

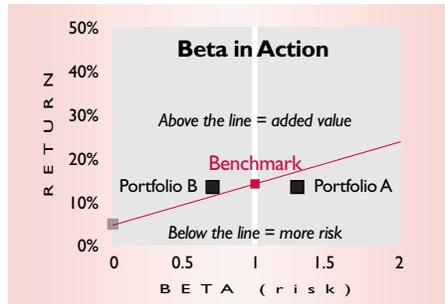


RETURN AND RISK — A 3 YEAR PROGRESS REPORT

The DAP/401(k) Plan has performed well since its restructure in 1993. A glance at the performance bars on page 4 of this newsletter tells a story of positive growth. The past three years have been mostly bullish. Last year provided outstanding returns for almost all U.S. investors. Today's question is, of course, "How will the plan fare if the markets cool off?"

One possibility is to examine the relationship between return and risk. If a portfolio or fund beat a benchmark in a bull market, is it likely to outperform the benchmark when the market cycle is down?

We can experiment with this phenomenon using *beta*, the sensitivity of an investment to changes in the overall market. Let's choose a benchmark to represent the market (that's what benchmarks are for) and call its Beta 1.0. Then, let's create two hypothetical portfolios



that generate the same rate of return as the benchmark. Portfolio A has a beta of more than 1.0. It should increase value by more than the market when it goes up but will lose more value than the market when it goes down. Portfolio B has a beta of less than 1.0. It will be less sensitive to market changes. Portfolio B has the same growth as the market, but less of a decrease when the market goes down.

The line runs from lower left to upper right. It starts at the return of a "risk-free" investment, typically represented by three month T-Bills. For the past three years the T-Bill Index returned 4.7%. The slope runs through the benchmark, say the S&P 500, which returned 17.3%. The bottom (horizontal) line measures beta risk. The S&P 500 return equals a beta of 1.0.

Portfolio B sits above the line and Portfolio A falls below. Portfolio B is more attractive because its returns relative to risk are

not as sensitive to changes in the market as Portfolio A.

The greater an option's return and the lower its beta, the more value an investment may add over time because it is less sensitive to market movement.

Many of the DAP/401(k) funds fall "above the line," and all of them come very close, suggesting that the plan's funds may perform better than the overall market regardless of which direction it takes in the near future.

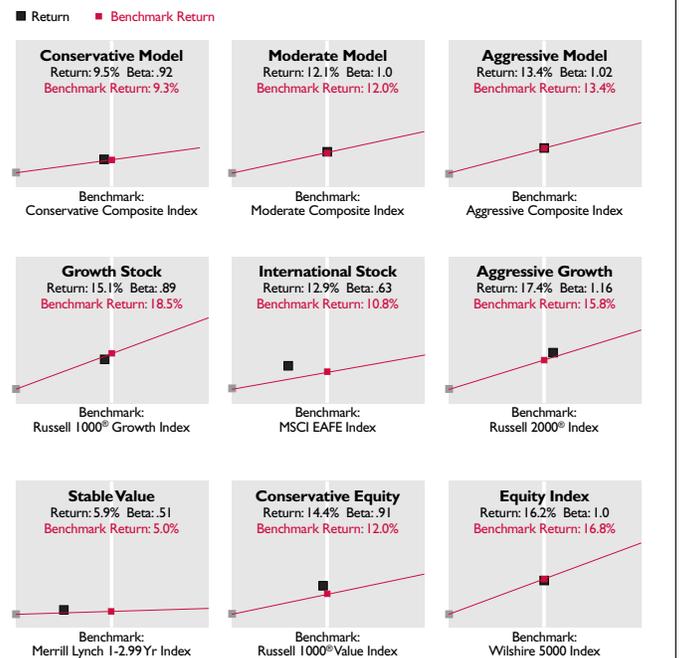
However, beta, although widely accepted as an indicator of risk, is not perfect. Beta doesn't capture all market risk. Additionally, since such analysis must be based on past performance, it can't guarantee future returns for the DAP/401(k) options. **HU**

Celebrating Three Successful Years for DAP/401(k) Funds

Welcome to the third anniversary issue of *Heads Up*. Inside you'll find some interesting articles about the investment options in our plan and their benchmarks. The fund performance section on the back page now includes three-year annualized numbers for the funds as well as the market performance.

