,701)	17,606
Other income/(expense) (3)	2,823	298	1	(1,599)	(24,974)	(23,451)
Non-interest income/(loss)	19,350	701	4,378	(1,599)	(28,675)	(5,845)
Provision for loan losses	(1,392)	-	-	-	-	(1,392)
Provision for losses	(1,680)	-	-	-	-	(1,680)
Other non-interest expense	(11,267)	(2,159)	(3,322)	(4,690)	-	(21,438)
Non-interest expense (4)	(12,947)	(2,159)	(3,322)	(4,690)	-	(23,118)
Core earnings before income taxes	27,361	5,910	9,510	2,138	(5,000) (5)	39,919
Income tax (expense)/benefit	(9,577)	(2,068)	(3,329)	7,247	1,750	(5,977)
Core earnings before preferred stock dividends, attribution of income to non-controlling interest, and loss on retirement of preferred stock	17,784	3,842	6,181	9,385	(3,250) (5)	33,942
Preferred stock dividends	-	-	-	(3,410)	(5,784)	(9,194)
Non-controlling interest	-	-	-	(15,160)	-	(15,160)
Segment core earnings	$ 17,784	$ 3,842	$ 6,181	$ (9,185)	$ (9,034) (5)	$ 9,588
Total assets at carrying value	$ 2,393,213	$ 1,388,054	$ 2,431,811	$ 2,009,664	$ -	$ 8,222,742
	7,761,847	1,365,993	2,353,453	-	-	11,481,293

Total principal balance of on- and off-balance sheet program assets

(1) Includes reconciling adjustments for yield maintenance income, discount amortization on certain prepaid loans and amortization of premiums on assets consolidated at fair value to reflect core earnings amounts.
(2) Based on effective funding cost determined for each operating segment, including expenses related to interest rate swaps, which are included in losses on financial derivatives on the GAAP financial statements.
(3) Includes reconciling adjustments for the reclassification of yield maintenance income, discount amortization on certain prepaid loans, expenses related to interest rate swaps and fair value adjustments on loans held for sale, financial derivatives and trading assets.
(4) Includes directly attributable costs and an allocation of indirectly attributable costs based on headcount.
(5) Net adjustments to reconcile core earnings before income taxes; core earnings before preferred stock dividends, attribution of income to non-controlling interest, and loss on retirement of preferred stock; and segment core earnings to corresponding GAAP measures: income before income taxes, net income, and net income available to common stockholders, respectively.

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Financial information included in this report is consolidated to include the accounts of Farmer Mac and its subsidiaries, Farmer Mac Mortgage Securities Corporation and Farmer Mac II LLC. Farmer Mac II LLC was formed as a Delaware limited liability company in December 2009 to operate substantially all of the business related to the Farmer Mac II program – primarily the acquisition of USDA-guaranteed portions. The business operations of Farmer Mac II LLC began in January 2010. Since then, Farmer Mac has operated only that part of the Farmer Mac II program that involves the issuance of Farmer Mac II Guaranteed Securities to investors other than Farmer Mac or Farmer Mac II LLC.

This discussion and analysis of financial condition and results of operations should be read together with: (1) the interim unaudited condensed consolidated financial statements and the related notes that appear elsewhere in this report; and (2) Farmer Mac's Annual Report on Form 10-K for the fiscal year ended December 31, 2010 filed with the SEC on March 16, 2011, as amended by Amendment No. 1 on Form 10-K/A filed on June 1, 2011. Farmer Mac amended its Annual Report on Form 10-K for the year ended December 31, 2010 to correct prior misclassifications of proceeds from the repayments of certain loans between operating activities and investing activities on the consolidated statements of cash flows. These misclassifications had no impact on the net increase or decrease in cash and cash equivalents as previously reported and had no effect on Farmer Mac's previously issued condensed consolidated interim or annual consolidated balance sheets, statements of operations or statements of changes in equity. See Note 1(a) to the condensed consolidated financial statements for further information.

The discussion below is not necessarily indicative of future results.

Forward-Looking Statements

Some statements made in this report are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995 pertaining to management's current expectations about Farmer Mac's future financial results, business prospects and business developments. Forward-looking statements include, without limitation, any statement that may predict, forecast, indicate or imply future results, performance or achievements, and typically are accompanied by, and identified with, such terms as "anticipates," "believes," "expects," "intends," "should" and similar phrases. The following management's discussion and analysis includes forward-looking statements addressing Farmer Mac's:

- prospects for earnings;
- prospects for growth in loan purchase, guarantee, securitization, and LTSPC volume;
- trends in net interest income;
- trends in portfolio credit quality, delinquencies, and provisions for losses;
- trends in expenses;
- trends in investment securities;
- prospects for asset impairments and allowance for losses;
- changes in capital position; and
- other business and financial matters.

Management's expectations for Farmer Mac's future necessarily involve a number of assumptions and estimates and the evaluation of risks and uncertainties. Various factors or events could cause Farmer Mac's actual results to differ materially from the expectations as expressed or implied by the forward-looking statements, including the factors discussed under "Risk Factors" in Part I, Item 1A of Farmer Mac's Annual Report on Form 10-K for the year ended December 31, 2010 filed with the SEC on March 16, 2011, as well as uncertainties regarding:

- the availability to Farmer Mac and Farmer Mac II LLC of debt financing and, if available, the reasonableness of rates and terms;
- legislative or regulatory developments that could affect Farmer Mac, including those related to the Dodd-Frank Act;
- fluctuations in the fair value of assets held by Farmer Mac and Farmer Mac II LLC;
- the rate and direction of development of the secondary market for agricultural mortgage and rural utilities loans, including lender interest in Farmer Mac credit products and the Farmer Mac secondary market;
- the general rate of growth in agricultural mortgage and rural utilities indebtedness;
- the impact of economic conditions and real estate values on agricultural mortgage lending;
- developments in the financial markets, including possible investor, analyst and rating agency reactions to events involving GSEs, including Farmer Mac; and
- financial market volatility, including the future level and direction of interest rates, commodity prices, and export demand for U.S. agricultural products.

In light of these potential risks and uncertainties, no undue reliance should be placed on any forward-looking statements expressed in this report. Furthermore, Farmer Mac undertakes no obligation to release publicly the results of revisions to any forward-looking statements that may be made to reflect new information or any future events or circumstances, except as otherwise mandated by the SEC.

Overview

Farmer Mac remains well positioned to continue to fulfill its congressional mission to provide capital and liquidity to rural America. During the quarter, 90-day delinquencies improved and Farmer Mac's capital position remained well above its minimum capital and risk-based capital requirements despite a GAAP net loss for third quarter 2011, which was attributable to changes in the fair values of the Corporation's financial derivatives. Although Farmer Mac's overall program business volume decreased during third quarter 2011, the Corporation added $1.5 billion of new program volume that partially offset the maturity of two large AgVantage securities and principal paydowns on other program assets. The decrease in overall program volume was primarily attributable to the maturity of a $475.0 million AgVantage security that was not replaced with new business, as well as a strong agricultural economy in which borrowers had more cash and fewer borrowing needs, resulting in a decreased need by lenders for the secondary market tools offered by Farmer Mac. This decrease in overall program volume did not have an overall negative effect on Farmer Mac's core earnings, a non-GAAP measure, as core earnings increased during third quarter 2011 compared to both the previous quarter and third quarter 2010.

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During third quarter 2011, Farmer Mac had a net loss attributable to common stockholders of $23.0 million ($2.22 per diluted common share), compared to net income of $6.0 million ($0.56 per diluted common share) in third quarter 2010. The decline in Farmer Mac's third quarter 2011 GAAP financial results was almost entirely attributable to the effects of fair value changes on its financial derivatives. Although Farmer Mac's financial derivatives provide effective economic hedges of interest rate risk, they are not designated in hedge relationships for accounting purposes and are required to be reported at fair value, with changes in fair value recorded in earnings as they occur. The fair values of Farmer Mac's financial derivatives are sensitive to changes in long-term interest rates. If long-term interest rates increase, Farmer Mac's financial derivatives generally increase in fair value. Conversely, if long-term interest rates decrease, Farmer Mac's financial derivatives generally decrease in fair value. For example, the 10-year Treasury rate decreased approximately 124 basis points in third quarter 2011. During this period, Farmer Mac recorded unrealized fair value losses on its financial derivatives of $55.2 million. Although these fair value changes are expected to have no permanent effect on earnings or capital if held to maturity, as is expected, they can contribute significant volatility in periodic GAAP earnings, as evident during third quarter 2011.

During third quarter 2011, Farmer Mac's new program volume totaled $1.5 billion, bringing total year-to-date new program volume to $3.0 billion and total outstanding loans, guarantees and commitments to $11.8 billion. This compares to new program volume of $1.1 billion and $1.7 billion, respectively, for the same periods in 2010 and total outstanding loans, guarantees and commitments of $11.5 billion as of September 30, 2010. Third quarter new business volume included purchases of $1.0 billion of AgVantage securities issued by Metropolitan Life Insurance Company ("MetLife") with maturities ranging between three and ten years, which replaced maturing AgVantage securities of $1.0 billion issued by MetLife that had been held by third party investors and accounted for as off-balance sheet guarantees by Farmer Mac. Although the third quarter 2011 MetLife transactions did not increase the overall level of outstanding program volume, they effectively extended the duration of the AgVantage securities that had matured and should provide increased future profitability because the net interest margin earned by Farmer Mac holding these securities on-balance sheet is expected to exceed the guarantee fee earned on the prior off-balance sheet guarantees.

As of September 30, 2011, Farmer Mac's excess core capital above its statutory minimum capital requirement was $124.7 million. This compares to excess core capital levels of $162.3 million and $183.2 million as of June 30, 2011 and September 30, 2010, respectively. The decrease in Farmer Mac's excess core capital above its statutory minimum capital requirement in third quarter 2011 was primarily attributable to (1) decreased retained earnings of $35.9 million resulting from the after-tax effect of the unrealized fair value losses on Farmer Mac's financial derivatives and (2) an incremental increase of $20.0 million on Farmer Mac's statutory minimum capital requirement resulting from Farmer Mac purchasing and holding on-balance sheet $1.0 billion of AgVantage securities issued by MetLife, which replaced $1.0 billion of AgVantage securities issued by MetLife previously accounted for as off-balance sheet guarantees. As described above, these unrealized fair value losses on financial derivatives are not expected to have a permanent effect on capital if Farmer Mac holds the derivatives until maturity, as is expected.

As of the end of third quarter 2011, Farmer Mac's 90-day delinquencies improved compared to both the previous quarter and the prior year. Historically, from quarter to quarter, Farmer Mac's 90-day delinquencies have fluctuated, both in dollars and as a percentage of the outstanding portfolio, with higher levels likely at the end of the first and third quarters of each year corresponding to the annual (January 1st) and semi-annual (January 1st and July 1st) payment characteristics of most Farmer Mac I loans. As of the end of third quarter 2011, 90-day delinquencies were $44.9 million (1.02 percent), uncharacteristically lower than $54.6 million (1.27 percent) as of June 30, 2011. Additionally, the September 30, 2011 90-day delinquencies were also down compared to $70.2 million (1.63 percent) as of December 31, 2010 and $64.8 million (1.53 percent) as of September 30, 2010. Notably, as of September 30, 2011, there continued to be no 90-day delinquencies in Farmer Mac's portfolio of ethanol facility loans, a segment of the portfolio that has included heightened levels of delinquencies for several years.

When analyzing delinquencies in its program business, Farmer Mac takes into account more than the Farmer Mac I agricultural loan delinquency percentages provided above. The total program business includes AgVantage securities and rural utilities loans, neither of which have any delinquencies, and the USDA Guaranteed Securities and USDA-guaranteed portions underlying Farmer Mac II Guaranteed Securities, which are backed by the full faith and credit of the United States. When these are included in the calculation, the overall level of 90-day delinquent loans in Farmer Mac's programs as of September 30, 2011 is 0.38 percent.

Farmer Mac's non-GAAP core earnings for third quarter 2011 was $11.2 million, up from $7.9 million in third quarter 2010. Third quarter 2011 core earnings benefited from increased outstanding business volume compared to a year earlier, increased net interest income of $31.7 million, compared to $25.0 million in third quarter 2010 and net releases from the allowance for losses of $0.8 million as opposed to provisions of $0.5 million in the prior year. Farmer Mac uses core earnings to measure corporate economic performance and develop financial plans because, in management's view, core earnings is a valuable alternative measure in understanding Farmer Mac's economic performance, transaction economics and business trends. Core earnings differs from GAAP net income by excluding the effects of fair value accounting guidance, which are not expected to have a permanent effect on capital. Core earnings also differs from GAAP net income by excluding specified infrequent or unusual transactions that Farmer Mac believes are not indicative of future operating results and that may not reflect the trends and economic financial performance of the Corporation's core business. This non-GAAP financial measure may not be comparable to similarly labeled non-GAAP financial measures disclosed by other companies. Farmer Mac's disclosure of this non-GAAP measure is not intended to replace GAAP information but, rather, to supplement it.

Critical Accounting Policies and Estimates

The preparation of Farmer Mac's condensed consolidated financial statements in conformity with GAAP requires the use of estimates and assumptions that affect the amounts reported in the condensed consolidated financial statements and related notes for the periods presented. Actual results could differ from those estimates. The critical accounting policies that are both important to the portrayal of Farmer Mac's financial condition and results of operations and require complex, subjective judgments are the accounting policies for: (1) the allowance for losses, (2) fair value measurement, and (3) other-than-temporary impairment.

For a discussion of Farmer Mac's critical accounting policies related to the allowance for losses, fair value measurement and other-than-temporary impairment and the related use of estimates and assumptions that affect the amounts reported in the condensed consolidated financial statements and related notes for the periods presented, see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Policies and Estimates" in the Corporation's Annual Report on Form 10-K for the year ended December 31, 2010 filed with the SEC on March 16, 2011.

Results of Operations

Farmer Mac's net loss attributable to common stockholders for third quarter 2011 was $23.0 million or $(2.22) per diluted common share, compared to net income of $6.0 million or $0.56 per diluted common share for third quarter 2010. For the nine months ended September 30, 2011, Farmer Mac's net income attributable to common stockholders was $0.5 million or $0.04 per diluted common share, compared to $9.6 million or $0.91 per diluted common share for the nine months ended September 30, 2010. Farmer Mac's non-GAAP core earnings for third quarter 2011 was $11.2 million or $1.04 per diluted common share, compared to $7.9 million or $0.74 per diluted common share for third quarter 2010. Core earnings for the nine months ended September 30, 2011 was $30.3 million or $2.83 per diluted common share, compared to $18.6 million or $1.76 per diluted common share for the nine months ended September 30, 2010.

A reconciliation of Farmer Mac's GAAP net (loss)/income attributable to common stockholders to core earnings is presented in the following table, and the adjustments to GAAP net (loss)/income are described in more detail below the table.

