

MEMORANDUM

TO: County Council
c/o Jennifer Liptak
Jared Barker

FROM: Charles P. McCullough

RE: Allegheny County Airport Authority DATE: February 19, 2008
– U.S. Airways Stock

Late yesterday afternoon I received a telephone call from Justin Vellucci of the Pittsburgh Tribune Review. This was a cold call and I was surprised by the question he posed concerning the receipt by the County and the Airport Authority of U.S. Airways stock in December, 2003, with a market value at the time of \$6 million. He was looking for my comment. I spoke to Justin "off the record" because I believed the Airport Authority needed to be apprised of this issue and given an opportunity to respond before I made a comment. I then contacted Authority Chairman Glenn Mahone and advised him of the call. I also called the Authority's Solicitor, Jeff Letwin, and discussed the issue with him briefly.

The following is a brief synopsis of the issue. In 2003, while I was County Solicitor, the County Law Department negotiated a settlement of the bankruptcy claims which the County and the Airport Authority had filed separately. The Federal Bankruptcy Court presiding over the case in Arlington, Virginia, had approved a pool of U.S. Airways stock to be distributed in settlement of these claims which resulted in a joint award to the County and the Authority of U.S. Airways stock worth \$6 million.

The County and the Authority executed an escrow letter providing for the retention of the stock in escrow pending their mutual agreement as to (a) what to do with the stock; and (b) how to split the proceeds. For several reasons, not the least of which was Mr. Letwin's insistence that any proceeds from the sale of such stock be, in effect, rebated to the airlines at PIT pursuant to the airport's "Airline Operating Agreement." The Law Department took the position that the County should receive all of the proceeds, and in any event no less than one-half. Attached hereto is a copy of the escrow letter dated August 11, 2003.

Mr. Letwin is understood to have received the actual stock certificates in December, 2003. I learned of this through the County's outside bankruptcy counsel, Jay Blount of Eckerd Seamans, on December 23, 2003. This was my last day on the job as County Solicitor. I recall that I was unable to reach Mr. Letwin, so I sent an e-mail protesting this to Eric Smith, Mr. Letwin's partner, who was handling the bankruptcy for the Authority. A copy of Mr. Blount's e-mail and my e-mail to Mr. Smith are enclosed as well.

In speaking with Mr. Letwin and Mr. Mahone yesterday, it is understood the Authority unilaterally sold the stock in 2004, apparently after a "hold" period had expired. It is also understood that the stock had depreciated heavily at the time of sale, which calls into question the wisdom of the decision to sell it at that time.

It is also understood from Mr. Letwin that the County did not receive any of the sale proceeds, which instead were retained by the Authority and used to reduce the residual rent to be paid by the airlines at PIT to the Authority. This result, if correct, has the unfortunate consequence of a net zero recovery for the County and the Authority and returned the bulk of the stock sale proceeds to U.S. Airways, who as most significant tenant at PIT at the time, reaped most of the benefit of this arrangement.

I sent a copy of the enclosed to Mr. Letwin at his request.

Please do not hesitate to contact me with any questions.

CPM/ram

cc: Michael H. Wojcik, Esquire, Solicitor, Allegheny County
John F. Cambest, Esquire, Counsel for Allegheny County Council
John Mascio, Chief Clerk, Allegheny County Council



PITTSBURGH INTERNATIONAL AIRPORT

1000 Airport Boulevard, Suite 4000

P.O. Box 12370 • Pittsburgh, PA 15231-0370

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VIA HAND DELIVERY

August 11, 2003

Mr. James C. Roddey
CHIEF EXECUTIVE,
ALLEGHENY COUNTY
101 County Courthouse
436 Grant Street
Pittsburgh, PA 15219

Dear Jim:

Thank you for meeting with the Allegheny County Airport Authority (the "Authority") last Friday. The Authority appreciated the opportunity to discuss with you the proposed settlement of the separate claims filed by the Authority and Allegheny County (the "County") against US Airways in connection with its Bankruptcy. As you know, on July 25, 2003, both claims were proposed to be settled under Bankruptcy Claim Number 5486 for an undivided amount (the "Settlement Amount"). Notwithstanding independent claims filed by the County and the Authority, to expedite settlement all such claims are covered by Bankruptcy Claim Number 5486 and settled or withdrawn under the proposed Stipulation to be filed with the Bankruptcy Court.

In line with our discussions, the Authority will execute the Stipulation and requests that the County do likewise and return the Stipulation to Jeffrey Letwin, Esq., the Authority's Solicitor, for transmission to counsel for US Airways. Consistent with our discussions, execution of the Stipulation by the Authority: (i) is not intended to and shall not be deemed to be evidence of or acknowledgement of any right, title or interest of the County whatsoever in or to the Settlement Amount (ii) shall not be, or be deemed to be, an acknowledgement by the Authority of any legal standing of the County whatsoever to bring a claim or to receive a portion of the Settlement Amount, and (iii) shall not be used by the County for any purpose whatsoever to establish any precedent for rights or obligations between the Authority and the County with respect to any matters which are the subject of the terms of the Airport Operation, Management and Transfer Agreement, dated September 16, 1999. Notwithstanding the foregoing, the Authority and the County hereby agree to place the Settlement Amount in escrow until such time as an allocation of the Settlement Amount is mutually agreed upon provided; however, that upon notice to the other party, either party may petition the Court of Common Pleas of Allegheny County for a determination of the parties' respective rights to the Settlement Amount and to effect distribution thereof.