Also included is a brief survey designed to help us gauge your interest in the DAP/401(k) Plan and newsletter and what we can do to improve them for you. Please take a few minutes to give us your thoughts. All answers will be completely confidential and anonymous. Please drop it in the mail by September 15, 1996.

DAP/401(k) Report Card, 7/1/93 - 6/30/96



The black dot represents the fund. The line starts at the risk free investment (4.7% return) and runs through the benchmark (the red dot), always located halfway across the chart at Beta 1. Over the past three years, funds appearing on or above the line have been more attractive investments than funds located below the line, in terms of risk versus return.

Reviewing the DAP/401(k)'s Investment Options

Following is a brief review of each investment option and a performance comparison with its benchmark over the past three years (annualized numbers, July 1, 1993 through June 30, 1996).

Plan Assets*

	July 1, 1993	June 30, 1996
401(k)	\$72	\$ 134.9
DAP	\$767	\$1,004.6

* In millions

Stable Value Fund

This option is designed to provide liquidity and safety of principal while providing a higher return over time than that offered by money market funds. It invests in a combination of traditional investment contracts, security-backed investment contracts, actively managed bonds, and cash.

Three year performance comparison

Benchmark	4.98%
Fund	5.86%

Conservative Equity Income Fund

This option may include a range of value investment managers such as equity income, growth and income, etc. This option avoids using managers whose style is viewed as speculative or who concentrate assets in single industries or sectors. It includes funds with the common attributes of relatively low volatility and reasonable dividend yields.

Three year performance comparison

Benchmark	15.11%
Fund	14.45%

Equity Index Fund

This option is invested in a portfolio of diversified common stocks designed to provide a return similar to that of the broad stock market. It should closely approximate the return of indexes such as the Wilshire 5000.

Three year performance comparison

Benchmark	16.79%
Fund	16.17%

Fund performance is reported net of all plan expenses. Benchmarks do not have management or administrative fees.

Growth Stock Fund

This option invests in stocks from companies with higher historical or expected growth rates in sales or earnings. The primary objective is capital appreciation. This is achieved by investing in securities of established, well known companies and smaller, less common companies.

Three year performance comparison

Benchmark	18.49%
Fund	15.14%

International Stock Fund

This option contains funds whose managers invest in securities across world markets. It may contain broadly diversified portfolios and/or portfolios of managers who have shown successful results in making more concentrated country/currency/company investments. The primary objective is longer-term growth of capital through a diversified portfolio of world market securities.

Three year performance comparison

Benchmark	10.76%
Fund	12.90%

Aggressive Growth Stock Fund

This option contains portfolios that typically include growth stocks of small to medium companies. The primary objective is capital appreciation through investment in equity securities with significantly better-than-average growth prospects. This fund carries more risk, but the potential for higher returns, than the other DAP/401(k) funds.

Three year performance comparison

Benchmark	15.81%
Fund	17.43%

TWA Stock Fund

This new fund for the 401(k) was introduced on June 3, 1996. It is designed to give 401(k) participants the opportunity to invest their retirement savings in TWA stock. The fund holds both TWA common stock and cash for liquidity. Because it invests in a single company stock, this fund carries the highest risk of all funds in the 401(k) plan.

Conservative Portfolio

Designed for investors who wish to limit volatility and risk of principal, this option invests in a 40% equity/60% stable value combination. The fund's objective is income and capital preservation.

Three year performance comparison

Benchmark	9.31%
Fund	9.52%

Moderate Portfolio

Designed to provide a balanced long-term asset allocation suitable for a majority of participants, this option invests in a 65% equity/35% stable value mix. Its objective is capital growth and income. Generally, more money is invested in this option than any other in the plan.