Reconciliation of GAAP Net (Loss)/Income Attributable to Common Stockholders to Core Earnings

	For the Three Months Ended	
	September 30, 2011	September 30, 2010
	(in thousands, except per share amounts)	
GAAP net (loss)/income attributable to common stockholders	$ (23,032)	$ 5,997
Less the net of tax effects of:		
Unrealized (losses)/gains on financial derivatives	(35,857)	2,106
Unrealized losses on trading assets	(2,361)	(1,119)
Amortization of premiums on assets consolidated at fair value	(1,489)	(1,863)
Recognition of deferred gains related to certain Farmer Mac II Guaranteed Securities and USDA Guaranteed Securities	335	-
Net effects of settlements on agency forward contracts	(1,291)	(441)
Lower of cost or fair value adjustment on loans held for sale	6,403	(589)
Sub-total	(34,260)	(1,906)
Core earnings	$ 11,228	$ 7,903
Core earnings per share:		
Basic	$ 1.08	$ 0.77
Diluted	1.04	0.74
Weighted-average shares:		
Basic	10,354	10,277
Diluted	10,760	10,665

	For the Nine Months Ended	
	September 30, 2011	September 30, 2010
	(in thousands, except per share amounts)	
GAAP net income attributable to common stockholders	$ 461	$ 9,588
Less the net of tax effects of:		
Unrealized losses on financial derivatives	(31,316)	(23)
Unrealized (losses)/gains on trading assets	(230)	4,357
Amortization of premiums on assets consolidated at fair value	(4,775)	(5,246)
Recognition of deferred gains related to certain Farmer Mac II Guaranteed Securities and USDA Guaranteed Securities	2,958	-
Net effects of settlements on agency forward contracts	(2,283)	(329)
Lower of cost or fair value adjustment on loans held for sale	5,776	(2,009)
Issuance costs on the retirement of preferred stock	-	(5,784)
Sub-total	(29,870)	(9,034)
Core earnings	$ 30,331	$ 18,622
Core earnings per share:		
Basic	$ 2.94	$ 1.82
Diluted	2.83	1.76

Weighted-average shares:		
Basic	10,328	10,211
Diluted	10,715	10,576

Farmer Mac excludes the after-tax effect of unrealized (losses)/gains resulting from changes in the fair values of financial derivatives and trading assets from core earnings. Changes in the fair values of financial derivatives and trading assets have historically contributed significant volatility to Farmer Mac's periodic GAAP earnings. Consistent with that trend, for the three and nine months ended September 30, 2011, Farmer Mac recorded unrealized losses of $55.2 million ($35.9 million after-tax) and $48.2 million ($31.3 million after-tax), respectively, for fair value changes on its financial derivatives, compared to unrealized gains of $3.2 million ($2.1 million after-tax) and unrealized losses of $35,000 ($23,000 after-tax) for the same periods in 2010, respectively. Fair value losses on trading assets totaled $3.6 million ($2.4 million after tax) and $0.4 million ($0.2 million after-tax) for the three and nine months ended September 30, 2011, respectively, compared to losses of $1.7 million ($1.1 million after-tax) and gains of $6.7 million ($4.4 million after-tax) for the three and nine months ended September 30, 2010, respectively. While these volatile changes in fair values of derivatives and trading assets may at times produce significant income, they may also produce significant losses. Future changes in those values cannot be reliably predicted; however, as of September 30, 2011, the cumulative fair value of after-tax losses recorded on financial derivatives was $78.2 million. Over time, Farmer Mac will realize in earnings the net effect of the cash settlements on its interest rate swap contracts, which will on its own produce either income or expense, but is expected to generate positive effective net spread when combined with the interest received and paid on the assets and liabilities Farmer Mac holds on its balance sheet. Any positive effective net spread would continue to build retained earnings and capital over time. Although the unrealized fair value fluctuations experienced throughout the term of the financial derivatives will temporarily impact earnings and capital, those fluctuations are not expected to have any permanent effect if the financial derivatives are held to maturity, as is expected.

Farmer Mac also excludes from core earnings the amortization of premiums on assets consolidated at fair value. Upon the adoption of accounting guidance on consolidation on January 1, 2010, Farmer Mac determined itself to be the primary beneficiary of VIEs where Farmer Mac held beneficial interests in trusts used as vehicles for the securitization of rural utilities loans. Upon consolidation, Farmer Mac transferred these assets from "Farmer Mac Guaranteed Securities" to "Loans held for investment in consolidated trusts" on its condensed consolidated balance sheet. Farmer Mac transferred these assets at their fair value, which resulted in an unamortized premium of $42.7 million. This premium is being amortized over the contractual lives of the underlying loans.

In January 2010, Farmer Mac contributed substantially all of the assets, in excess of $1.1 billion, comprising the Farmer Mac II program to a subsidiary, Farmer Mac II LLC. Farmer Mac transferred these assets at their fair value, which resulted in an unamortized premium of $39.1 million being recorded by Farmer Mac II LLC. This premium is being amortized over the estimated remaining lives of the USDA-guaranteed portions that were transferred. The after-tax effect of this premium, along with the premium described above, is excluded from Farmer Mac's core earnings.

At the time of transfer of the assets to Farmer Mac II LLC, Farmer Mac had after-tax unrealized gains of $7.0 million recorded in accumulated other comprehensive income related to fair value changes of Farmer Mac II Guaranteed Securities and USDA Guaranteed Securities designated as available-for-sale. For the three and nine months ended September 30, 2011, Farmer Mac reclassified $0.5 million ($0.3 million after-tax) and $4.6 million ($3.0 million after-tax) of these gains into earnings based on the estimated remaining lives of the related USDA-guaranteed portions. These gains are presented as "Other income" on the condensed consolidated statements of operations. Farmer Mac will recognize in earnings the remainder of these deferred gains over the estimated remaining lives of the USDA-guaranteed portions. These gains, along with the premium amortization described above, are excluded from Farmer Mac's core earnings because they will have no economic effect on Farmer Mac's financial performance if the assets are held to maturity, as is expected.

Farmer Mac routinely enters into forward sales contracts on the debt of other GSEs to reduce its interest rate exposure on forecasted future debt issuances. In its calculation of core earnings, Farmer Mac reverses the gains or losses resulting from the net settlement of these contracts in the period of settlement and amortizes them over the estimated lives of the associated debt issuances. The after-tax net effect of these items is shown as a reconciling item in the table above.

Unrealized gains and losses recorded to adjust the carrying value of loans held for sale to the lower of cost or fair value are also excluded from core earnings. Farmer Mac recorded gains of $9.9 million ($6.4 million after-tax) and $8.9 million ($5.8 million after-tax) during the three and nine months ended September 30, 2011, respectively. During the three and nine months ended September 30, 2010, Farmer Mac recorded losses of $0.9 million ($0.6 million after-tax) and losses of $3.1 million ($2.0 million after-tax), respectively. The after-tax net effect of these gains and losses is omitted from Farmer Mac's core earnings.

Farmer Mac repurchased and retired all of the outstanding shares of Series B preferred stock with proceeds from the $250.0 million Farmer Mac II LLC Preferred Stock issued in January 2010. As a result of the repurchase, Farmer Mac wrote off $5.8 million of deferred issuance costs related to the Series B preferred stock. This write-off is presented as "Loss on retirement of preferred stock" on the condensed consolidated statements of operations and is excluded from Farmer Mac's core earnings.

The following sections provide more detail regarding specific components of Farmer Mac's results of operations.

Net Interest Income. Net interest income for the three and nine months ended September 30, 2011 was $31.7 million and $87.9 million, respectively, compared to $25.0 million and $70.3 million, respectively, for the same periods during 2010. Net interest income includes guarantee fees related to certain Farmer Mac Guaranteed Securities with beneficial interests owned by third party investors. For the three and nine months ended September 30, 2011, these guarantee fees resulted in an increase in net interest income of $0.8 million and $2.5 million, respectively, and a decrease in the net interest yield of 5 basis points and 6 basis points, respectively. For the three and nine months ended September 30, 2010, these guarantee fees resulted in an increase in net interest income of $1.0 million and $3.7 million, respectively, and a decrease in the net interest yield of 13 basis points and 17 basis points, respectively. The decrease in the net interest yield is the result of the average rate earned on guarantee fees being lower than the net interest spread earned on assets Farmer Mac purchases and holds on-balance sheet. Excluding the impacts of these guarantee fees, the net interest yield was 126 basis points for the nine months ended September 30, 2011, compared to 150 basis points for the nine months ended September 30, 2010.

The following table provides information regarding interest-earning assets and funding for the nine months ended September 30, 2011 and 2010. The balance of non-accruing loans is included in the average balance of interest-earning loans and Farmer Mac Guaranteed Securities and USDA Guaranteed Securities presented, though the related income is accounted for on a cash basis. Therefore, as the balance of non-accruing loans and the income received increases or decreases, the net interest yield will fluctuate accordingly. The balance of consolidated loans with beneficial interests owned by third parties is disclosed in the net effect of consolidated trusts and is not included in the average balances of interest-earning assets and interest-bearing liabilities. The interest income and expense associated with these trusts are shown net in the net effect of consolidated trusts. The average rate earned on cash and investments reflects lower short-term market rates during the first nine months of 2011 compared to the first nine months of 2010. The lower average rate on loans, Farmer Mac Guaranteed Securities and USDA Guaranteed Securities during the nine months ended September 30, 2011 reflects the decline in market rates reflected in the rates on loans acquired or reset during the past year. The lower average rate on Farmer Mac's notes payable due within one year is consistent with general trends in average short-term rates during the periods presented. The downward trend in the average rate on notes payable due after one year reflects the retirement of older debt and the issuance of new debt at lower market rates.

	For the Nine Months Ended					
	September 30, 2011			September 30, 2010		
	Average Balance	Income/ Expense	Average Rate	Average Balance	Income/ Expense	Average Rate
	(dollars in thousands)					
Interest-earning assets:						
Cash and investments	$ 2,447,032	$ 21,100	1.15%	$ 1,576,100	$ 19,303	1.63%
Loans, Farmer Mac Guaranteed Securities and USDA Guaranteed Securities (1)	6,569,953	152,599	3.10%	4,328,706	112,070	3.45%
Total interest-earning assets	$ 9,016,985	$ 173,699	2.57%	$ 5,904,806	$ 131,373	2.97%
Funding:						
Notes payable due within one year	$ 4,019,952	$ 6,962	0.23%	$ 2,981,082	$ 7,353	0.33%
Notes payable due after one year (2)	4,529,535	81,292	2.39%	2,502,849	57,447	3.06%
Total interest-bearing liabilities (3)	8,549,487	88,254	1.38%	5,483,931	64,800	1.58%
Net non-interest-bearing funding	467,498	-		420,875	-	
Total funding	9,016,985	88,254	1.31%	5,904,806	64,800	1.46%
Net interest income/yield prior to consolidation of certain trusts	9,016,985	85,445	1.26%	5,904,806	66,573	1.50%
Net effect of consolidated trusts (4)	760,581	2,495	0.44%	1,158,766	3,701	0.43%
Adjusted net interest income/yield	$ 9,777,566	$ 87,940	1.20%	$ 7,063,572	$ 70,274	1.33%

(1) Excludes interest income of $28.3 million and $45.3 million in 2011 and 2010, respectively, related to consolidated trusts with beneficial interests owned by third parties.

(2) Includes current portion of long-term notes.

(3) Excludes interest expense of $25.9 million and $41.6 million in 2011 and 2010, respectively, related to consolidated trusts with beneficial interests owned by third parties.
(4) Includes the effect of consolidated trusts with beneficial interests owned by third party investors.

The following table sets forth information regarding the changes in the components of Farmer Mac's net interest income for the periods indicated. For each category, information is provided on changes attributable to changes in volume (change in volume multiplied by old rate) and changes in rate (change in rate multiplied by old volume). Combined rate/volume variances, the third element of the calculation, are allocated based on their relative size. The decreases in income due to changes in rate reflect the reset of variable-rate investments and adjustable-rate mortgages to lower rates and the acquisition of new lower-yielding investments, loans and Farmer Mac Guaranteed Securities and USDA Guaranteed Securities, as described above. The decreases in expense reflect the decreased cost of funding due to lower interest rates in the debt markets.

	For the Nine Months Ended September 30, 2011 Compared to the Nine Months Ended September 30, 2010		
	Increase/(Decrease) Due to		
	Rate	Volume	Total
		(in thousands)	
Income from interest-earning assets:			
Cash and investments	$ (12,603)	$ 14,400	$ 1,797
Loans, Farmer Mac Guaranteed Securities and USDA Guaranteed Securities	(27,477)	68,006	40,529
Total	(40,080)	82,406	42,326
Expense from interest-bearing liabilities	(19,428)	42,882	23,454
Change in net interest income prior to consolidation of certain trusts (1)	$ (20,652)	$ 39,524	$ 18,872

(1) Excludes the effect of consolidated trusts with beneficial interests owned by third parties.

In addition to the guarantee fees described above, the net interest yield includes yield maintenance payments received upon the early payoff of certain borrowers' loans and the amortization of premiums on assets consolidated at fair value and excludes the accrual of income and expense related to the payments on financial derivatives. The following paragraphs describe the effects of these items on the net interest yield and the table below presents them as adjustments to reconcile to the net effective spread Farmer Mac earns on the difference between its interest-earning assets and its net funding costs, including payments for income and expense related to financial derivatives.

Farmer Mac uses interest rate swap contracts to manage its interest rate risk exposure by modifying the interest rate reset or maturity characteristics of certain assets and liabilities. Farmer Mac accounts for its financial derivatives as undesignated financial derivatives. Accordingly, the Corporation records the income or expense related to financial derivatives as gains and losses on financial derivatives. For the three months ended September 30, 2011, this accounting for financial derivatives increased the net interest yield by $10.4 million (42 basis points), compared to $9.0 million (57 basis points) for the three months ended September 30, 2010. For the nine months ended September 30, 2011, the accounting for financial derivatives increased the net interest yield by $28.7 million (42 basis points), compared to $26.0 million (59 basis points) for the nine months ended September 30, 2010.

Farmer Mac's net interest income and net interest yields for the three months ended September 30, 2011 and 2010 included the benefits of yield maintenance payments of $0.1 million (less than one basis point) and $0.3 million (2 basis points), respectively. The net interest income and net interest yields for the nine months ended September 30, 2011 and 2010 included the benefits of yield maintenance payments of $0.7 million (1 basis point) and $0.6 million (1 basis point), respectively. Yield maintenance payments represent the present value of expected future interest income streams and accelerate the recognition of interest income from the related loans. Because the timing and size of these payments vary greatly, variations do not necessarily indicate positive or negative trends to gauge future financial results.

Upon the adoption of accounting guidance on consolidation on January 1, 2010, Farmer Mac determined itself to be the primary beneficiary of certain VIEs where Farmer Mac held beneficial interests in trusts used as vehicles for the securitization of agricultural real estate mortgage loans or rural utilities loans. Upon consolidation, Farmer Mac reclassified these assets from "Farmer Mac Guaranteed Securities" to "Loans held for investment in consolidated trusts" on the condensed consolidated balance sheet. The reclassified assets on January 1, 2010 included Farmer Mac Guaranteed Securities – Rural Utilities with an unpaid principal balance of $412.9 million and a fair value of $455.6 million. Farmer Mac was reporting these assets at their fair values, with changes in fair value recorded in earnings, based on its election of the fair value option in 2008. Upon consolidation of the underlying rural utilities loans, Farmer Mac reclassified the unrealized gain of $42.7 million as of January 1, 2010 to unamortized premiums on loans held for investment. The related premium is being amortized over the contractual lives of the underlying rural utilities loans.

On January 25, 2010, Farmer Mac contributed substantially all of the assets, in excess of $1.1 billion, comprising the Farmer Mac II program to Farmer Mac's subsidiary, Farmer Mac II LLC. Farmer Mac transferred these assets at their fair value which resulted in an unamortized premium of $39.1 million being recorded by Farmer Mac II LLC. This premium is being amortized over the estimated remaining lives of the USDA-guaranteed portions that were contributed.

Farmer Mac's net interest income and net interest yield for the three months ended September 30, 2011 and 2010 included expenses of $2.3 million (9 basis points) and $2.9 million (18 basis points), respectively, related to the amortization of the premiums described above. The net interest income and net interest yields for the nine months ended September 30, 2011 and 2010 included expenses of $7.3 million (11 basis points) and $8.1 million (18 basis points), respectively, related to this amortization.

The following table presents the net effective spread between Farmer Mac's interest-earning assets and its net funding costs. This spread is measured by including expense related to financial derivatives and excluding yield maintenance payments, the amortization of premiums on assets consolidated at fair value and the amortization of discounts on certain prepaid loans. New on-balance sheet program volume added throughout 2010 and the first nine months of 2011 increased Farmer Mac's net effective spread for the three and nine months ended September 30, 2011 to $22.8 million and $63.4 million, respectively, up from $16.2 million and $46.6 million, respectively, for the same periods in 2010. However, the net yields were reduced to 0.93 percent and 0.94 percent for the three and nine months ended September 30, 2011, respectively, from 1.04 percent and 1.05 percent, respectively, for the same periods in 2010. The declines in the net yields for the periods presented are mainly attributable to the addition of (1) lower yielding assets in Farmer Mac's liquidity investment portfolio, such as U.S. Treasuries, which have a negative net yield but offer a source of contingent liquidity, and (2) on-balance sheet AgVantage securities at lower net yields than the average net yield on Farmer Mac's existing portfolio. The new AgVantage securities purchased by Farmer Mac during third quarter effectively replaced the business volume of maturing AgVantage securities previously accounted for as off-balance sheet guarantees that did not previously contribute to net interest income and net yield. These new AgVantage securities should provide increased future profitability because the net interest margin earned by Farmer Mac holding these securities on-balance sheet is expected to exceed the guarantee fee earned on the prior off-balance

sheet guarantees. See Note 8 to the condensed consolidated financial statements for more information regarding net effective spread for Farmer Mac's individual business segments.

