

## M E M O R A N D U M

December 7, 1992

TO: SENATOR DOLE  
FROM: JIM WHITTINGHILL  
SUBJECT: USAir

USAir and British Air have proposed a plan under which British Air would invest \$750 million in USAir in return for certain conditions including the ownership of slightly less 25% of USAir's voting stock.

Under U.S. law, domestic airlines are defined as those with at least 75% U.S. ownership as well as "in fact" control over the airline. The proposal clearly meets the 75% rule. However, due to certain other conditions, including a proposal for "super majority" votes required by the Board for action, the Department of Transportation is reviewing the control issue. The proposal requests a decision by December 24, and Secretary of Transportation Andy Card has promised to make a decision by that date.

Requests for comments have been made and the comment period expires this Friday, December 11. Competitors of USAir and TWA have generally opposed the deal, while communities served by those two airlines have generally supported it. Should the plan be approved, some believe it likely that USAir would attempt to purchase TWA.

I spoke with Andy Card this morning, and he said you might want to emphasize that approval hinges on a variety of bilateral trade relations in aviation between the U.S. and Britain. Currently, only two U.S. airlines are allowed landing rights at Heathrow International. While he did not want to say what the chances were for approval, it sounded that if he could get concessions from the British government, he would approve.\

The Continental / Air Canada proposal involves much less money and stock ownership and is not in the same league.

TWA PRESS CONFERENCE  
DECEMBER 7, 1992  
KANSAS CITY

There will be three members of the new management team who will be on your USAir flight:

Glenn Zander, Chief Financial Officer and the Creditors' Committee representative on the Board

Janet Steinmayer, Senior V.P. and General Counsel

Chuck Thibeadeau, V.P. for Employee Relations

The three labor groups to be represented are:

Air Line Pilot Association (ALPA)

Larry Garrett, Chairman, Government Affairs, TWA Master Executive Council

Norm Casperson, Vice Chairman, Master Executive Council of TWA Pilots

Independent Federation of Flight Attendants (IFFA)  
Mary Ellen Miller

International Association of Machinists and Aerospace Workers (IAM)  
Herb Johnson, President, Local 1650

As well, there will be some number of actual TWA employees in the audience.

USAir

♦ Employees in Kansas City

115	USAir
<u>77</u>	USAir Express (operated by Air Midwest)
192	Total

♦ KCI flights per day -- 93

(27 USAir jet/66 USAir Express)

♦ In 1991, USAir had 18,000 departures at KCI, and boarded 700,000 passengers. USAir purchases 20 million gallons of fuel per year in Kansas City.

NOTE: all of USAir's operations within the state of Kansas are USAir Express flights, operated by Air Midwest.

♦ USAir Express (Air Midwest) employs 133 in Wichita



Bob Dole



NEWS

U. S. SENATOR FOR KANSAS

FROM:

SENATE REPUBLICAN LEADER

FOR IMMEDIATE RELEASE  
DECEMBER 7, 1992

CONTACT: WALT RIKER  
(202) 224-5358

## TWA RECOVERY

DOLE APPLAUDS TWA AGREEMENT: JOBS AND PENSIONS OF  
5,000 K.C. AREA WORKERS PRESERVED; DOLE "INSTRUMENTAL," TWA SAYS

KANSAS CITY, KANSAS -- Senate Republican Leader Bob Dole (R-Kansas) today applauded an agreement to help troubled Trans World Airlines (TWA) and to protect the jobs of 25,000 TWA employees, including more than 5,000 in the Kansas City area. The agreement in principle, among TWA management, its creditors, its unions and the Pension Benefit Guarantee Corporation (PBGC), paves the way for TWA to emerge from bankruptcy protection early next year. The accord includes wage concessions, claim cancellations, management restructuring, and new ownership whereby employees will own 45% of the airline, and creditors will own 55%.

In recent weeks, Senator Dole has been in constant contact with TWA and Board members of the PBGC, the federal agency responsible for insuring the pensions of those employed in private industry. Approval by the PBGC cleared the final hurdle to today's announcement.

"By keeping TWA in the air and its workers on the job, this agreement is good news for TWA, the airline's employees, the flying public and the Kansas City area economy," Dole said. "More than 5,000 TWA employees in the Kansas City area can look forward to the holidays knowing that their jobs and pensions are more secure, and travellers will be able to rely on a strengthened airline and the valuable competition it provides. By allowing TWA to recover, this agreement also protects the taxpayers by avoiding a costly bailout of TWA pensions."

