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Eastern, Mohawk and National airlines last week combined forces to propose the acquisition and dismemberment of Northeast Airlines in a move to reduce competition on New England-Florida routes and ease subsidy requirements on local New England routes.

The proposal, which will still require formal approval of the Civil Aeronautics Board if it is accepted by Northeast, calls for a transfer of Northeast's New England routes to Mohawk and some adjustment of these routes.

Northeast's routes extending south of New England to Florida would be absorbed by Eastern and National.

The proposal was announced jointly by Eastern, Mohawk and National and the offer was made in writing to David A. Stretch, chairman of Northeast, by the presidents of the three airlines— Malcolm MacIntyre, Robert E. Peach and G. T. Baker, respectively.

The three carriers offered this three-way combination to Northeast in exchange for the assets and other considerations of Northeast:

- Common stocks with a current value of approximately \$3 million.
- Warrants of additional stock which has a current market value in excess of \$10 million.
- Convertible subordinated notes amounting to \$10 million.

If the offer is accepted, a merged Mohawk and Northeast will hold the principal assets, routes and property of Northeast and will arrange settlement of Northeast's obligations. Southern routes, which Northeast has been operating under a temporary certificate for the past five years, would be operated by National and Eastern in direct competition with one another.

As of late last week, the proposal was being given serious study by Stretch. In addition to being chairman of Northeast, he is president of the Atlas Corp., which holds a majority control in Northeast.

The new company would acquire Douglas DC-6B fleets, subject to existing loan agreements with Chase Manhattan Bank on the DC-6Bs and subject to acceptance of convertible subordinated notes on the Viscount aircraft, to be issued by the new company.

Eastern has proposed assumption of leases on three of the six Convair 880 turbojet transports leased by Northeast. Eastern and National would consider handling the disposition of the leases on the three remaining 880s. Industry observers feel that either TWA or Delta will be quick to pick up such leases. Leases on both engines and airframes are terminable.

Northeast would receive 460,000 shares of Mohawk common stock, 10-yr. warrants for 100,000 shares of Mohawk common, 10-yr. warrants for 300,000 shares of Eastern common, and 10-yr. warrants for 200,000 shares of National common. Total of \$10 million convertible subordinated notes of Eastern and National would be given to Northeast.

Eastern would issue \$7 million in notes, National \$3 million. Notes would mature in 25 yr. and bear an interest rate of 5%. They would be convertible into common shares of each company at a price 50% above the average price of the shares during a specified period.

Warrants provide for a purchase price of the common stock of the three airlines at 33.33% above the market value of the shares during a specified period. Minimum prices have been set at \$8 per share for the Mohawk stock, \$32 for the Eastern stock and \$18 for the National stock.

Other terms included in the agreement are:

- Provision that the CAB recognize that operations of the permanently certificated New England routes of Northeast are eligible for federal subsidy.
- Merged companies will be relieved of debt held by the Hughes Tool Co. and the Atlas Corp.
- Merged companies will have no responsibility for payment of Northeast's trade accounts outstanding at the time of merger except by application of current Northeast assets.
- Any shares of common stock of Mohawk, Eastern or National or any warrants for the purchase of such common shares that might be issued to Hughes Tool Co. or Atlas Corp. shall be placed in a voting trust. Hughes Tool has an 11 % interest in Atlas.
- Merged companies will withdraw Northeast's pending application for renewal of Northeast's temporary operating authority to serve points south of New York.