	For the Three Months Ended				For the Nine Months Ended			
	September 30, 2011		September 30, 2010		September 30, 2011		September 30, 2010	
	Dollars	Yield	Dollars	Yield	Dollars	Yield	Dollars	Yield
	(dollars in thousands)							
Net interest income/yield prior to consolidation of certain trusts	$ 30,927	1.26%	$ 24,097	1.54%	$ 85,445	1.26%	$ 66,573	1.50%
Expense related to financial derivatives	(10,375)	-0.42%	(8,961)	-0.57%	(28,695)	-0.42%	(26,029)	-0.59%
Yield maintenance payments	(77)	0.00%	(339)	-0.02%	(699)	-0.01%	(595)	-0.01%
Amortization of premiums on assets consolidated at fair value	2,290	0.09%	2,867	0.18%	7,346	0.11%	8,071	0.18%
Amortization of discounts on certain prepaid loans (1)	-	0.00%	(1,421)	-0.09%	-	0.00%	(1,421)	-0.03%
Net effective spread	$ 22,765	0.93%	$ 16,243	1.04%	$ 63,397	0.94%	$ 46,599	1.05%

(1) Includes income recognition as a result of an early payoff of a loan secured by an ethanol plant.

Release of and Provision for Loan Losses. During the three months ended September 30, 2011, Farmer Mac recorded releases from its allowance for loan losses of $0.3 million and charge-offs of $5,000. During the nine months ended September 30, 2011, Farmer Mac recorded provisions to its allowance for loan losses of $1.1 million and charge-offs of $0.2 million. The releases recorded in third quarter 2011 were primarily due to a decline in estimated probable losses related to Farmer Mac's exposure to the dairy industry. In first quarter 2011, Farmer Mac purchased two defaulted loans pursuant to the terms of an LTSPC agreement. This resulted in the reclassification of $1.8 million of specific allowance, which had been recorded in fourth quarter 2010, from the reserve for losses to the allowance for loan losses. The provision for loan losses for the first nine months of 2011 reflects this reclassification as well as a decline in estimated probable losses related to Farmer Mac's exposure to the ethanol and dairy industries.

During the three months ended September 30, 2010, Farmer Mac recorded provisions to its allowance for loan losses of $0.4 million and charge-offs of $0.5 million. During the nine months ended September 30, 2010, Farmer Mac recorded provisions to its allowance for losses of $1.4 million, charge-offs of $0.5 million and recoveries of $2.2 million on a loan secured by an ethanol plant. During the first nine months of 2010, Farmer Mac's provision for loan losses also included the reclassification of $2.0 million from the reserve for losses to the allowance for loan losses upon adoption of new consolidation guidance in first quarter 2010.

As of September 30, 2011, Farmer Mac's total allowance for loan losses was $10.7 million, compared to $9.8 million as of December 31, 2010 and $9.4 million as of September 30, 2010. See "—Risk Management—Credit Risk – Loans."

Release of and Provision for Losses. During the three and nine months ended September 30, 2011, Farmer Mac recorded releases from its reserve for losses of $0.5 million and $3.3 million, respectively, compared to provisions of $0.1 million and $1.7 million for the three and nine months ended September 30, 2010, respectively. The releases recorded in third quarter 2011 were primarily due to a decline in estimated probable losses related to Farmer Mac's exposure to the dairy industry. The releases recorded during the first nine months of 2011 were primarily the result of the reclassification of the $1.8 million specific allowance described above as well as a decline in estimated probable losses related to Farmer Mac's exposure to the ethanol and dairy industries. The provisions recorded in the first nine months of 2010 primarily related to Farmer Mac's exposure to the ethanol industry on loans underlying LTSPCs, partially offset by the reclassification of $2.0 million from the reserve for losses to the allowance for loan losses described above.

As of September 30, 2011, Farmer Mac's reserve for losses was $7.0 million, compared to $10.3 million as of December 31, 2010 and $9.6 million as of September 30, 2010. See "—Risk Management—Credit Risk – Loans."

Guarantee and Commitment Fees. Guarantee and commitment fees, which compensate Farmer Mac for assuming the credit risk on loans underlying Farmer Mac Guaranteed Securities and LTSPCs, were $6.1 million for third quarter 2011 and $18.9 million for the nine months ended September 30, 2011, compared to $6.0 million for third quarter 2010 and $17.6 million for the nine months ended September 30, 2010. Guarantee and commitment fees for the three and nine months ended September 30, 2011 reflect the reclassification to net interest income related to Farmer Mac Guaranteed Securities previously reported as off-balance sheet as a result of the adoption of accounting guidance on consolidation of $0.8 million and $2.5 million, respectively, compared to $1.0 million and $3.7 million, respectively for the same periods ended September 30, 2010.

Gains and Losses on Financial Derivatives. Farmer Mac accounts for its financial derivatives as undesignated financial derivatives and does not apply hedge accounting. The net effect of gains and losses on financial derivatives for the three and nine months ended September 30, 2011 was a net loss of $68.6 million and $82.4 million, respectively, compared to a net loss of $6.9 million and $28.5 million, respectively, for the three and nine months ended September 30, 2010. The components of losses on financial derivatives for the three and nine months ended September 30, 2011 and 2010 are summarized in the following table:

	For the Three Months Ended		For the Nine Months Ended	
	September 30, 2011	September 30, 2010	September 30, 2011	September 30, 2010
	(in thousands)			
Realized:				
Expense related to financial derivatives	$(10,375)	$ (8,961)	$(28,695)	$ (26,029)
Losses due to terminations or net settlements	(2,988)	(1,172)	(5,489)	(2,441)
Unrealized (losses)/gains due to fair value changes	(55,204)	3,309	(48,184)	82
Amortization of financial derivatives transition adjustment	-	(40)	-	(120)
Losses on financial derivatives	$(68,567)	$ (6,864)	$(82,368)	$ (28,508)

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The accrual of periodic cash settlements for interest paid or received from Farmer Mac's interest rate swap contracts is shown as expense related to financial derivatives in the table above. Payments or receipts to terminate derivative positions or net cash settle forward sales contracts on the debt of other GSEs and U.S. Treasury futures are included in losses due to terminations or net settlements. Changes in the fair value of Farmer Mac's open derivative positions are captured in unrealized losses due to fair value changes and are primarily the result of fluctuations in long-term interest rates. The amortization of the financial derivatives transition adjustment reflects the reclassification into earnings of the unrealized losses on financial derivatives included in accumulated other comprehensive income as a result of the adoption of accounting guidance on derivatives. Farmer Mac reclassified the remaining derivatives transition adjustment into earnings during 2010.

For the three and nine months ended September 30, 2011 and 2010, Farmer Mac was a party to interest rate swap contracts with one related party, Zions First National Bank. Farmer Mac realized expenses of $0.5 million and $1.4 million for the three and nine months ended September 30, 2011, respectively, related to these interest rate swap contracts, compared to realized expenses of $0.6 million and $2.2 million, respectively, for the same periods in 2010. Farmer Mac recognized unrealized losses of $0.2 million and unrealized gains of $1.4 million, for the three and nine months ended September 30, 2011, respectively, compared to unrealized gains of $0.1 million and $32,000, respectively, for the same periods in 2010, due to changes in the fair value of these interest rate swap contracts.

Gains and Losses on Trading Assets. During the three and nine months ended September 30, 2011, Farmer Mac recognized losses on trading assets of $3.6 million and $0.4 million, respectively, compared to losses of $1.7 million and gains of $6.7 million, respectively, for the same periods in 2010. For the three and nine months ended September 30, 2011, Farmer Mac recorded trading losses of $4.8 million and $3.1 million, respectively, related to the change in the fair value of its investment in AgFirst Farm Credit Bank preferred stock. For the three and nine months ended September 30, 2010, Farmer Mac recorded $0.2 million of trading gains and $2.0 million of trading losses, respectively, related to the change in the fair value of its investment in AgFirst Farm Credit Bank preferred stock.

During the three and nine months ended September 30, 2011, Farmer Mac also recorded trading gains of $1.4 million and $1.7 million, respectively, related to the change in the fair value of the USDA Guaranteed Securities contributed to its subsidiary, Farmer Mac II LLC, which had previously been selected for the fair value option. During the three and nine months ended September 30, 2010, Farmer Mac recorded trading losses of $2.1 million and trading gains of $8.5 million, respectively, related to the change in the fair value of the USDA Guaranteed Securities contributed to its subsidiary, Farmer Mac II LLC.

Of the total $3.6 million and $0.4 million of unrealized losses recognized on trading assets during the three and nine months ended September 30, 2011, respectively, losses of $3.3 million and $1.4 million, respectively, related to assets selected for the fair value option. Of the total $1.7 million of unrealized losses and $6.7 million of unrealized gains recognized on trading assets during the three and nine months ended September 30, 2010, respectively, $1.9 million of trading losses and $6.6 million of trading gains, respectively, related to assets selected for the fair value option.

Farmer Mac made no fair value option elections during the three and nine months ended September 30, 2011 and 2010.

Gains on Sale of Available-for-Sale Investment Securities. During the three and nine months ended September 30, 2011, Farmer Mac realized net gains of $0.1 million and $0.3 million, respectively, on sales of investment securities from its available-for-sale portfolio. During the three and nine months ended September 30, 2010, Farmer Mac realized net gains of $24,000 and $0.3 million, respectively, on sales of investment securities from its available-for-sale portfolio.

Lower of Cost or Fair Value Adjustment on Loans Held for Sale. During the three and nine months ended September 30, 2011, Farmer Mac recorded unrealized gains of $9.9 million and $8.9 million, respectively, to adjust the carrying value of loans held for sale to the lower of cost or fair value, compared to unrealized losses of $0.9 million and $3.1 million, respectively, for the same periods in 2010. The unrealized gains recorded during 2011 resulted from the reversal of previously recognized unrealized losses as the fair value of these loans increased above their cost amounts.

Other Income. For the three and nine months ended September 30, 2011, other income totaled $0.7 million and $5.7 million, respectively, compared to $0.1 million and $1.2 million, respectively, for the same periods in 2010. The increase in the first nine months of 2011 was due to the recognition of $4.6 million of gains previously deferred in accumulated other comprehensive income related to fair value changes of certain Farmer Mac II Guaranteed Securities and USDA Guaranteed Securities contributed to Farmer Mac II LLC in January 2010.

Compensation and Employee Benefits. Compensation and employee benefits were $4.8 million and $14.0 million for the three and nine months ended September 30, 2011, respectively, compared to $4.5 million and $11.9 million, respectively, for the same periods in 2010. The increase in 2011 compared to 2010 was due to increased employee headcount, employee incentive compensation and increased costs for employee health insurance.

General and Administrative Expenses. General and administrative expenses, including legal, independent audit, and consulting fees, were $2.5 million and $7.4 million for the three and nine months ended September 30, 2011, respectively, compared to $1.8 million and $6.3 million for the same periods in 2010. The increase in general and administrative expenses in 2011 compared to 2010 was primarily attributable to higher rent expense beginning with the construction phase of Farmer Mac's new office space and increased costs associated with information technology initiatives.

Other Expense. During first quarter 2011, Farmer Mac recorded $0.9 million of expense related to the termination of an agreement with a third-party that previously provided services related to loan and security administration for certain Farmer Mac I assets. Farmer Mac incurred no comparable termination charge in third quarter 2011 or in prior periods. During 2010, Farmer Mac paid $0.5 million in fees to the third-party service provider. Farmer Mac is currently performing those services in-house and expects to continue to do so in the future.

Regulatory Fees. Regulatory fees for the three and nine months ended September 30, 2011 were $0.6 million and $1.7 million, respectively, compared to $0.6 million and $1.7 million, respectively, for the same periods in 2010. FCA has advised Farmer Mac that its estimated fees for the federal fiscal year ending September 30, 2012 will be $2.3 million, unchanged from the federal fiscal year ended September 30, 2011. After the end of a federal government fiscal year, FCA may revise its prior year estimated assessments to reflect actual costs incurred, and has issued both additional assessments and refunds in the past.

Income Tax Expense and Benefit. Income tax benefit totaled $14.1 million and $2.1 million for the three and nine months ended September 30, 2011, respectively, compared to income tax expense of $0.9 million and $6.0 million for the same periods in 2010, respectively. Income tax benefit in the three months ended September 30, 2011 resulted primarily from a net loss in pre-tax income during third quarter 2011. Income tax benefit in the nine months ended September 30, 2011 resulted primarily from a negative effective tax rate. Farmer Mac's effective tax rates for the three and nine months ended September 30, 2011 were 45.7 percent and (12.1) percent, respectively, compared to 6.7 percent and 15.0 percent, respectively, for the same periods in 2010. The effective tax rate varies from the statutory federal rate of 35 percent primarily due to the income attributed to the non-controlling interest in Farmer Mac II LLC, for which Farmer Mac does not accrue income tax expense and the tax benefit received from the Corporation's dividend received deduction for both periods.

Business Volume. During third quarter 2011, Farmer Mac added $1.5 billion of new program volume in the form of:

- purchases of $68.2 million of Farmer Mac I loans;
- purchases of $1.0 billion of Farmer Mac I AgVantage securities;
- the placement of $266.9 million of Farmer Mac I loans under LTSPCs;
- purchases of $87.1 million of USDA-guaranteed portions of loans; and
- purchases of $32.4 million of rural utilities loans.

Farmer Mac's outstanding program volume was $11.8 billion as of September 30, 2011, a decrease of $375.3 million from December 31, 2010. During the first nine months of 2011, Farmer Mac added $3.0 billion of new program volume that partially replaced maturing AgVantage securities and principal paydowns on other program assets. Farmer Mac completed a $159.9 million LTSPC transaction during third quarter 2011, which was the largest LTSPC transaction since March 2007. The expressed motivation of the counterparty in that transaction was to reduce its commodity concentration levels. Farmer Mac has recently observed increased lender interest in the LTSPC product as a tool for lenders to manage their commodity concentration and borrower exposure levels as well as overall credit risk.