"In my meetings with management, labor and creditors, I've been impressed with the good will and cooperative spirit which led to this breakthrough," Dole added.

###

## **TWA ANNOUNCEMENT -- 12/7/92**

**I AM PLEASED TO JOIN  
REPRESENTATIVES OF TWA'S  
LABOR GROUPS, MANAGEMENT  
AND CREDITORS IN THE  
ANNOUNCEMENT OF THE FIRST  
OF TWO "BIG STEPS" DESIGNED  
TO PROTECT THIS PROUD  
AIRLINE, ITS WORKERS, AND  
PASSENGERS FROM WHAT  
SURELY WOULD HAVE BEEN A  
'SHUT DOWN' OF THE AIRLINE  
JUST DAYS BEFORE THE**





**HOLIDAY SEASON.**

**AS FAR AS I'M CONCERNED,  
THIS ISN'T JUST A "LABOR" ISSUE,  
OR A "TRANSPORTATION" ISSUE.**

**THIS IS A KANSAS AND  
MISSOURI ISSUE, AND WITH  
THOUSANDS OF JOBS ON THE  
LINE, IT'S A BIG KANSAS AND  
MISSOURI ISSUE.**

**THE PLAN ANNOUNCED THIS  
MORNING IN WASHINGTON  
CLEARS THE WAY FOR THE  
CREDITORS AND EMPLOYEES TO  
OWN, AND RUN THE AIRLINE, AND**

**2 →**

REPRESENTS THE BEST CHANCE  
FOR TWA TO WORK ITS WAY  
OUT OF BANKRUPTCY AND TO  
ENSURE GREATER COMPETITION,  
AND MORE CHOICES FOR THE  
FLYING PUBLIC. AS WELL, IT  
FOLLOWS TOUGH  
NEGOTIATIONS WHICH PROTECT  
THE AMERICAN TAXPAYER BY  
AVOIDING A COSTLY BAILOUT OF  
TWA PENSIONS.

THE FINAL HURDLE  
REMAINING IS THE APPROVAL

**OF THE U.S. BANKRUPTCY  
COURT, WHICH IS SCHEDULED  
TO REVIEW THE MATTER ON  
JANUARY 12.**

**BEFORE TURNING THE  
PODIUM OVER TO THOSE  
REPRESENTING THE VARIOUS  
PARTIES OF THE AGREEMENT, I  
WOULD LIKE TO TAKE A  
MOMENT TO THANK THOSE WHO  
HAVE VOLUNTARILY MADE HUGE  
SACRIFICES TO SAVE TWA.  
FIRST, THE EMPLOYEES -- THE  
MEN AND WOMEN DEEPLY**



12/07/92

13:32

008

**COMMITTED TO RETURNING TWA  
TO ITS POSITION OF  
INTERNATIONAL STRENGTH.**

**MANY OF THEM ARE WITH US  
HERE TODAY, AND I APPRECIATE  
THEIR SUPPORT. THEY HAVE  
VOLUNTEERED TO TAKE 15%  
CUTS IN PAY. ON BEHALF OF  
THE FLYING PUBLIC, I THANK  
EACH AND EVERY ONE OF YOU --  
YOU ARE THE HEART AND SOUL  
OF TWA.**

**SECOND, THE CREDITORS.  
THEY ARE OWED ONE BILLION --**

THAT'S RIGHT, BILLION WITH A  
"B" -- DOLLARS. EVEN IN  
GOVERNMENT, THAT'S A LOT OF  
MONEY. THEY STEPPED  
FORWARD AND FORGAVE THE  
ENTIRE AMOUNT. THEY ARE  
COMMITTED TO A REVIVED AND  
SUCCESSFUL TWA TEAM, AND  
WE OWE THEM A DEBT OF  
GRATITUDE.

THIRD, THE NEW  
MANAGEMENT TEAM, WHICH  
UNITES THE EMPLOYEES WITH  
THE CREDITORS. THEY HAVE A



**TOUGH JOB AHEAD, AND WE  
WISH THEM WELL, AND WE WISH  
THEM SUCCESS. A GREAT  
BURDEN HAS BEEN PLACED ON  
THEIR SHOULDERS, BUT THEY  
HAVE THE EXPERIENCE AND THE  
DETERMINATION TO KEEP TWA  
FLYING HIGH.**