If the foregoing is consistent with your understanding, kindly execute the duplicate original of this letter where indicated below and return one to me for our files, whereupon the terms of this letter will become binding upon the Authority and the County.

Very truly yours,

A handwritten signature in dark ink, appearing to read "Glenn R. Mahone".
Glenn R. Mahone
Chairman

Accepted and agreed upon this 18th day of August, 2003

ALLEGHENY COUNTY

By:

A handwritten signature in dark ink, appearing to read "James C. Roddey".
James C. Roddey
Chief Executive

cc: ACAA Board Members
Kent George
Jeffrey Letwin, Esq.

Streiff, Lisa

From: McCullough, Charles P. [CMcCullough@county.allegheny.pa.us]
Sent: Tuesday, December 23, 2003 9:41 PM
To: 'jtb@escm.com'; Smith, Eric
Cc: McCullough, Charles P.; john.mcginley@escm.com; Roddey, Jim; Onorato, Daniel; Webb, Robert; Flynn, James; Janocsko, George; Trbovich, Ted; Charles McCullough (cmccullough@tuckerlaw.com)
Subject: RE: US Airways - Stock Distribution

Eric - Jay has advised me this afternoon that your firm has received the actual shares of US Airways stock which has been distributed to date to the County and the Authority pursuant to the settlement of our respective proof of claims. I understand from Jay that your firm has been in receipt of this stock for about a week, and that neither your firm, nor your client, advised Jay, his firm or the County of this. You are reminded of the August 18 escrow letter arrangement concerning this stock, and the County's continuing position that it is entitled to at least one-half, if not all of this distribution.

This action by your firm is violative of the escrow arrangement which was to be in place. Further, your firm is holding this stock while it is depreciating and rumors abound that US Airways may refile for bankruptcy, which would render this stock worthless. Frankly, this stock needs to be disposed of now while there is still a market for it, and it is my recommendation that your firm and your client be held responsible for any loss of value occasioned by its retention by your firm.

It is demanded that you immediately identify in writing to the Chief Executive, the Chief Executive-elect, the County Manager and Deputy Controller, as well as Asst. Solicitors Janocsko and Trbovich of the stock certificates and amounts thereof in your firm's possession and discuss with them the merits of disposing this stock, with the proceeds to be held in proper escrow.

I can be reached by cell at (412) 956-3362 or at home at (412) 257-2275.

-----Original Message-----

From: jtb@escm.com [mailto:jtb@escm.com]
Sent: December 23, 2003 5:14 PM
To: Smith, Eric
Cc: cmccullough@county.allegheny.pa.us; john.mcginley@escm.com
Subject: Re: US Airways - Stock Distribution

Eric:

Thank you for mailing the information to me. I was hoping that you could

tell me the number of shares that Schander Harrison is holding. It is my understanding that the shares are supposed to be held in escrow. As you might imagine, the folks at the County are frustrated that no one contacted them when the shares were distributed and that the shares are not being held in escrow, but by the Authority's counsel. Also, the County and Authority should discuss what to do with the shares, as their value has decreased significantly over the past couple of months (although I note that the value was up a bit today). I will call you on December 29, 2003 to talk this through. Have a great holiday.

Sincerely,

Jay T. Blount

Eckert Seamans Cherin & Mellott, LLC

U.S. Steel Tower

600 Grant Street, 44th Floor

Pittsburgh, PA 15219

Tel: 412.566.5938

Fax: 412.566.6099

"Smith, Eric"

<ESmith@schnader.

com>

To

Jay T Blount/ESCM@ESCM

12/23/2003 04:48

cc

PM

Subject

Re: US Airways - Stock Distribution

Was mailed this morning

Sent from my BlackBerry Wireless Handheld

-----Original Message-----

From: jtb@escm.com <jtb@escm.com>

To: Smith, Eric <ESmith@schnader.com>

CC: john.mcginley@escm.com <john.mcginley@escm.com>;

cmccullough@county.allegheny.pa.us <cmccullough@county.allegheny.pa.us>

Sent: Tue Dec 23 15:27:41 2003

Subject: US Airways - Stock Distribution

Eric:

Please send me the information regarding the shares that US Airways sent to you.

Sincerely,
Jay T. Blount
Eckert Seamans Cherin & Mellott, LLC
U.S. Steel Tower
600 Grant Street, 44th Floor
Pittsburgh, PA 15219
Tel: 412.566.5938
Fax: 412.566.6099

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