The following table sets forth Farmer Mac I, Farmer Mac II and Rural Utilities loan purchase, LTSPC and guarantee activities for newly originated and current seasoned loans during the periods indicated:

Farmer Mac Loan Purchases, Guarantees and LTSPCs

	For the Three Months Ended		For the Nine Months Ended	
	September 30, 2011	September 30, 2010	September 30, 2011	September 30, 2010
	(in thousands)			
Farmer Mac I:				
Loans	$68,201	$ 82,270	$ 397,030	$ 258,453
LTSPCs	266,906	25,416	374,306	134,989
Farmer Mac Guaranteed Securities - AgVantage	1,001,500	550,000	1,801,500	550,000
Farmer Mac II:				
USDA Guaranteed Securities	85,787	132,991	300,311	334,663
Farmer Mac Guaranteed Securities	1,264	6,676	3,268	20,354
Rural Utilities:				
Loans	32,387	35,242	148,782	171,986
Farmer Mac Guaranteed Securities - AgVantage	-	250,000	2,796	250,000
Total purchases, guarantees and commitments	$1,456,045	$ 1,082,595	$ 3,027,993	$ 1,720,445

The outstanding principal balance of loans held, loans underlying LTSPCs and on- and off-balance sheet Farmer Mac Guaranteed Securities and USDA Guaranteed Securities was $11.8 billion as of September 30, 2011 compared to $12.2 billion as of December 31, 2010. The following table sets forth information regarding those outstanding balances as of the dates indicated:

Outstanding Balance of Loans, Loans Underlying Farmer Mac Guaranteed Securities and LTSPCs, and USDA Guaranteed Securities

	September 30, 2011	December 31, 2010
	(in thousands)	
On-balance sheet:		
Farmer Mac I:		
Loans	$ 1,192,486	$ 972,206
Loans held in trusts:		
Beneficial interests owned by Farmer Mac	236	3,697
Beneficial interests owned by third party investors	712,690	821,411
Farmer Mac Guaranteed Securities - AgVantage	2,741,000	941,500
Farmer Mac II:		
USDA Guaranteed Securities	1,380,836	1,297,439
Farmer Mac Guaranteed Securities	36,316	39,856
Rural Utilities:		
Loans	474,220	339,963
Loans held in trusts:		
Beneficial interests owned by Farmer Mac	386,800	400,228
Farmer Mac Guaranteed Securities - AgVantage	1,410,800	1,887,200
Total on-balance sheet	$ 8,335,384	$ 6,703,500
Off-balance sheet:		
Farmer Mac I:		
Farmer Mac Guaranteed Securities - AgVantage	$ 970,000	$ 2,945,000
LTSPCs	1,811,280	1,754,597
Farmer Mac Guaranteed Securities	660,673	750,217
Farmer Mac II:		
Farmer Mac Guaranteed Securities	45,977	48,103
Rural Utilities:		
Farmer Mac Guaranteed Securities - AgVantage	18,079	15,292
Total off-balance sheet	$ 3,506,009	$ 5,513,209
Total	$ 11,841,393	$ 12,216,709

Of the $11.8 billion outstanding principal balance of volume included in Farmer Mac's three programs as of September 30, 2011, $5.1 billion are Farmer Mac Guaranteed Securities structured as AgVantage securities. Each AgVantage security is a general obligation of an issuing institution approved by Farmer Mac and is secured by eligible loans in an amount at least equal to the outstanding principal amount of the security. Unlike business volume in the form of purchased loans, USDA Guaranteed Securities and loans underlying LTSPCs and non-AgVantage Farmer Mac Guaranteed Securities, the Farmer Mac Guaranteed Securities structured as AgVantage securities do not pay down principal based on amortization schedules and instead have fixed maturity dates when the secured general obligation is due.

The following table summarizes by maturity date the outstanding principal amount of both on- and off-balance sheet AgVantage securities as of September 30, 2011.

AgVantage Balances by Year of Maturity

	As of September 30, 2011 (in thousands)
2012	$ 498,500
2013	307,250
2014	1,060,900
2015	550,250
2016	1,002,000
Thereafter	1,720,979
Total	$ 5,139,879

Of the AgVantage securities that matured during third quarter 2011, $1.0 billion issued by MetLife matured in July 2011 and $475.0 million issued by M&I Bank matured in August 2011, both of which were off-balance sheet Farmer Mac guarantees. A portion of these maturing off-balance sheet guarantees were replaced by Farmer Mac's purchase during third quarter 2011 of the following AgVantage securities issued by MetLife (1) a $500.0 million five-year AgVantage security, (2) a $150.0 million seven-year AgVantage security, (3) a $150.0 million ten-year AgVantage security and (4) a $200.0 million three-year AgVantage security. All of these securities, totaling $1.0 billion, were accounted for by Farmer Mac as on-balance sheet Farmer Mac Guaranteed Securities in third quarter 2011. Although these new issuances do not increase the overall level of outstanding program volume, they should provide increased future profitability because the net interest margin earned by Farmer Mac on the new AgVantage securities is expected to exceed the guarantee fee earned on the off-balance sheet guarantees that matured during third quarter 2011. The maturity of the AgVantage security issued by M&I Bank resulted in a reduction of the level of outstanding AgVantage securities; however, the effect on income of the maturity of an AgVantage security, particularly off-balance sheet transactions, is not necessarily proportional to the amount of the decrease in business volume.

The weighted-average ages of the Farmer Mac I newly originated and current seasoned loans purchased during third quarter 2011 and 2010 was four months and less than one month, respectively. Of the Farmer Mac I newly originated and current seasoned loans purchased during third quarter 2011 and 2010, 79 percent and 88 percent, respectively, had principal amortization periods longer than the maturity date, resulting in balloon payments at maturity, with a weighted-average remaining term to maturity of 15.7 years and 16.7 years, respectively.

As part of fulfilling its guarantee obligations for Farmer Mac I Guaranteed Securities and commitments to purchase eligible loans underlying LTSPCs, Farmer Mac purchases defaulted loans, all of which are at least 90 days delinquent or in material non-monetary default at the time of purchase, out of the loan pools underlying those securities and LTSPCs, and records the purchased loans as such on its balance sheet. The purchase price for defaulted loans purchased out of Farmer Mac I Guaranteed Securities is the current outstanding principal balance of the loan plus accrued and unpaid interest. The purchase price for defaulted loans purchased under an LTSPC is the then-current outstanding principal balance of the loan, with accrued and unpaid interest on the defaulted loans payable out of any future loan payments or liquidation proceeds as received. The purchase price of a defaulted loan is not an indicator of the expected loss on that loan; many other factors affect expected loss, if any, on loans so purchased. The weighted-average age of delinquent loans purchased out of securitized pools and LTSPCs during third quarter 2011 and third quarter 2010 was 9.9 years and 4.6 years, respectively. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Risk Management—Credit Risk – Loans” in the Corporation’s Annual Report on Form 10-K for the year ended December 31, 2010 filed with the SEC on March 16, 2011.

The following table presents Farmer Mac’s loan purchases of newly originated and current seasoned loans and defaulted loans purchased underlying Farmer Mac I Guaranteed Securities and LTSPCs:

	For the Three Months Ended		For the Nine Months Ended	
	September 30, 2011	September 30, 2010	September 30, 2011	September 30, 2010
	(in thousands)			
Farmer Mac I newly originated and current seasoned loan purchases	$ 68,201	$ 82,270	$ 397,030	$ 258,453
Defaulted loans purchased underlying Farmer Mac I Guaranteed Securities	2,921	1,133	7,292	3,456
Defaulted loans purchased underlying LTSPCs	-	781	13,974	1,861
Total loan purchases	$ 71,122	$ 84,184	$ 418,296	$ 263,770

Farmer Mac II LLC. In January 2010, Farmer Mac contributed substantially all of the assets comprising the Farmer Mac II program (in excess of $1.1 billion) to Farmer Mac’s subsidiary, Farmer Mac II LLC. The assets that Farmer Mac contributed to Farmer Mac II LLC consisted primarily of USDA-guaranteed portions that had not been securitized by Farmer Mac but also included $35.0 million of Farmer Mac II Guaranteed Securities. Farmer Mac did not and will not guarantee the timely payment of principal and interest on the $1.1 billion of contributed USDA-guaranteed portions. The contributed USDA-guaranteed portions had previously been presented as Farmer Mac II Guaranteed Securities on the condensed consolidated financial statements of Farmer Mac and are now presented as “USDA Guaranteed Securities” on the condensed consolidated balance sheets. The financial information presented in this report reflects the accounts of Farmer Mac and its subsidiaries on a consolidated basis. Accordingly, Farmer Mac’s reportable operating segments presented in this report will differ from the stand-alone financial statements of Farmer Mac II LLC. Those separate financial statements are available on the website of Farmer Mac II LLC and are not incorporated in this report by reference.

The assets of Farmer Mac II LLC will only be available to creditors of Farmer Mac after all obligations owed to creditors of and equity holders in Farmer Mac II LLC have been satisfied. As of September 30, 2011, Farmer Mac II LLC held assets with a fair value of $1.5 billion, had debt outstanding of $167.0 million, had preferred stock outstanding with a liquidation preference of $250.0 million, and had $1.0 billion of common stock outstanding held by Farmer Mac. For more information about the formation and operations of Farmer Mac II LLC and the features of the preferred stock issued by Farmer Mac II LLC in January 2010, see Notes 3, 6 and 8 to the condensed consolidated financial statements.

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Outlook. Farmer Mac continues to represent a potential source of liquidity, capital, and risk management to help lenders meet the borrowing needs of their customers. Farmer Mac foresees opportunities for continued business growth in both the agricultural and rural utilities segments, though the pace of growth will be dictated by the capital and liquidity demands of the lenders and industries, lenders' commodity concentrations and borrower exposure limits, and the stability of the financial markets.

The agricultural sector is made up of diverse industries that respond in different ways to changes in economic conditions. Those industries often are affected differently, sometimes positively and sometimes negatively, by prevailing economic conditions, which results in cycles where one or more industries may be under stress at any one time. These industries are also affected by commodity inventories, largely as a result of weather patterns and harvest conditions. For example, volatility in the prices of feed grains such as corn, soybeans, and wheat continued during the first nine months of 2011. The price increase of feed grains is positive for producers of these commodities but also has the potential to put pressure on the profit margins in the protein sector due to increased feed costs.

Farmer Mac's support of the renewable energy sector is centered in ethanol production, an industry that continues to demonstrate inconsistent profitability. Improved ethanol margins provided profit opportunities through the first nine months of 2011. Federal support of this industry, in the form of an excise tax credit and an import tariff, are set to expire at the end of 2011, and it appears highly unlikely that the industry will see an extension of this support as it did at the end of 2010. The Renewable Fuel Standard currently mandates targeted use of fuel from renewable sources, most especially ethanol. However, it is uncertain whether the Renewable Fuel Standard will remain in place or be revised in the near term, especially in light of opposition from various legislators and the meat and poultry industries due to increasing feed costs. It is also uncertain how the changes in federal support, combined with the price volatility of both corn feedstock and oil, will ultimately impact the industry. Profit margins at the ethanol production level will likely remain relatively tight and, at times, elusive.

Conditions in the agricultural sector during the first nine months of 2011 continued to be more robust than the national economy in general. However, agriculture is not insulated from the effects of general economic and market conditions such as the recent economic downturn and the related weak and uncertain economic conditions in the United States. Indeed, the agricultural sector remains subject to traditional commodity price cycles, artificial influences on commodity prices such as the effect that interest rate changes have on supply and demand of commodities and their prices, and government policies concerning biofuels and import tariffs. In addition, producers that rely on non-farm sources of income as a significant percentage of overall income may experience stress as the weakness in the general economy persists. Farmer Mac will continue to closely monitor developments in industries and geographic areas experiencing stress. The cyclical credit issues related to the agricultural sector are expected to remain within Farmer Mac's historical experience.

Farmer Mac continues to closely monitor land value trends and the underlying economic effects within the marketplace, and to tailor underwriting practices to these conditions. Although Farmer Mac underwrites loans with an emphasis on the borrower's repayment capacity, it is noteworthy that the weighted average original LTV (based on original appraised value that has not been indexed to provide a current market value) for loans in the Farmer Mac I program (excluding loans pledged to secure AgVantage bonds) was approximately 54 percent as of September 30, 2011. Farmer Mac also monitors the establishment and evolution of governmental policies and regulations that affect farmers, ranchers, and lenders, including agricultural polices contained in the current Farm Bill due to expire in 2012. The USDA has begun gathering input in preparation for the expiration of the current Farm Bill.

Farmer Mac believes that the rural utilities sector is a strong and growing industry with significant needs for future financing over the next ten years, as capital will be needed for industry growth, modernization, and compliance with environmental regulation. The rural utilities industry's demand for loans tends to follow the state of the general economy. Recently, electric consumption has been reduced, which has slowed loan demand. Farmer Mac expects that loan demand will increase as the economy strengthens.

Much of the electrical power generated by and for rural electric cooperatives uses coal as a fuel. The industry is expected to require additional capital as it invests in demand-side management and clean energy projects such as natural gas-fired generating projects in response to low natural gas fuel costs. The industry will also have to deal with future public policy initiatives, including any clean energy initiatives that may develop. As green energy sources continue to be developed, new power transmission lines will be needed to support the development and operation of new wind and solar power plants to transfer their power from remote locations to the ultimate consumer. These developments could lead to increased or decreased business volume for Farmer Mac in the rural utilities sector depending on how any new initiatives, legislation, or regulations are implemented and their effect on rural utilities cooperative borrowers.

In the near term, Farmer Mac expects that the majority of any new rural utilities business will be in the form of direct credit exposures to both electric distribution and generation and transmission ("G&T") loans through purchases of those loans, rather than indirect credit exposures to those loans through AgVantage transactions. Farmer Mac's ability to grow the rural utilities portion of its business may be limited by Farmer Mac's limits on borrower exposures, its overall risk tolerance, and the ability of Farmer Mac to maintain its funding costs at levels conducive to competitively price rural utilities loans.

Balance Sheet Review

During first quarter 2010, Farmer Mac adopted two new accounting standards that eliminated the concept of QSPEs and amended the accounting for transfers of financial assets and the consolidation model for VIEs. The impact upon adoption was an increase in consolidated assets and liabilities of $1.5 billion, which resulted in an incremental increase in Farmer Mac's statutory minimum capital requirement of $30.4 million. Pursuant to this new guidance, Farmer Mac routinely assesses its securitization trusts to determine whether it is the primary beneficiary and thereby required to consolidate the assets and liabilities of the trust onto its balance sheet, or if determined not to be the primary beneficiary of a previously consolidated trust, deconsolidate the assets and liabilities from its balance sheet.

As of January 1, 2010, Farmer Mac consolidated $1.1 billion of its outstanding securitization trusts created when loans subject to LTSPCs were converted to Farmer Mac I Guaranteed Securities at the request of program participants. Those securitization transactions contain provisions resulting in shared power over default mitigation decisions. For those transactions where the power is shared with a related party (as defined by applicable accounting guidance), Farmer Mac determined itself to be the primary beneficiary and thus is required to consolidate the assets and liabilities of the trust onto its balance sheet. For those transactions where the power was shared with an unrelated party, Farmer Mac was not determined to be the primary beneficiary and is not required to consolidate the assets and liabilities of the trust onto its balance sheet.

Determinations about which business partners of Farmer Mac are related parties often depend on whether an officer or director of that business partner is a member of Farmer Mac's board of directors, ten of whom are elected on an annual basis by the holders of Farmer Mac's outstanding voting common stock. Changes in the membership of the board of directors may result in Farmer Mac consolidating a trust previously disclosed as off-balance sheet, or deconsolidating a trust previously consolidated on balance sheet. Although this will have no net effect on Farmer Mac's net income, it may, at times, produce volatility in the statutory minimum capital Farmer Mac is required to hold.

At Farmer Mac's Annual Meeting of Stockholders on June 2, 2011, ten directors were elected to serve one-year terms, all of whom were re-elected as directors of Farmer Mac. At its Annual Meeting of Stockholders on June 3, 2010, ten directors were elected to serve one-year terms, nine of whom were re-elected as directors of Farmer Mac and one of whom was new to Farmer Mac's board. As a result of the change in membership of the board of directors during second quarter 2010, Farmer Mac deconsolidated $0.4 billion of securitization transactions with a business partner that was no longer a related party (as defined by applicable accounting guidance). For more information on Farmer Mac's policy relating to the consolidation of VIEs, see Note 1(g) to the condensed consolidated financial statements. For a discussion of Farmer Mac's related party transactions, see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Related Party Transactions" and Note 3 in the Corporation's Annual Report on Form 10-K for the year ended December 31, 2010 filed with the SEC on March 16, 2011, as amended by Amendment No. 1 on Form 10-K/A filed on June 1, 2011. See Note 1(a) to the condensed consolidated financial statements for further information.

Assets. Total assets were $11.4 billion as of September 30, 2011, compared to $9.5 billion as of December 31, 2010. This increase was primarily attributable to Farmer Mac's purchases of $1.8 billion of Farmer Mac I AgVantage securities during 2011, all of which are held on-balance sheet and accounted for as Farmer Mac Guaranteed Securities. As of September 30, 2011, Farmer Mac had $4.3 billion of Farmer Mac Guaranteed Securities, $1.4 billion of USDA Guaranteed Securities, $2.8 billion of loans and $1.9 billion of investment securities, compared to $2.9 billion of Farmer Mac Guaranteed Securities, $1.3 billion of USDA Guaranteed Securities, $2.6 billion of loans and $1.8 billion of investment securities as of December 31, 2010.

Liabilities and Total Equity. During the nine months ended September 30, 2011, total liabilities increased $1.9 billion as a result of debt issued to support the growth in assets. Total equity increased $68.2 million during the same period due to increased accumulated other comprehensive income primarily resulting from an increase in the fair value of Farmer Mac I Guaranteed Securities designated as available-for-sale due to a decline in long-term interest rates.