**###**

**EXECUTIVE SUMMARY**  
**TERMS OF SETTLEMENT**

1. ICAHN GROUP. Carl Icahn and affiliates relinquish all control over TWA and release TWA from all claims, thereby cancelling unsecured claims in excess of \$175 million.
2. EMPLOYEES. 22,700 employees granted 3 year 15% wage and benefit concession saving TWA over \$531 million (note: TWA also references \$660 million in wage concessions which is the \$531 million, plus an earlier pension-related concession made by the pilots). Employees will own 45% of reorganized TWA.
3. UNSECURED CREDITORS. Unsecured creditors cancel approximately \$1 billion in unsecured claims. Unsecured creditors will own 55% of reorganized TWA.
4. FINANCING. \$200 million will be infused into the reorganized TWA -- \$185.3 million of which will be in the form of a two-year loan from Icahn at an interest rate of one over prime, and \$14.7 million of which will be through sale of Midcoast, a TWA subsidiary.
5. PENSION PLANS. TWA will provide \$300 to the pension plans pursuant to a 15-year 11% note secured by international route system and Kansas City maintenance base. The 15 year stream of payments totals in excess of \$725 -- the amount estimated to be needed to fully fund pension plans. Icahn will assume responsibility for pension plans and guarantee payment of not less than \$200 million in funding obligations upon plan termination. In addition, in the event TWA pension plans are terminated (TWA goes under), Icahn guarantees the payment of \$240 over eight years.



# DATA SHEET RE: SETTLEMENT

THE FOLLOWING SUMMARIZES THE TERMS OF AN UNPRECEDENTED SETTLEMENT AGREED TO BY TWA, ITS EMPLOYEES AND UNIONS, THE OFFICIAL COMMITTEE REPRESENTING TWA'S UNSECURED CREDITORS AND THE ICAHN CONTROL GROUP. THIS SETTLEMENT IS INTENDED TO ENSURE THE SURVIVAL OF ONE OF AMERICA'S GREAT PIONEERING AIR CARRIERS, AND AVOID THE TREMENDOUS DIRECT AND INDIRECT LOSSES WHICH WOULD BE SUFFERED IF TWA CEASED OPERATIONS. IN ADDITION, EVEN IN THE "WORST CASE", THIS SETTLEMENT WILL CONSTITUTE A SUBSTANTIALLY GREATER RECOVERY FOR THE PBGC THAN IT COULD POSSIBLY EXPECT TO RECOVER THROUGH PROTRACTED LITIGATION.

EMPLOYEES	22,700 employees granted a 15% wage and benefit concession commencing in September, 1992 to provide approximately \$531 million in cost savings over a 3 year concession period to assure TWA's survival. Employee ownership of reorganized TWA will be 45%.
UNSECURED CREDITORS	Approximately \$1 billion in unsecured claims will be cancelled, in addition to the cancelled claims of the Icahn entities. During the 3 year concession period, no cash payment will be made on any reorganization securities distributed to unsecured creditors, except from surplus cash available after stabilization and funding of appropriate reserves. Unsecured creditor ownership of reorganized TWA will be 55%.
FINANCING	\$185.3 million in financing will be provided by an Icahn entity for a 2 year term at an annual interest rate of 1% over prime. An Icahn entity will guaranty a minimum purchase price for Midcoast, a subsidiary of TWA, of \$14.7 million, thereby infusing \$200 million for TWA's successful reorganization.
ICAHN CONTROL GROUP	Carl Icahn and his affiliated entities will relinquish all control over TWA and will abandon all claims against and interests in TWA, including all of their debt and equity interests, thereby cancelling unsecured claims aggregating in excess of \$175 million.
PENSION PLANS	TWA will provide \$300 million for the Pension Plans in the form of a 15-year note secured by its international route system and Kansas City maintenance base. This note will bear interest at 11% per annum and provide for up to a \$60 million in prepayment premiums in certain events. The 15 year stream of payments on this note, which is in excess of \$725 million, should fully fund the pension Plans if TWA continues in operation. See separate Data Sheet Re: Alleged Pension Underfunding. In addition, an Icahn entity will assume responsibility for the Pension Plans and guaranty payment of not less than \$200 million in the aggregate as minimum funding contributions to the ongoing Plans and payments to the PBGC in the case of termination. As part of the settlement, upon termination, the PBGC will receive <del>\$189 million</del> 240 million from the Icahn sponsor over 6 years. Upon a termination within the first 6 years, the TWA note will have an outstanding balance of more than \$300 million, due to negative amortization in the early years. Icahn's minimum funding commitment in the early years substantially exceeds this negative amortization, thus providing a present value recovery for the Plans, as ongoing frozen Plans and/or upon termination, in excess of \$470 million. See separate Data Sheet Re: PBGC Recoveries In Other Major Cases.
TWA	TWA's survival is of critical importance to many constituencies in addition to its employees and creditors. See separate Data Sheet Re: The Economic Impact of TWA's Presence.