Regulatory Capital Compliance. Farmer Mac was in compliance with its statutory minimum capital requirement and its risk-based capital standard as of September 30, 2011. Farmer Mac is required to hold capital at the higher of its statutory minimum capital requirement and the amount required by its risk-based capital stress test. As of September 30, 2011, Farmer Mac's core capital totaled $461.3 million and exceeded its statutory minimum capital requirement of $336.6 million by $124.7 million. As of December 31, 2010, Farmer Mac's core capital totaled $460.6 million and exceeded its statutory minimum capital requirement of $301.0 million by $159.6 million. On April 27, 2011, FCA published a final rule implementing changes to the method for calculating Farmer Mac's risk-based capital requirement, which was effective in second quarter 2011. As of September 30, 2011, Farmer Mac's new risk-based capital stress test generated a risk-based capital requirement of $110.9 million. Farmer Mac's regulatory capital of $479.0 million exceeded that amount by approximately $368.1 million. Accumulated other comprehensive income is not a component of Farmer Mac's core capital or regulatory capital. For further discussion of this regulatory change and for more information, see "—Regulatory Matters."

Off-Balance Sheet Program Activities

Farmer Mac offers approved lenders two credit enhancement alternatives to increase their liquidity or lending capacity while retaining the cash flow benefits of their loans: (1) Farmer Mac Guaranteed Securities, which are available through each of the Farmer Mac I, Farmer Mac II and Rural Utilities programs; and (2) LTSPCs, which are available only through the Farmer Mac I and Rural Utilities programs. For securitization trusts where Farmer Mac is the primary beneficiary, the trust assets and liabilities are included on Farmer Mac's condensed consolidated balance sheet. For the remainder of these transactions, and in the event of deconsolidation, both of these alternatives result in the creation of off-balance sheet obligations for Farmer Mac. See Note 5 to the condensed consolidated financial statements for further information regarding Farmer Mac's off-balance sheet program activities.

Risk Management

Credit Risk – Loans. Farmer Mac is exposed to credit risk resulting from the inability of borrowers to repay their loans in conjunction with a deficiency in the value of the collateral relative to the outstanding balance of the loan and the costs of liquidation. Farmer Mac is exposed to credit risk on:

- loans held;
- loans underlying Farmer Mac Guaranteed Securities; and
- loans underlying LTSPCs.

Farmer Mac generally assumes 100 percent of the credit risk on loans held and loans underlying Farmer Mac I Guaranteed Securities, LTSPCs and Farmer Mac Guaranteed Securities – Rural Utilities. Farmer Mac has direct credit exposure on loans in non-AgVantage transactions and indirect credit exposure on loans that secure AgVantage transactions, which involve a general obligation of a lender secured by qualified loans. The credit exposure of Farmer Mac and Farmer Mac II LLC on USDA-guaranteed portions is covered by the full faith and credit of the United States. Farmer Mac believes that the Corporation and Farmer Mac II LLC have little or no credit risk exposure to USDA-guaranteed portions because of the USDA guarantee. As of September 30, 2011, neither Farmer Mac nor Farmer Mac II LLC had experienced credit losses on business under the Farmer Mac II program and does not expect that the Corporation or Farmer Mac II LLC will incur any such losses in the future.

Farmer Mac has established underwriting, collateral valuation and documentation standards (including interest rate shock tests for adjustable rate mortgages with initial reset periods of five years or less) for agricultural real estate mortgage loans and rural utilities loans to mitigate the risk of loss from borrower defaults and to provide guidance about the management, administration, and conduct of underwriting and appraisals to all participating sellers and potential sellers in its programs. These standards were developed on the basis of industry norms for agricultural real estate mortgage loans and rural utilities loans and are designed to assess the creditworthiness of the borrower, as well as the value of the collateral securing the loan. Farmer Mac evaluates and adjusts these standards on an ongoing basis based on current and anticipated market conditions. Farmer Mac also requires sellers to make representations and warranties regarding the conformity of eligible mortgage loans to these standards, the accuracy of loan data provided to Farmer Mac and other requirements related to the loans. Sellers are responsible to Farmer Mac for breaches of those representations and warranties, and Farmer Mac has the legal right to require a seller to cure, replace or repurchase a loan sold or transferred to Farmer Mac if any breach of a representation or warranty is discovered that was material to Farmer Mac's decision to purchase the loan or that directly or indirectly causes a default or potential loss on a loan sold or transferred by the seller to Farmer Mac. Pursuant to contracts with Farmer Mac and in consideration for servicing fees, Farmer Mac-approved central servicers service loans in accordance with Farmer Mac requirements. Central servicers are responsible to Farmer Mac for serious errors in the servicing of those mortgage loans. Detailed information regarding Farmer Mac's underwriting and collateral valuation standards and seller eligibility requirements are presented in "Business—Farmer Mac Programs—Farmer Mac I—Underwriting and Collateral Valuation (Appraisal) Standards" and "Business—Farmer Mac Programs—Farmer Mac I—Sellers" and "Business—Farmer M Programs—Rural Utilities" in the Corporation's Annual Report on Form 10-K for the year ended December 31, 2010 filed with the SEC on March 16, 2011.

Farmer Mac AgVantage securities are general obligations of institutions approved by Farmer Mac and are secured by eligible loans in an amount at least equal to the outstanding principal amount of the security. Farmer Mac excludes the loans that secure AgVantage securities from the credit risk metrics it discloses because of the credit quality of the issuing institutions, the collateralization level for the securities, and because delinquent loans are required to be removed from the pool of pledged loans and replaced with current eligible loans. As such, all AgVantage securities are secured by current loans representing at least 100 percent of the outstanding amount of the security. As of September 30, 2011, Farmer Mac had not experienced any credit losses on any AgVantage securities and does not expect to incur any such losses in the future. See "—Credit Risk – Institutional" for more information about Farmer Mac's credit risk on AgVantage securities.

Farmer Mac has developed different underwriting standards for rural utilities loans that depend on whether direct or indirect credit exposure is assumed on a loan and whether the borrower is an electric distribution cooperative or a G&T cooperative. As of September 30, 2011, there were no delinquencies or non-performing assets in Farmer Mac's portfolio of rural utilities loans, which includes rural utilities loans held and rural utilities loans underlying or securing Farmer Mac Guaranteed Securities – Rural Utilities. Farmer Mac's direct credit exposure to rural utilities loans as of September 30, 2011 was $861.0 million, of which $833.4 million were loans to electric distribution cooperatives and $27.6 million were loans to G&T cooperatives. Farmer Mac also had indirect credit exposure to the rural utilities loans securing Farmer Mac Guaranteed Securities – Rural Utilities structured as AgVantage securities, some of which were secured by loans to G&T cooperatives. For more information, see "—Credit Risk – Institutional."

Farmer Mac maintains an allowance for losses to cover estimated probable losses on loans held and loans underlying LTSPCs and Farmer Mac Guaranteed Securities. The methodology that Farmer Mac uses to determine the level of its allowance for losses is described in "Management's Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Policies and Estimates—Allowance for Losses" in the Corporation's Annual Report on Form 10-K for the year ended December 31, 2010 filed with the SEC on March 16, 2011. Management believes that this methodology produces a reasonable estimate of probable losses, as of the balance sheet date, for all loans held and loans underlying Farmer Mac Guaranteed Securities and LTSPCs, in accordance with FASB standards on accounting for contingencies and on measuring impairment of individual loans.

The following table summarizes the components of Farmer Mac's allowance for losses as of September 30, 2011 and December 31, 2010:

	September 30, 2011	December 31, 2010
	(in thousands)	
Allowance for loan losses	$ 10,699	$ 9,803
Reserve for losses:		
Off-balance sheet Farmer Mac I Guaranteed Securities	363	635
LTSPCs	6,628	9,677
Total allowance for losses	$ 17,690	$ 20,115

The following table summarizes the changes in the components of Farmer Mac's allowance for losses for the three and nine months ended September 30, 2011 and 2010:

	September 30, 2011			September 30, 2010		
	Allowance for Loan Losses	Reserve for Losses	Total Allowance for Losses	Allowance for Loan Losses	Reserve for Losses	Total Allowance for Losses
	(in thousands)					
For the Three Months Ended:						
Beginning Balance	$ 11,053	$ 7,443	$ 18,496	$ 9,495	$ 9,470	$ 18,965
Provision for/(release of) losses	(349)	(452)	(801)	412	105	517
Charge-offs	(5)	-	(5)	(465)	-	(465)
Recoveries	-	-	-	-	-	-
Ending Balance	$ 10,699	$ 6,991	$ 17,690	$ 9,442	$ 9,575	$ 19,017
For the Nine Months Ended:						
Beginning Balance	$ 9,803	$ 10,312	$ 20,115	$ 6,292	$ 7,895	$ 14,187
Provision for/(release of) losses	1,092	(3,321)	(2,229)	1,392	1,680	3,072
Charge-offs	(196)	-	(196)	(465)	-	(465)
Recoveries	-	-	-	2,223	-	2,223
Ending Balance	$ 10,699	$ 6,991	$ 17,690	$ 9,442	$ 9,575	$ 19,017

During the three and nine months ended September 30, 2011, Farmer Mac recorded releases from its allowance for losses of $0.8 million and $2.2 million, respectively, compared to provisions of $0.5 million and $3.1 million, respectively, for the same periods in 2010. Farmer Mac recorded charge-offs of $5,000 and $0.2 million for the three and nine months ended September 30, 2011, respectively, compared to $0.5 million of charge-offs during the same periods in 2010. Farmer Mac had no recoveries during the first nine months of 2011, compared to $2.2 million of recoveries during the first nine months of 2010. There was no previously accrued or advanced interest on loans or Farmer Mac I Guaranteed Securities charged off in third quarter 2011 or 2010. As of September 30, 2011, Farmer Mac's allowance for losses totaled $10.7 million, or 24 basis points of the outstanding principal balance of loans held and loans underlying Farmer Mac I Guaranteed Securities (excluding AgVantage securities) and LTSPCs, compared to $20.1 million or 47 basis points as of December 31, 2010.

As of September 30, 2011, Farmer Mac's 90-day delinquencies were $44.9 million (1.02 percent), compared to $64.8 million (1.53 percent) as of September 30, 2010. As of September 30, 2011 there were no ethanol loans in the 90-day delinquencies, compared to $10.9 million as of September 30, 2010. As of September 30, 2011, Farmer Mac's non-performing assets totaled $64.1 million (1.46 percent), compared to $78.4 million (1.86 percent) as of September 30, 2010. Loans that have been restructured were insignificant and are included within the reported 90-day delinquency and non-performing asset disclosures. Historically, from quarter to quarter, Farmer Mac's 90-day delinquencies and non-performing assets have fluctuated, both in dollars and as a percentage of the outstanding portfolio, with higher levels likely at the end of the first and third quarters of each year corresponding to the annual (January 1st) and semi-annual (January 1st and July 1st) payment characteristics of most Farmer Mac I loans, although 90-day delinquencies decreased slightly at the end of third quarter 2011.

When analyzing delinquencies in its program business, Farmer Mac takes into account more than the Farmer Mac I agricultural loan delinquency percentages provided above. The total program business includes AgVantage securities and rural utilities loans, neither of which have any delinquencies, and the USDA Guaranteed Securities and USDA-guaranteed portions underlying Farmer Mac II Guaranteed Securities, which are backed by the full faith and credit of the United States. When these are included in the calculation, the overall level of 90-day delinquent loans in Farmer Mac's programs is 0.38 percent as of September 30, 2011.

As of September 30, 2011, Farmer Mac's ethanol exposure, which includes loans held and loans subject to LTSPCs, was $180.6 million on 27 different plants, with an additional $31.7 million of undisbursed commitments. Other than the undisbursed commitments and the servicing of troubled ethanol loans, Farmer Mac does not expect to add additional ethanol loans to its portfolio.

The following table presents historical information regarding Farmer Mac's non-performing assets and 90-day delinquencies in the Farmer Mac I program compared to the principal balance of all Farmer Mac I loans held and loans underlying Farmer Mac I Guaranteed Securities (excluding AgVantage securities) and LTSPCs:

	Outstanding Loans, Guarantees(1), LTSPCs and REO	Non-performing Assets	Percentage	Less: REO and Performing Bankruptcies	90-day Delinquencies	Percentage
			(dollars in thousands)			
As of:						
September 30, 2011	$ 4,381,264	$ 64,137	1.46%	$ 19,289	$ 44,848	1.02%
June 30, 2011	4,315,987	67,254	1.56%	12,621	54,633	1.27%
March 31, 2011	4,314,328	69,706	1.62%	12,382	57,324	1.33%
December 31, 2010	4,304,120	81,778	1.90%	11,530	70,248	1.63%
September 30, 2010	4,225,346	78,448	1.86%	13,648	64,800	1.53%
June 30, 2010	4,299,417	71,300	1.66%	15,289	56,011	1.30%
March 31, 2010	4,303,663	83,977	1.95%	13,542	70,435	1.64%
December 31, 2009	4,396,642	62,020	1.41%	12,494	49,526	1.13%
September 30, 2009	4,379,450	84,779	1.94%	25,341	59,438	1.36%

(1) Excludes loans underlying AgVantage securities.

As of September 30, 2011, Farmer Mac individually analyzed $57.7 million of its $92.5 million of impaired assets for collateral shortfalls against updated appraised values, other updated collateral valuations or discounted values. Farmer Mac evaluated the remaining $34.8 million of impaired assets for which updated valuations were not available in the aggregate in consideration of their similar risk characteristics and historical statistics. As of September 30, 2011, Farmer Mac had recorded specific allowances of $7.5 million for under-collateralized assets. As of September 30, 2011, Farmer Mac's non-specific or general allowances were $10.2 million.

As of September 30, 2011, the weighted-average original loan-to-value ratio ("LTV") for Farmer Mac I loans held and loans underlying LTSPCs and Farmer Mac I Guaranteed Securities (excluding AgVantage securities) was

54.3 percent, and the weighted-average original LTV for all non-performing assets was 54.7 percent.

The following table presents outstanding Farmer Mac I loans held and loans underlying LTSPCs and Farmer Mac I Guaranteed Securities (excluding AgVantage securities) and non-performing assets as of September 30, 2011 by year of origination, geographic region and commodity/collateral type.

Farmer Mac I Non-performing Assets as of September 30, 2011

	Distribution of Outstanding Loans, Guarantees, LTSPCs and REO	Outstanding Loans, Guarantees, LTSPCs and REO (1)	Non-performing Assets (2)	Non-performing Asset
		(dollars in thousands)		
By year of origination:				
Before 2000	14%	$ 606,488	$ 16,983	2.80%
2000	2%	97,276	1,087	1.12%
2001	4%	177,961	7,044	3.96%
2002	5%	238,165	4,586	1.93%
2003	7%	285,467	3,974	1.39%
2004	7%	288,065	1,497	0.52%
2005	8%	370,554	3,344	0.90%
2006	9%	408,516	7,741	1.89%
2007	9%	388,983	14,096	3.62%
2008	9%	393,702	2,007	0.51%
2009	7%	290,385	1,778	0.61%
2010	11%	480,223	-	0.00%
2011	8%	355,479	-	0.00%
Total	100%	$ 4,381,264	$ 64,137	1.46%
By geographic region (3):				
Northwest	18%	$ 772,640	$ 14,706	1.90%
Southwest	35%	1,581,303	8,744	0.55%
Mid-North	20%	865,731	16,892	1.95%
Mid-South	11%	488,703	10,426	2.13%
Northeast	7%	293,047	10,236	3.49%
Southeast	9%	379,840	3,133	0.82%
Total	100%	$ 4,381,264	$ 64,137	1.46%
By commodity/collateral type:				
Crops	41%	$ 1,811,004	$ 23,322	1.29%
Permanent plantings	19%	841,412	25,216	3.00%
Livestock	30%	1,258,263	6,489	0.52%
Part-time farm	6%	255,985	8,459	3.30%
AgStorage and processing (including ethanol facilities)	4%	193,144	-	0.00%
Other	0%	21,456	651	3.03%
Total	100%	$ 4,381,264	$ 64,137	1.46%

(1) Excludes loans underlying AgVantage securities.

(2) Includes loans 90 days or more past due, in foreclosure, restructured after delinquency, in bankruptcy (including loans performing under either their original loan terms or a court-approved bankruptcy plan) and real estate

owned.

(3) Geographic regions - Northwest (AK, ID, MT, ND, NE, OR, SD, WA, WY); Southwest (AZ, CA, CO, HI, NM, NV, UT); Mid-North (IA, IL, IN, MI, MN, MO, WI); Mid-South (KS, OK, TX); Northeast (CT, DE, KY, MA, MD, ME, NC, NH, NJ, NY, OH, PA, RI, TN, VA, VT, WV); and Southeast (AL, AR, FL, GA, LA, MS, SC).

The following table presents Farmer Mac's cumulative net credit losses relative to the cumulative original balance for all Farmer Mac I loans purchased and loans underlying LTSPCs and Farmer Mac I Guaranteed Securities (excluding AgVantage securities) as of September 30, 2011, by year of origination, geographic region and commodity/collateral type. The purpose of this information is to present information regarding losses relative to original Farmer Mac I purchases, guarantees and commitments.

Farmer Mac I Credit Losses Relative to all
Cumulative Original Loans, Guarantees and LTSPCs
as of September 30, 2011

	Cumulative Original Loans, Guarantees and LTSPCs	Cumulative Net Credit Losses	Cumulative Loss Rate
	(dollars in thousands)		
By year of origination:			
Before 2000	$ 6,546,356	$ 9,025	0.14 %
2000	770,713	2,936	0.38 %
2001	1,133,645	177	0.02 %
2002	1,160,165	-	0.00 %
2003	968,305	58	0.01 %
2004	705,114	116	0.02 %
2005	841,940	69	0.01 %
2006	862,438	7,714	0.89 %
2007	635,058	1,523	0.24 %
2008	629,125	3,257	0.52 %
2009	398,061	1,193	0.30 %
2010	527,674	-	0.00 %
2011	375,256	-	0.00 %
Total	$ 15,553,850	$ 26,068	0.17 %
By geographic region (1):			
Northwest	$ 2,928,947	$ 11,027	0.38 %
Southwest	5,870,551	7,495	0.13 %
Mid-North	2,662,412	6,815	0.26 %
Mid-South	1,420,470	(356)	-0.03 %
Northeast	1,387,404	83	0.01 %
Southeast	1,284,066	1,004	0.08 %
Total	$ 15,553,850	$ 26,068	0.17 %
By commodity/collateral type:			
Crops	$ 6,331,449	$ 2,733	0.04 %
Permanent plantings	3,434,761	9,714	0.28 %
Livestock	4,049,997	3,616	0.09 %
Part-time farm	1,036,009	503	0.05 %
AgStorage and processing (including ethanol facilities) (2)	555,499	9,502	1.71 %
Other	146,135	-	0.00 %
Total	$ 15,553,850	$ 26,068	0.17 %

(1) Geographic regions - Northwest (AK, ID, MT, ND, NE, OR, SD, WA, WY); Southwest (AZ, CA, CO, HI, NM, NV, UT); Mid-North (IA, IL, IN, MI, MN, MO, WI); Mid-South (KS, OK, TX);Northeast (CT,DE, KY, MA,

MD, ME, NC, NH, NJ, NY, OH, PA, RI, TN, VA, VT, WV); and Southeast (AL, AR, FL, GA, LA, MS, SC).

(2) Several of the loans underlying agricultural storage and processing LTSPCs are for facilities under construction and, as of September 30, 2011, approximately $31.7 million of the loans were not yet disbursed by the lender.

Analysis of the performance of the Farmer Mac I portfolio by commodity distribution indicates that losses and collateral deficiencies have been less prevalent in the loans secured by real estate producing agricultural commodities that receive significant government support (such as cotton, soybeans, wheat and corn) and more prevalent in those that do not receive such support (such as the protein sector, permanent plantings and vegetables). However, the level of government support may vary and is not necessarily the primary factor to forecast future losses and collateral deficiencies. In Farmer Mac's experience, another significant determinant of ultimate losses on loans is the degree to which the collateral is specialized or highly improved, such as permanent plantings and facilities.

As adverse economic conditions persist for the agricultural commodities or products related to those types of collateral, the prospective sale value of the collateral is likely to decrease and the related loans may become under-collateralized. This analysis is consistent with corresponding commodity analyses, which indicate that Farmer Mac has experienced higher loss and collateral deficiency rates in its loans classified as permanent plantings as well as storage and processing loans, which include Farmer Mac's exposure to loans on ethanol plants. Most of the loans classified as permanent plantings do not receive significant government support, and are therefore more susceptible to adverse commodity-specific economic trends, and the collateral for storage and processing loans is typically highly improved and specialized. Farmer Mac anticipates that one or more particular commodity groups will be under economic pressure at any one time and actively manages its portfolio to mitigate concentration risks while preserving Farmer Mac's ability to meet the financing needs of all commodity groups. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Results of Operations—Outlook."

Analysis of portfolio performance by geographic distribution indicates that, while commodities are the primary determinant of exposure to loss, within most commodity groups certain geographic areas allow greater economies of scale or proximity to markets than others and, consequently, result in more successful operators within the commodity group. Likewise, certain geographic areas offer better growing conditions than others and, consequently, result in more versatile and more successful operators within a given commodity group – and the ability to switch crops among commodity groups. As of September 30, 2011, the properties that secure Farmer Mac's non-performing assets were not concentrated in any region of the country.

Farmer Mac's methodologies for pricing its guarantee and commitment fees, managing credit risks and providing adequate allowances for losses consider all of the foregoing factors and information.

Credit Risk – Institutional. Farmer Mac is also exposed to credit risk arising from its business relationships with other institutions, including:

- issuers of AgVantage securities and other investments held or guaranteed by Farmer Mac;
- sellers and servicers; and
- interest rate swap contract counterparties.

Each AgVantage security is a general obligation of an issuing institution approved by Farmer Mac and is secured by eligible loans in an amount at least equal to the outstanding principal amount of the security, with some level of overcollateralization also required for Farmer Mac I AgVantage securities. The required collateralization level is established at the time of issuance and does not change during the life of the security. In AgVantage transactions, the corporate obligor is required to remove from the pool of pledged collateral any loan that becomes more than 30 days delinquent in the payment of principal or interest and to substitute an eligible loan that is current in payment to maintain the minimum required collateralization level. In the event of a default on the general obligation, Farmer Mac would have recourse to the pledged collateral and have rights to the ongoing borrower payments of principal and interest. For a more detailed description of AgVantage securities, see "Business—Farmer Mac Programs—Farmer Mac I—AgVantage Securities" in the Corporation's Annual Report on Form 10-K for the year ended December 31, 2010 filed with the SEC on March 16, 2011.

Outstanding AgVantage on-balance sheet Farmer Mac I Guaranteed Securities totaled $2.7 billion and $0.9 billion as of September 30, 2011 and December 31, 2010, respectively. Farmer Mac Guaranteed Securities – Rural Utilities structured as AgVantage transactions issued by CFC totaled $1.4 billion and $1.9 billion as of September 30, 2011 and December 31, 2010, respectively. In addition, outstanding off-balance sheet AgVantage transactions totaled $1.0 billion and $3.0 billion as of September 30, 2011 and December 31, 2010, respectively. See "—Business Volume" for information about off-balance sheet AgVantage securities that matured during third quarter 2011. The following table provides information about the issuers of AgVantage securities, as well as the required collateralization levels for those transactions as of September 30, 2011 and December 31, 2010.

	September 30, 2011			December 31, 2010		
Counterparty	Balance	Credit Rating	Required Collateralization	Balance	Credit Rating	Required Collateralization
	(dollars in thousands)					
MetLife (1)	$ 2,750,000	AA-	103%	$ 2,750,000	AA-	103%
CFC	1,428,879	A	100%	1,902,492	A	100%
M&I Bank (2)	-			475,000	BBB- *+	106%
Rabo Agrifinance, Inc.	900,000	N/A	106%	600,000	N/A	106%
Rabobank N.A.	50,000	N/A	106%	50,000	N/A	106%
Other (3)	11,000	N/A	111% to 120%	11,500	N/A	111% to 120%
Total outstanding	$ 5,139,879			$ 5,788,992		

(1) Includes securities issued by Metropolitan Life Insurance Company and MetLife Insurance Company of Connecticut.
(2) M&I Bank was on credit watch positive (*+) as of December 31, 2010.
(3) Consists of AgVantage securities issued by 4 different issuers as of September 30, 2011 and December 31, 2010.

Farmer Mac manages institutional credit risk related to sellers and servicers by requiring those institutions to meet Farmer Mac's standards for creditworthiness. Farmer Mac monitors the financial condition of those institutions by evaluating financial statements and bank credit rating agency reports. For more information on Farmer Mac's approval of sellers, see "Business—Farmer Mac Programs—Farmer Mac I—Sellers" in the Corporation's Annual Report on Form 10-K for the year ended December 31, 2010 filed with the SEC on March 16, 2011.

Credit Risk – Other Investments. As of September 30, 2011, Farmer Mac had $825.0 million of cash and cash equivalents and $1.9 billion of investment securities. The management of the credit risk inherent in these investments is governed by Farmer Mac's own policies and regulations promulgated by FCA, including dollar amount, issuer concentration, and credit quality limitations. Those regulations can be found at 12 C.F.R. §§ 652.1-652.45 (the "Liquidity and Investment Regulations").

In general, FCA's Liquidity and Investment Regulations and Farmer Mac's policies require each investment or issuer of an investment to be highly rated by a nationally-recognized statistical rating organization ("NRSRO"). Investments in mortgage securities and asset-backed securities are required to have a rating in the highest NRSRO category. The maximum maturity for corporate debt securities is three years and the minimum rating is required to be in one of the three highest categories. There are investments for which a rating is not required, such as obligations of the United States or diversified investment funds regulated under the Investment Company Act of 1940. Investments in diversified investment funds are further limited to those funds that are holding only instruments approved for direct investment by Farmer Mac. FCA has recently sought public comment regarding its use of credit ratings in its Liquidity and Investment Regulations for purposes of a final rule to be published at a later date. For more information on proposed changes to the Liquidity and Investment Regulations, see "—Regulatory Matters."

FCA's Liquidity and Investment Regulations and Farmer Mac's policies also establish concentration limits, which are intended to limit exposure to any one counterparty. FCA's Liquidity and Investment Regulations limit Farmer Mac's total credit exposure to any single issuer of securities and uncollateralized financial derivatives to 25 percent of the Corporation's regulatory capital (as of September 30, 2011, 25 percent of Farmer Mac's regulatory capital was $119.8 million). This limitation is not applied to the obligations of the United States or to qualified investment funds. The limitation applied to the obligations of any GSE is 100 percent of Farmer Mac's regulatory capital. Since June 2010, Farmer Mac's policies applicable to new investments limited the Corporation's total exposure to any single issuer of securities (other than GSEs and government agencies) and uncollateralized financial derivatives to 5 percent of the Corporation's regulatory capital.

Interest Rate Risk. Farmer Mac is subject to interest rate risk on all assets held for investment because of possible timing differences in the cash flows of the assets and related liabilities. This risk is primarily related to loans held and on-balance sheet Farmer Mac Guaranteed Securities due to the ability of borrowers to prepay their mortgages before the scheduled maturities, thereby increasing the risk of asset and liability cash flow mismatches. Cash flow mismatches in a changing interest rate environment can reduce the earnings of the Corporation if assets repay sooner than expected and the resulting cash flows must be reinvested in lower-yielding investments when Farmer Mac's funding costs cannot be correspondingly reduced, or if assets repay more slowly than expected and the associated debt must be replaced by higher-cost debt.

Yield maintenance provisions and other prepayment penalties contained in many agricultural mortgage and rural utilities loans reduce, but do not eliminate, prepayment risk, particularly in the case of a defaulted loan where yield maintenance may not be collected. Those provisions require borrowers to make an additional payment when they prepay their loans so that, when reinvested with the prepaid principal, yield maintenance payments generate substantially the same cash flows that would have been generated had the loan not prepaid. Those provisions create a disincentive to prepayment and compensate the Corporation for some of its interest rate risks. As of September 30, 2011, 9 percent of the total outstanding balance of loans in the Farmer Mac I program where Farmer Mac either owned the loan or the beneficial interest in the underlying loan had yield maintenance provisions and 5 percent had other forms of prepayment protection (together covering 24 percent of all loans with fixed interest rates). Of the Farmer Mac I newly originated and current seasoned loans purchased in third quarter 2011, none had yield maintenance or other forms of prepayment protection. As of September 30, 2011, none of the USDA-guaranteed portions held or underlying Farmer Mac II Guaranteed Securities had yield maintenance provisions; however, 9 percent contained prepayment penalties. Of the USDA-guaranteed portions purchased in third quarter 2011, 6 percent contained various forms of prepayment penalties. As of September 30, 2011, 69 percent of the rural utilities loans owned by Farmer Mac had yield maintenance provisions. Of the rural utilities loans purchased in third quarter 2011, 53 percent had yield maintenance provisions. As of September 30, 2011, all of the rural utilities loans held in trusts where Farmer Mac owned the beneficial interest in the underlying loan had yield maintenance provisions.

Farmer Mac uses prepayment models to project and value cash flows associated with its program assets, taking into consideration the prepayment provisions and the default probabilities associated with these assets. Because borrowers' behaviors in various interest rate environments may change over time, Farmer Mac periodically evaluates the effectiveness of these models compared to actual prepayment experience and adjusts and refines the models as necessary to improve the precision of subsequent prepayment forecasts.

Farmer Mac's $825.0 million of cash and cash equivalents mature within three months and are funded with discount notes having similar maturities. As of September 30, 2011, $1.2 billion of the $1.9 billion of investment securities (64 percent) were floating rate securities with rates that adjust within one year or fixed rate securities with original maturities between three months and one year. Such securities are funded with floating rate medium-term notes or discount notes that closely match the rate adjustment dates of the associated investments. As of September 30, 2011, Farmer Mac had outstanding discount notes of $4.8 billion, medium-term notes that mature within one year of $1.0 billion and medium-term notes that mature after one year of $4.1 billion.

The goal of interest rate risk management at Farmer Mac is to create and maintain a portfolio that generates stable earnings and value across a variety of interest rate environments. Farmer Mac's primary strategy for managing interest rate risk is to fund asset purchases with liabilities that have similar duration and cash flow characteristics so that they will perform similarly as interest rates change. To achieve this match, Farmer Mac issues discount notes and both callable and non-callable medium-term notes across a spectrum of maturities. Farmer Mac issues callable debt to offset the prepayment risk associated with some loans. By using a blend of liabilities that includes callable debt, the interest rate sensitivities of the liabilities tend to increase or decrease as interest rates change in a manner similar to changes in the interest rate sensitivities of the assets. Farmer Mac also uses financial derivatives to better match the durations of the Corporation's assets and liabilities, thereby reducing overall interest rate sensitivity.

An important “stress test” of Farmer Mac’s exposure to long-term interest rate risk is the measurement of the sensitivity of its market value of equity (“MVE”) to yield curve shocks. MVE represents management’s estimate of the present value of all future cash flows from on- and off-balance sheet assets, liabilities and financial derivatives, discounted at current interest rates and appropriate spreads.

The following schedule summarizes the results of Farmer Mac’s MVE sensitivity analysis as of September 30, 2011 and December 31, 2010 to an immediate and instantaneous uniform or “parallel” shift in the yield curve.

	Percentage Change in MVE from Base	
Interest Rate Scenario	September 30, 2011	December 31, 2010
+ 300 bp	-2.2%	-1.0%
+ 200 bp	1.5%	1.9%
+ 100 bp	1.9%	2.6%
- 100 bp	*	*
- 200 bp	*	*
- 300 bp	*	*

* As of the date indicated, a parallel shift of the U.S. Treasury yield curve by the number of basis points indicated produced negative interest rates for portions of this curve.