TWA'S EMPLOYEES AND MANAGEMENT BELIEVE THAT THE SETTLEMENT IS FAIR TO ALL PARTIES AND WILL ENABLE TWA TO CONTINUE TO PROVIDE COMPETITIVE SERVICE TO THE FLYING PUBLIC AT REASONABLE PRICES WITH JOB SECURITY FOR ITS EMPLOYEES.



77152.01.04.  
1054550

## RE: ECONOMIC IMPACT OF TWA'S PRESENCE

### STATE OF MISSOURI: AN ENORMOUS IMPACT

According to David C. Harrison, Director of the Missouri Department of Economic Development:

"TWA is one of Missouri's largest corporate citizens, and the benefits that TWA brings to Missouri are tremendous. According to an economic impact model developed by the U.S. Army Corps of Engineers, the presence of TWA contributes over \$4.3 billion in sales volume, over \$1.1 billion in income and over 40,500 jobs to the Missouri economy — an enormous impact."

According to the Department of Labor, the Unemployment Insurance Trust Fund for the State of Missouri is near insolvency. Missouri is one of eight (8) states expected to borrow in order to meet weekly benefit claims in fiscal 1993 because taxes paid by employers will be insufficient to cover benefit claims. In September, 1992, the Trust Fund had funds available to satisfy only 1.8 months of benefit claims. If TWA should cease operations, Missouri's Unemployment System would be liable for an additional \$31 million in unemployment benefits. In addition, if TWA goes out of business, the lost income tax revenues to Missouri would exceed \$100 million.

### CITY OF ST. LOUIS

Over \$760 million of revenues flow into St. Louis each year from TWA. This includes over \$495 million in payroll and fringe benefits paid to the employees residing in St. Louis, \$150 million in fuel and oil purchases and \$16 million in landing fees. As of September, 1992, over seven million passengers were enplaned at St. Louis. In addition to more than 33,000 persons which are employed by industries throughout the state that service TWA, TWA employs almost 7,000 St. Louis residents. Of course, the State of Missouri and the City of St. Louis receive the direct benefit of sales, income and other taxes paid by TWA, its employees, its passengers and those employed in related industries.

### KANSAS CITY

Likewise, Kansas City also enjoys significant benefits from its affiliation with TWA. TWA employs approximately 5,000 residents of Kansas City and has, to date in 1992, enplaned more than 226,000 passengers in Kansas City. Payroll for employees in Kansas City exceeds \$286 million. TWA spends more than \$3 million on fuel and oil in Kansas City and pays Kansas City significant landing fees each year.

### NEW YORK / NEW JERSEY

TWA employs more than 7,000 residents of New York and New Jersey who earn more than \$521 million in income each year. The "Wilbur Smith Economic Impact Study" estimates the economic impact of TWA's presence on the states of New York and New Jersey at more than \$5.8 billion annually. TWA purchases more than \$134 million in fuel and oil from vendors in the New York/New Jersey area and pays more than \$22 million annually in landing fees.

### FEDERAL

In 1991, TWA paid more than \$376 million in federal taxes, including \$184 million in excise taxes. TWA paid \$85 million in Social Security and FICA taxes in 1991 which was matched by employee payments of \$85 million. These numbers do not include federal income taxes paid by individual employees. TWA's total 1991 payroll was more than \$1.1 billion, which computes to \$308 million in potential tax revenues at a 28% tax rate.

A recent study by the W.E. Upjohn Institute for Employment Research concludes that the present value of lost lifetime earnings resulting from involuntary job loss is approximately twice the employee's average annual salary. For TWA employees this would mean a present value loss of approximately \$2.2 billion in lifetime earnings. This would result in lost federal tax revenues of \$616 million at a tax rate of 28% and lost state and local tax revenues of \$154 million at a tax rate of 7%. In addition, the average duration of insured unemployment is 16 weeks. The average unemployed person is projected to collect \$2,740 in 1993, which in the case of TWA would cost the government over \$62 million in unemployment benefits.

WHEN ALL OF THESE IMPACTS ARE CONSIDERED, THE LOSSES WHICH CAN BE REASONABLY ANTICIPATED IF TWA WERE TO SHUT DOWN ARE STAGGERING.

77063.01.05  
1054550



**DATA SHEET**  
**RE: PBGC RECOVERIES IN OTHER MAJOR CASES**

THE FOLLOWING DEMONSTRATES THAT THE COMBINED SETTLEMENT OFFERED THE PBGC BY TWA AND THE ICAHN CONTROL GROUP WILL REPRESENT THE LARGEST RECOVERY IN PBGC HISTORY.

COMPANY	CLAIMS (USING PBGC ESTIMATES)	SETTLEMENT/OFFER	% OF CLAIM
<b>TWA*</b> (1992) ongoing plan with alleged control group liability	\$1.2 B if TWA liquidates**  underfunding is considerably less if TWA continues in operation	TWA note: \$300-360 M fully collateralized  additional Icahn guarantee: \$170-380 M fully collateralized  <u>Total \$470-740 M</u>	39-62%  (no loss to PBGC if TWA continues)
<b>Continental</b> 1992 settlement; includes Eastern plans terminated in 1990; control group liability	\$1.1 B  IRS and PBGC claims	\$122 M	12%
<b>Pan Am</b> no final settlement termination in 1991	\$1.28 B	less than \$100 M (\$53 M secured)	less than 10%
<b>Navistar</b> 1992 settlement based on court award in 1988; termination in 1980; control group liability	\$146 M (plus interest)  = \$214 M (at 10%)	\$65 M	30%***
<b>Wheeling Pittsburgh</b> 1988 settlement; termination in 1985	\$667 M	\$85 M	13%***
<b>Totals for terminations 1986-1991</b>	<b>\$2,806 M</b>	<b>\$361 M</b>	<b>13% (average)</b>

\* Terms agreed among TWA, Creditors' Committee, IAM, ALPA, IFFA and Carl Icahn.

\*\* Estimated claim of \$1.2 billion is overstated. See Date Sheet Re: Alleged Pension Underfunding for more appropriate assumptions which demonstrates virtually no loss to the PBGC.

\*\*\* Recovery as percentage of guaranteed benefits only.



224-  
3163

**DATA SHEET**  
**RE: ALLEGED PENSION UNDERFUNDING**

**ALTHOUGH THE PENSION BENEFIT GUARANTY CORPORATION ("PBGC") CLAIMS THAT THE TWA PENSION PLANS ARE "UNDERFUNDED" BY \$1.2 BILLION, THIS CLAIM IS SIMPLY WRONG, AND OVERSTATES PLAN LIABILITIES BY HUNDREDS OF MILLIONS OF DOLLARS.**

**INTEREST  
RATES**

The PBGC uses unrealistically conservative actuarial assumptions to value pension liabilities. For example, the agency assumes that, over the next thirty years, the assets in the TWA Pension Plans will earn 4 to 5.75%. In fact—

- The TWA Plans have earned 11.5% historically
- The PBGC's own trust fund assets have earned 12% historically
- Since the Second World War, large company stocks have earned 12%, small company stocks have earned 14%, and corporate bonds have earned over 7%
- The only federal courts to review the issue have struck down PBGC's earnings assumptions and substituted 11.5%

**ONGOING VS.  
SHUTDOWN**

The PBGC figure assumes that the airline shuts down and that virtually all employees collect the maximum amount of benefits allowed under TWA's early retirement subsidy. When measured on an ongoing basis, using the normal 9% actuarial assumption, the TWA Plans had \$178 million in unfunded benefits as of July 1992.

- Even under PBGC's "worst case" hypothesis, the unfunded liability is still only \$525 million based on a 9% earnings assumption (and using all of PBGC's other actuarial assumptions)

**GUARANTEED  
VS. NON-  
GUARANTEED**

On a "worst case" basis, PBGC is only required to guarantee about \$350 million of the \$525 million in benefits, because there is a statutory maximum limitation on guaranteed benefits.

**CONCLUSION**

When PBGC's claim is calculated using a reasonable 9% earnings assumption, the combined offer by TWA and the Icahn Control Group (minimum value: \$470 million) fully protects the PBGC against loss, even in a shutdown situation. Given the ample protection being proposed for the PBGC and the billions of dollars in losses which could result to TWA's employees and the federal and state governments if TWA is unsuccessful in its reorganization, the only reasonable alternative is for the PBGC to accept the settlement, in order to maximize its recovery and prevent the staggering losses which will otherwise be suffered by TWA's employees and the federal and state governments.