As of September 30, 2011, Farmer Mac’s effective duration gap, another standard measure of interest rate risk that measures the difference between the sensitivities of assets compared to that of liabilities, was minus 1.3 months, compared to minus 1.6 months as of December 31, 2010. Duration matching of assets and the corresponding liabilities helps maintain the correlation of cash flows and stabilize portfolio earnings even when interest rates are not stable. During 2011, Farmer Mac’s interest rate sensitivity has remained relatively stable and at relatively low levels, despite significant market volatility, a sharp decrease in interest rates and a much flatter yield curve.

Farmer Mac also calculates sensitivity of net interest income (“NII”) to changes in interest rates which represents a shorter-term measure of interest rate risk. As of September 30, 2011, a parallel increase of 100 basis points would have decreased Farmer Mac’s NII by 6.1 percent, while a parallel decrease of 25 basis points would have decreased NII by 6.5 percent. Farmer Mac also measures the sensitivity of both MVE and NII to a variety of non-parallel interest rate shocks, including flattening and steepening yield curve scenarios. As of September 30, 2011, both MVE and NII showed similar or lesser sensitivity to non-parallel shocks than to the parallel shocks.

The economic effects of financial derivatives are included in the Corporation's MVE, NII and duration gap analyses. Farmer Mac enters into the following financial derivative transactions principally to protect against risk from the effects of market price or interest rate movements on the value of assets, future cash flows, credit exposure and debt issuance, not for trading or speculative purposes:

- "pay-fixed" interest rate swaps, in which it pays fixed rates of interest to, and receives floating rates of interest from, counterparties;
- "receive-fixed" interest rate swaps, in which it receives fixed rates of interest from, and pays floating rates of interest to, counterparties;
- "basis swaps," in which it pays variable rates of interest based on one index to, and receives variable rates of interest based on another index from, counterparties; and
- "credit default swaps," in which it pays a periodic fee to a counterparty in exchange for the counterparty's agreement to make payments in the event of an instrument's default or other credit event.

As of September 30, 2011, Farmer Mac had $6.5 billion combined notional amount of interest rate and credit default swaps, with terms ranging from one to fifteen years, of which $2.0 billion were pay-fixed interest rate swaps, $3.9 billion were receive-fixed interest rate swaps, $0.5 billion were basis swaps and $10.0 million were credit default swaps.

Liquidity and Capital Resources

Farmer Mac regularly accesses the capital markets for liquidity, and Farmer Mac maintained access to the capital markets at favorable rates throughout third quarter 2011. The capital markets experienced increased volatility during third quarter 2011, which was widely attributed to global economic conditions, continued weak U.S. economic data, and concerns surrounding Standard & Poor's downgrade of the credit rating of the United States. To date, Farmer Mac's access to the capital markets at favorable rates has not been negatively affected by this market volatility. Assuming continued access to the capital markets, Farmer Mac believes it has sufficient liquidity and capital resources to support its operations for the next 12 months and for the foreseeable future. Farmer Mac also has a liquidity contingency plan to manage unanticipated disruptions in its access to the capital markets. That plan involves borrowing through repurchase agreement arrangements and the sale of liquid assets. In accordance with the calculation prescribed by FCA regulations, Farmer Mac maintains a minimum of 60 days of liquidity and a target of 90 days of liquidity. In accordance with the methodology prescribed by those regulations, Farmer Mac maintained an average of 167 days of liquidity during third quarter 2011 and had 174 days of liquidity as of September 30, 2011.

Debt Issuance. Farmer Mac funds its purchases of assets primarily by issuing debt obligations of various maturities in the public capital markets. Debt obligations issued by Farmer Mac include discount notes and fixed and floating rate medium-term notes, including callable notes. Farmer Mac also issues discount notes and medium-term notes to obtain funds to finance its investment activities, transaction costs, guarantee payments and LTSPC purchase obligations. See "Business—Financing—Debt Issuance" in the Corporation's Annual Report on Form 10-K for the year ended December 31, 2010 filed with the SEC on March 16, 2011 for more information about Farmer Mac's debt issuance.

Farmer Mac's board of directors has authorized the issuance of up to $12.0 billion of discount notes and medium-term notes (of which $9.9 billion was outstanding as of September 30, 2011), subject to periodic review of the adequacy of that level relative to Farmer Mac's borrowing requirements. That authorization was increased from $10.0 billion to $12.0 billion in June 2011. Farmer Mac invests the proceeds of such issuances in loans, Farmer Mac Guaranteed Securities, and liquidity investment assets in accordance with policies established by its board of directors and subject to regulations established by FCA.

Liquidity. The funding and liquidity needs of Farmer Mac's business are driven by the purchase of loans, USDA-guaranteed portions and Farmer Mac Guaranteed Securities; the maturities of and interest payments on Farmer Mac's discount notes and medium-term notes; and payment of principal and interest on Farmer Mac Guaranteed Securities. Farmer Mac's primary sources of funds to meet these needs are:

- principal and interest payments and ongoing guarantee and commitment fees received on loans, Farmer Mac Guaranteed Securities, and LTSPCs;
- principal and interest payments received from investment securities; and
- the issuance of new discount notes and medium-term notes.

Farmer Mac's borrowing costs have remained at favorable levels despite continued market volatility. Farmer Mac uses a combination of pay-fixed interest rate swaps and receive-fixed interest rate swaps to mitigate its exposure to interest rate risk and monitors the effects of actual and potential fair value changes on its regulatory capital surplus. From time to time, Farmer Mac uses pay-fixed interest rate swaps, combined with a planned series of discount note issuances, as an alternative source of effectively fixed rate funding. While the swap market may provide favorable effectively fixed rates, interest rate swap transactions expose Farmer Mac to the risk of future widening of its own issuance spreads versus corresponding LIBOR rates. If the spreads on the Farmer Mac discount notes were to increase relative to LIBOR, Farmer Mac would be exposed to a commensurate reduction on its net interest yield on the notional amount of its pay-fixed interest rate swaps and its LIBOR-based floating rate assets. Conversely, if the rates on the Farmer Mac discount notes were to decrease relative to LIBOR, Farmer Mac would benefit from a commensurate increase on its net interest yield on the notional amount of its pay-fixed interest rate swaps and its LIBOR-based floating rate assets. Further, the use of pay-fixed interest rate swaps subject the Corporation's regulatory capital surplus to the potential adverse effects of a reduction in the fair values of those interest rate swaps. Farmer Mac routinely enters into receive-fixed interest rate swaps to partially offset the fair value movements of the pay-fixed interest rate swaps. These transactions reduce the susceptibility of Farmer Mac's regulatory capital surplus to changes in the fair values of its financial derivatives and often times result in lower effective borrowing costs.

Farmer Mac maintains cash and cash equivalents (including U.S. Treasury bills and other short-term money market instruments) and other investment securities that can be drawn upon for liquidity needs. The following table presents these assets as of September 30, 2011 and December 31, 2010.

	September 30, 2011	December 31, 2010
	(in thousands)	
Cash and cash equivalents	$ 825,014	$ 729,920
Investment securities:		
Guaranteed by U.S. Government and its agencies	906,325	929,793
Guaranteed by GSEs	610,394	405,631
Preferred stock issued by GSEs	164,268	169,524
Corporate debt securities	85,918	163,188
Asset-backed securities principally backed by Government-guaranteed student loans	145,972	95,193
Total	$ 2,737,891	$ 2,493,249

Farmer Mac's asset-backed investment securities include callable, AAA-rated ARCs, the interest rates on which are reset through an auction process, most commonly at intervals of 28 days, or at formula-based floating rates as set forth in the related transaction documents in the event of a failed auction. These formula-based floating rates, which may at times reset to zero, are intended to preserve the underlying principal balance of the securities and avoid overall cash shortfalls. Accordingly, payments of accrued interest may also be delayed and are ultimately subject to cash availability. Beginning in mid-February 2008, there were widespread failures of the auction mechanism designed to provide regular liquidity to these types of securities. Consequently, Farmer Mac has not sold any of its ARCs into the auctions since that time. All ARCs held by Farmer Mac are collateralized entirely by pools of Federal Family Education Loan Program guaranteed student loans that are backed by the full faith and credit of the United States. Farmer Mac continues to believe that the credit quality of these securities is high, based on the underlying collateralization and the securities' continued AAA ratings. To date, Farmer Mac has received all interest due on ARCs it holds and expects to continue to do so. Farmer Mac does not believe that the auction failures will affect the Corporation's liquidity or its ability to fund its operations or make dividend payments. All ARCs held by Farmer Mac are callable by the issuers at par at any time.

Farmer Mac held $62.2 million of ARCs as of September 30, 2011, compared to $64.3 million as of December 31, 2010. As of September 30, 2011, Farmer Mac's carrying value of its ARCs was 84 percent of par. The discounted carrying value reflects uncertainty regarding the ability to obtain par in the absence of any active market trading.

Capital. See "—Balance Sheet Review—Regulatory Capital Compliance" for more information about Farmer Mac's capital position and "—Regulatory Matters" for more information about changes to the risk-based capital stress test applicable to Farmer Mac.

Other Matters

Common Stock Dividends. For the first three quarters of 2011 and for each quarter in 2010, Farmer Mac paid a quarterly dividend of $0.05 per share on the Corporation's Class A, Class B and Class C common stock. Farmer Mac's ability to pay dividends on its common stock is subject to the payment of dividends on its outstanding preferred stock. Farmer Mac's ability to declare and pay dividends could be restricted if it were to fail to comply with the applicable regulatory capital requirements. See "Business—Government Regulation of Farmer Mac—Regulation—Capital Standards—Enforcement levels" in Farmer Mac's Annual Report on Form 10-K for the fiscal year ended December 31, 2010 filed with the SEC on March 16, 2011.

Preferred Stock Dividends. For the first three quarters of 2011 and for each quarter in 2010, Farmer Mac paid a quarterly dividend of $12.50 per share on the Corporation's Series C Preferred Stock.

On January 25, 2010, all of the outstanding shares of the Corporation's Series B preferred stock was repurchased and retired. The price paid to repurchase the Series B Preferred Stock included accrued dividends of $8.33 per share through the purchase date.

Non-controlling Interest. For the first three quarters of 2011, Farmer Mac II LLC paid a quarterly dividend of $22.1875 per share on the company's preferred stock. For first, second and third quarters 2010, Farmer Mac II LLC paid a quarterly dividend of $16.02 per share, $22.1875 per share, and $22.1875 per share, respectively, on the company's preferred stock. Farmer Mac's net income attributable to non-controlling interest totaled $5.5 million and $16.6 million for the three and nine months ended September 30, 2011, respectively, compared to $5.5 million and $15.2 million, respectively, for the same periods in 2010. These amounts represent the dividends paid on the Farmer Mac II LLC preferred stock held by third parties. Farmer Mac's income tax expense is determined based on income before income taxes less the amount of these dividends.

Regulatory Matters

In the April 27, 2011 issue of the Federal Register, FCA published a final rule (the "Final RBC 4.0 Rule") that revises certain FCA regulations governing the risk-based capital stress test applicable to Farmer Mac. In its announcement of the Final RBC 4.0 Rule, FCA stated that the purpose of the changes was to update the risk-based capital model to address the addition of rural utilities loans to Farmer Mac's program authorities, to revise the existing treatment of risk mitigations of general obligations in the AgVantage structure, and to revise the treatment of counterparty risk on Farmer Mac's non-program investments. The Final RBC 4.0 Rule became effective during second quarter 2011.

Farmer Mac is required to hold capital at the higher of the statutory minimum capital requirement and the amount required by the risk-based capital stress test. As of September 30, 2011, Farmer Mac's minimum capital requirement was $336.6 million, and Farmer Mac's core capital level was $461.3 million, $124.7 million above the minimum capital requirement. Based on the new risk-based capital stress test that became effective in second quarter 2011, Farmer Mac's risk-based capital requirement as of September 30, 2011 was $110.9 million, and Farmer Mac's regulatory capital of $479.0 million exceeded that requirement by approximately $368.1 million.

The Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act") contains a variety of provisions designed to regulate financial markets, including credit and derivatives transactions. Certain provisions of the Dodd-Frank Act, such as the requirement to retain a five percent credit risk in any securitized loan, do not apply to Farmer Mac or, with respect to any loan sold to Farmer Mac, the seller of such loan. In addition, Farmer Mac's equity and debt securities are excluded from the Dodd-Frank Act's prohibitions on proprietary trading by banking entities. However, certain provisions of the Dodd-Frank Act, such as those regarding derivatives regulation, corporate governance and executive compensation, do not contain specific exemptions for Farmer Mac. Until various studies are completed and all applicable final regulations are promulgated pursuant to the Dodd-Frank Act, the full effect of the legislation on the Corporation's business activities and operations cannot be completely assessed, particularly how it will affect the Corporation's hedging operations and costs. Farmer Mac does not expect that any of the final rules that have been passed under the Dodd-Frank Act to date will have a material impact on the Corporation's business activities and operations or financial condition. Farmer Mac will continue to monitor all applicable developments in the implementation of the Dodd-Frank Act and expects to be able to adapt successfully to any new applicable legislative and regulatory requirements.

On May 11, 2011, the FCA, together with other prudential regulators, published in the Federal Register a proposed rule under the Dodd-Frank Act titled "Margin and Capital Requirements for Covered Swap Entities." The proposed rule provides for margin and capital requirements for non-cleared derivatives transactions among various categories of counterparties, including Farmer Mac. Farmer Mac submitted comments during the comment period for the proposed rule, which closed on July 11, 2011. The final rule has not yet been published.

On June 16, 2011, the FCA published in the Federal Register an advance notice of proposed rulemaking (the "ANPRM"), seeking public comment on revising Farmer Mac's risk-based capital stress test (1) to eliminate reliance on credit ratings from NRSROs as a measure of the creditworthiness of Farmer Mac's assets, as mandated under the Dodd-Frank Act and (2) to include a capital charge for counterparty risk related to derivatives transactions. In addition, the ANPRM solicits comment on ways to revise Farmer Mac's operational and strategic business planning requirements to place greater emphasis on diversity and inclusion in both Farmer Mac's personnel as well as the borrowers and lenders who benefit from Farmer Mac's secondary market activities. Farmer Mac submitted a comment letter on the ANPRM on August 15, 2011.

On October 13, 2011, the FCA board approved a proposed rule to revise the Liquidity and Investment Regulations in response to the requirement under the Dodd-Frank Act for all federal agencies to review their respective regulations that refer to or require the use of credit ratings, to remove those references and requirements, and to substitute other appropriate standards of creditworthiness. The proposed rule is pending a 30-day congressional review and has not yet been published in the Federal Register, but FCA has published a "Fact Sheet" that summarizes the proposed changes and identifies the questions on which FCA seeks comment. Based on the Fact Sheet, included among FCA's proposed changes to the Liquidity and Investment Regulations are requirements for due diligence and stress testing of non-program assets, increased liquidity levels and enhancements to interest rate risk management. The proposed rule would also establish new parameters for investment eligibility, including pre-approved investments that complement Farmer Mac's mission to serve rural America. In addition, the proposed rule outlines for comment three possible approaches for substituting the use of credit ratings in the Liquidity and Investment Regulations, including the use of benchmark indices, the use of internal assessment by Farmer Mac, or the use of third-party assessments of creditworthiness. Farmer Mac intends to submit a comment letter on the proposed rule before the comment period closes, which will be sixty days after publication of the proposed rule in the Federal Register.

Supplemental Information

The following tables present quarterly and annual information regarding loan purchases, guarantees and LTSPCs and outstanding loans, guarantees and LTSPCs.

Farmer Mac Purchases, Guarantees and LTSPCs

	Farmer Mac I		Farmer Mac II	Rural Utilities	
	Loans and Guaranteed Securities	LTSPCs (1)	and USDA Guaranteed Securities	Loans and Guaranteed Securities	Total
			(in thousands)		
For the quarter ended:					
September 30, 2011	$1,069,701	$266,906	$ 87,051	$ 32,387	$1,456,045
June 30, 2011	416,930	53,248	99,275	38,674	608,127
March 31, 2011	711,899	54,152	117,253	80,517	963,821
December 31, 2010	474,216	128,752	102,858	543,966	1,249,792
September 30, 2010	632,270	25,416	139,667	285,242	1,082,595
June 30, 2010	98,235	32,430	123,062	77,726	331,453
March 31, 2010	77,948	77,143	92,288	59,018	306,397
December 31, 2009	86,872	108,646	94,936	16,009	306,463
September 30, 2009	40,732	37,083	76,119	553,644	707,578
For the year ended:					
December 31, 2010	1,282,669	263,741	457,875	965,952	2,970,237
December 31, 2009	195,318	234,166	346,432	1,739,653	2,515,569

(1) As of September 30, 2011, approximately $31.7 million of the loans underlying $555.5 million of AgStorage and processing LTSPCs (including ethanol facilities) were not yet disbursed by the lender.

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Outstanding Balance of Farmer Mac Loans, Guarantees and LTSPCs and USDA Guarantees

	Farmer Mac I		Farmer Mac II	Rural Utilities	
	Loans and Guaranteed Securities	LTSPCs	and USDA Guaranteed Securities	Loans and Guaranteed Securities	Total
			(in thousands)		
As of:					
September 30, 2011	$6,277,085	$1,811,280	$ 1,463,129	$ 2,289,899	$11,841,393
June 30, 2011	6,803,951	1,694,470	1,425,883	2,274,193	12,198,497
March 31, 2011	6,485,156	1,712,791	1,402,831	2,235,522	11,836,300
December 31, 2010	6,434,031	1,754,597	1,385,398	2,642,683	12,216,709
September 30, 2010	6,059,184	1,697,578	1,365,993	2,353,453	11,476,208
June 30, 2010 (1)	5,544,091	1,739,979	1,300,945	2,173,660	10,758,675
March 31, 2010 (2)	5,444,448	1,846,244	1,237,539	2,183,576	10,711,807
December 31, 2009	5,224,768	2,165,706	1,199,798	2,130,832	10,721,104
September 30, 2009	5,227,939	2,135,445	1,141,570	2,266,592	10,771,546

(1) The Loans and Guaranteed Securities and LTSPCs amounts reflect the conversion of $86.0 million of existing LTSPCs to Farmer Mac I Guaranteed Securities during second quarter 2010 at the request of a program participant.
(2) The Loans and Guaranteed Securities and LTSPCs amounts reflect the conversion of $265.8 million of existing LTSPCs to Farmer Mac I Guaranteed Securities during first quarter 2010 at the request of a program participant.

Outstanding Balance of Loans Held and Loans Underlying On-Balance Sheet Farmer Mac Guaranteed Securities and USDA Guaranteed Securities

	Fixed Rate	5-to-10-Year ARMs & Resets	1-Month-to-3-Year ARMs	Total Held in Portfolio
		(in thousands)		
As of:				
September 30, 2011	$ 5,233,417	$ 1,192,497	$ 1,909,470	$ 8,335,384
June 30, 2011	4,193,132	1,198,740	1,907,698	7,299,570
March 31, 2011	3,835,010	1,164,567	1,893,487	6,893,064
December 31, 2010	3,662,363	1,133,871	1,907,266	6,703,500
September 30, 2010	3,006,105	1,087,714	1,883,049	5,976,868
June 30, 2010	2,269,059	1,036,781	1,885,693	5,191,533
March 31, 2010	2,365,557	1,332,369	1,820,896	5,518,822
December 31, 2009	1,923,697	723,017	1,422,403	4,069,117
September 30, 2009	2,071,801	677,593	1,382,817	4,132,211

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Farmer Mac is exposed to market risk attributable to changes in interest rates. Farmer Mac manages this market risk by entering into various financial transactions, including financial derivatives, and by monitoring its exposure to changes in interest rates. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Risk Management—Interest Rate Risk" for more information about Farmer Mac's exposure to interest rate risk and strategies to manage such risk. For information regarding Farmer Mac's use of and accounting policies for financial derivatives, see Note 1(c) to the condensed consolidated financial statements contained in this report. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources" for further information regarding Farmer Mac's debt issuance and liquidity risks.

Item 4. Controls and Procedures

(a) Management's Evaluation of Disclosure Controls and Procedures. Farmer Mac maintains disclosure controls and procedures designed to ensure that information required to be disclosed in the Corporation's periodic filings under the Securities Exchange Act of 1934 (the "Exchange Act"), including this report, is recorded, processed, summarized and reported on a timely basis. These disclosure controls and procedures include controls and procedures designed to ensure that information required to be disclosed under the Exchange Act is accumulated and communicated to the Corporation's management on a timely basis to allow decisions regarding required disclosure. Management, including Farmer Mac's Chief Executive Officer (the "CEO") and Chief Financial Officer (the "CFO"), has evaluated the effectiveness of the design and operation of the Corporation's disclosure controls and procedures (as defined under Rules 13a-15(e) and 15d-15(e) of the Exchange Act) as of September 30, 2011.

The Corporation carried out the evaluation of the effectiveness of Farmer Mac's disclosure controls and procedures, required by paragraph (b) of Exchange Act Rules 13a-15 and 15d-15, under the supervision and with the participation of management, including the CEO and CFO. Based upon this evaluation, the CEO and CFO concluded that the Corporation's disclosure controls and procedures were effective as of September 30, 2011.

(b) Changes in Internal Control Over Financial Reporting. There were no changes in Farmer Mac's internal control over financial reporting during the three months ended September 30, 2011 that have materially affected, or are reasonably likely to materially affect, Farmer Mac's internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

None.

Item 1A. Risk Factors

There were no material changes from the risk factors previously disclosed in Farmer Mac's Annual Report on Form 10-K for the year ended December 31, 2010 filed with the SEC on March 16, 2011.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

(a) Farmer Mac is a federally chartered instrumentality of the United States and its debt and equity securities are exempt from registration pursuant to Section 3(a)(2) of the Securities Act of 1933.

During third quarter 2011, one type of transaction occurred related to Farmer Mac common stock that was not registered under the Securities Act of 1933 and not otherwise reported on a Current Report on Form 8-K. On July 11, 2011, pursuant to Farmer Mac's policy that permits directors of Farmer Mac to elect to receive shares of Class C non-voting common stock in lieu of their cash retainers, Farmer Mac issued an aggregate of 177 shares of its Class C common stock to the four directors who elected to receive such stock in lieu of their cash retainers. The number of shares issued to the directors was calculated based on a price of $22.12 per share, which was the closing price of the Class C common stock on June 30, 2011 as reported by the New York Stock Exchange.

(b) Not applicable.

(c) None.

Item 3. Defaults Upon Senior Securities

(a) None.

(b) None.

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Item 4. (Removed and Reserved)

Item 5. Other Information

(a) None.

(b) None.

Item 6. Exhibits

*	3.1	-	Title VIII of the Farm Credit Act of 1971, as most recently amended by the Food, Conservation and Energy Act of 2008 (Form 10-Q filed August 12, 2008).
*	3.2	-	Amended and Restated By-Laws of the Registrant (Form 10-K filed March 16, 2011).
*	4.1	-	Specimen Certificate for Farmer Mac Class A Voting Common Stock (Form 10-Q filed May 15, 2003).
*	4.2	-	Specimen Certificate for Farmer Mac Class B Voting Common Stock (Form 10-Q filed May 15, 2003).
*	4.3	-	Specimen Certificate for Farmer Mac Class C Non-Voting Common Stock (Form 10-Q filed May 15, 2003).
*	4.4	-	Amended and Restated Certificate of Designation of Terms and Conditions of Non-Voting Cumulative Preferred Stock, Series C (Previously filed as Exhibit 4.7 to Form 10-Q filed November 9, 2009).
†*	10.1	-	Amended and Restated 1997 Incentive Plan (Form 10-Q filed November 14, 2003).
†*	10.1.1	-	Form of stock option award agreement under 1997 Incentive Plan (Form 10-K filed March 16, 2005).
†*	10.1.2	-	2008 Omnibus Incentive Plan (Form 10-Q filed August 12, 2008).

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* Incorporated by reference to the indicated prior filing.
** Filed with this report.
† Management contract or compensatory plan.
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†*	10.1.3	-	Form of SAR Agreement under the 2008 Omnibus Incentive Plan (Previously filed as Exhibit 10 to Form 8-K filed June 11, 2008).
†*	10.1.4	-	Form of Restricted Stock Agreement (Officers) under the 2008 Omnibus Incentive Plan (Previously filed as Exhibit 10.1 to Form 8-K filed June 10, 2009).
†*	10.1.5	-	Form of Restricted Stock Agreement (Directors) under the 2008 Omnibus Incentive Plan (Previously filed as Exhibit 10.2 to Form 8-K filed June 10, 2009).
†*	10.2	-	Amended and Restated Employment Agreement dated as of April 1, 2011 between Michael A. Gerber and the Registrant (Form 10-Q filed May 10, 2011).
†*	10.3	-	Compiled Amended and Restated Employment Contract dated as of June 5, 2008 between Tom D. Stenson and the Registrant (Previously filed as Exhibit 10.4 to Form 10-Q filed August 12, 2008).
†*	10.4	-	Compiled Amended and Restated Employment Contract dated June 5, 2008 between Timothy L. Buzby and the Registrant (Previously filed as Exhibit 10.5 to Form 10-Q filed August 12, 2008).
†*	10.4.1	-	Amendment No. 6 to Employment Contract between Timothy L. Buzby and the Registrant, dated as of April 2, 2009 (Form 10-Q filed August 10, 2009).
	10.5	-	Exhibit number reserved for future use.
†*	10.6	-	Description of compensation agreement between the Registrant and its directors (Form 10-K filed March 16, 2011).
*	10.7	-	Farmer Mac I Seller/Servicer Agreement dated as of August 7, 1996 between Zions First National Bank and the Registrant (Form 10-Q filed November 14, 2002).
*	10.8	-	Medium-Term Notes U.S. Selling Agency Agreement dated as of October 1, 1998 between Zions First National Bank and the Registrant (Form 10-Q filed November 14, 2002).
*	10.9	-	Discount Note Dealer Agreement dated as of September 18, 1996 between Zions First National Bank and the Registrant (Form 10-Q filed November 14, 2002).

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*# 10.10 - ISDA Master Agreement and Credit Support Annex dated as of June 26, 1997 between Zions First National Bank and the Registrant (Form 10-Q filed November 14, 2002).

*# 10.11 - Amended and Restated Master Central Servicing Agreement dated as of May 1, 2004 between Zions First National Bank and the Registrant (Previously filed as Exhibit 10.11.2 to Form 10-Q filed August 9, 2004).

*# 10.11.1 - Amendment No. 1 to Amended and Restated Master Central Servicing Agreement between Zions First National Bank and the Registrant, dated as of June 1, 2009 (Form 10-Q filed August 10, 2009).

*# 10.11.2 - Amendment No. 2. to Amended and Restated Master Central Servicing Agreement between Zions First National Bank and the Registrant, dated as of August 25, 2010 (Form 10-Q filed November 9, 2010).

*# 10.12 - Loan Closing File Review Agreement dated as of August 2, 2005 between Zions First National Bank and the Registrant (Form 10-Q filed November 9, 2005).

*# 10.13 - Long Term Standby Commitment to Purchase dated as of August 1, 1998 between AgFirst Farm Credit Bank and the Registrant (Form 10-Q filed November 14, 2002).

*# 10.13.1 - Amendment No. 1 dated as of January 1, 2000 to Long Term Standby Commitment to Purchase dated as of August 1, 1998 between AgFirst Farm Credit Bank and the Registrant (Form 10-Q filed November 14, 2002).

* 10.13.2 - Amendment No. 2 dated as of September 1, 2002 to Long Term Standby Commitment to Purchase dated as of August 1, 1998, as amended by Amendment No. 1 dated as of January 1, 2000, between AgFirst Farm Credit Bank and the Registrant (Form 10-Q filed November 14, 2002).

* 10.14 - Lease Agreement, dated June 28, 2001 between EOP – Two Lafayette, L.L.C. and the Registrant (Previously filed as Exhibit 10.10 to Form 10-K filed March 27, 2002).

*# 10.15 - Long Term Standby Commitment to Purchase dated as of August 1, 2007 between Farm Credit Bank of Texas and the Registrant (Previously filed as Exhibit 10.20 to Form 10-Q filed November 8, 2007).

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*#	10.16	-	Long Term Standby Commitment to Purchase dated as of June 1, 2003 between Farm Credit Bank of Texas and the Registrant (Form 10-Q filed November 9, 2004).
*#	10.16.1	-	Amendment No. 1 dated as of December 8, 2006 to Long Term Standby Commitment to Purchase dated as of June 1, 2003 between Farm Credit Bank of Texas and the Registrant (Form 10-K filed March 15, 2007).
*#	10.17	-	Central Servicer Delinquent Loan Servicing Transfer Agreement dated as of July 1, 2004 between AgFirst Farm Credit Bank and the Registrant (Form 10-Q filed November 9, 2004).
†*	10.18	-	Form of Indemnification Agreement for Directors (Previously filed as Exhibit 10.1 to Form 8-K filed April 9, 2008).
*	10.19		Master Trust, Sale and Servicing Agreement dated as of October 20, 2006 between CFC Advantage, LLC, National Rural Utilities Cooperative Finance Corporation, U.S. Bank National Association, and the Registrant (Form 10-Q filed August 9, 2010).
*	10.20		Registration Rights Agreement Series 2007-1 dated as of February 15, 2007 between CFC Advantage, LLC, National Rural Utilities Cooperative Finance Corporation, and the Registrant (Form 10-Q filed August 9, 2010).
*	10.21		Registration Rights Agreement Series 2007-2 dated as of August 10, 2007 between CFC Advantage, LLC, National Rural Utilities Cooperative Finance Corporation and the Registrant (Form 10-Q filed August 9, 2010).
*	10.22		Amended and Restated Note Purchase Agreement dated as of March 24, 2011 between Farmer Mac Mortgage Securities Corporation, National Rural Utilities Cooperative Finance Corporation, and the Registrant (Form 10-Q filed May 10, 2011).
*	10.23		Amended, Restated and Consolidated Pledge Agreement dated as of March 24, 2011 between Farmer Mac Mortgage Securities Corporation, National Rural Utilities Cooperative Finance Corporation, U.S. Bank National Association, and the Registrant (Form 10-Q filed May 10, 2011).
*	10.24		Setoff Rights Letter Agreement dated as of March 24, 2011 between National Rural Utilities Cooperative Finance Corporation, Farmer Mac Mortgage Securities Corporation, and the Registrant (Form 10-Q filed May 10, 2011).

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*	10.25		First Supplemental Note Purchase Agreement dated as of March 24, 2011 between Farmer Mac Mortgage Securities Corporation, National Rural Utilities Cooperative Finance Corporation, and the Registrant (Form 10-Q filed May 10, 2011).
**	10.26		Amended and Restated Master Sale and Servicing Agreement dated as of August 12, 2011 between National Rural Utilities Cooperative Finance Corporation and the Registrant.
*#	10.27		Credit Support Agreement dated as of September 1, 2009 between National Rural Utilities Cooperative Finance Corporation and the Registrant (Previously filed as Exhibit 10.38 to Form 10-Q filed August 9, 2010).
*	10.28		Indenture dated as of September 1, 2009 between National Rural Utilities Cooperative Finance Corporation, U.S. Bank National Association and the Registrant (Previously filed as Exhibit 10.39 to Form 10-Q filed August 9, 2010).
*	10.29		Sublease Agreement dated as of December 6, 2010 between Mayer Brown LLP and the Registrant (Previously filed as Exhibit 10.43 to Form 10-K/A filed June 1, 2011).
*	21	-	List of the Registrant's subsidiaries (Form 10-K filed March 16, 2010).
**	31.1	-	Certification of Chief Executive Officer relating to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2011, pursuant to Rule 13a-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
**	31.2	-	Certification of Chief Financial Officer relating to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2011, pursuant to Rule 13a-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
**	32	-	Certification of Chief Executive Officer and Chief Financial Officer relating to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2011, pursuant to 18 U.S.C. § 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

FEDERAL AGRICULTURAL MORTGAGE CORPORATION

November 9, 2011

By: /s/ Michael A. Gerber
Michael A. Gerber
President and Chief Executive Officer
(Principal Executive Officer)

/s/ Timothy L. Buzby
Timothy L. Buzby
Senior Vice President – Chief Financial Officer and Treasurer
(Principal Financial Officer)

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