Three year performance comparison

Benchmark	11.98%
Fund	12.07%

Aggressive Portfolio

Designed for participants with long time horizons and those willing to accept more risk and higher volatility in their investments. This option invests in an 80% equity/20% stable value mix. The fund's objective is capital accumulation.

Three year performance comparison

Benchmark	13.41%
Fund	13.36%

Fidelity Funds Window

This option allows DAP participants to invest in 33 mutual funds offered by Fidelity Institutional Retirement Services Company. Participants may allocate between 1% and 100% of their money from the basic DAP options into a wide variety of mutual funds. There are approximately 600 DAP participants with \$100 million in the Fidelity Funds Window option. **HJ**

DAP/401(k) News

Retirees Nearing Age 70 1/2...

Please double-check your DAP/401(k) beneficiary form for accuracy. If it is not up-to-date, your minimum distribution may be higher than necessary.

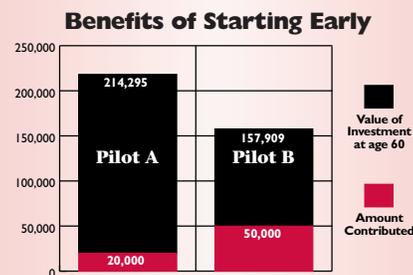
Contact Benefits Express to review your form or file a new one. **HJ**

Special Heads Up for New TWA Pilots:

Starting Early is Your Ticket to a Comfortable Retirement

Many working years stretch before you. Retirement is a long way off and you'll worry about it later, right? Wrong. Pilots who begin investing in the 401(k) early in their careers stand to get the most out of the plan. That's because small amounts of money regularly invested early in life are likely to be worth more at retirement than larger amounts invested later. The reason: the powerful effect of investment gains that compound over time. Additionally, because pilots contributions are tax deferred, all the earnings remain available for future growth.

Look at the chart below. Pilot "A" begins contributing \$2,000 per year to the DAP/401(k) at age 25, stops contributions at age 35, and leaves the money untouched in the account until retirement at age 60. He contributes a total of \$20,000 over 10 years. Pilot "B" also contributes \$2,000 per year, but doesn't start until age 35 and stops at retirement, for a grand total contribution of \$50,000 over 25 years. Both pilots earned the same hypothetical annual return of 8%. Who comes out ahead?



Saving for retirement is a challenge at any age. There are always pressing needs for our money—buying a house or a new car, paying children's educational expenses, or simply enjoying the comforts to which we have become accustomed. But you can't afford to let these important goals prevent you from starting a retirement savings program early in life. At retirement, you're going to need about 70% or more of your preretirement income to maintain the same lifestyle. This fact alone makes it easy to see that retirement saving is not an extra but, rather, an absolute necessity. And the earlier, the better. **HU**

When it's Time to Retire

401(k) Distribution Options

What will you do with your 401(k) money at retirement? How about rolling it over into the DAP?

The 401(k) plan offers two options when you retire or separate from TWA: take a lump sum payout or leave the 401(k) intact. Here's a brief description of both options to help you decide which works best for you.

Take a Total Lump Sum Payout

The 401(k) allows only single sum lump distributions. You may roll this over into the DAP, an IRA, another employer's 401(k) plan or take it as taxable income.

The DAP contains the same investment options as the 401(k), except for the TWA Stock Fund, and your money still grows tax-deferred. The DAP offers a variety of retirement distribution intervals, from monthly to annually. Remember that the DAP requires spousal consent for distributions; the 401(k) does not.

Rolling your 401(k) distribution directly

into another plan postpones income tax obligations until you take payment. An IRA or another 401(k) plan allows you to continue making contributions and watching your money compound tax-deferred.

You may also take the lump sum payout as taxable income if you need the money right away. However, cashing out raises many tax implications and you may want to consult first with a financial or tax expert.

Leave Your Balance in the 401(k)

You can no longer make contributions to or borrow from the 401(k) after retirement from TWA. However, you do have the option to leave your money in the 401(k) without taking distributions until you reach age 70^{1/2}. When you do need a distribution, you may terminate the 401(k) and roll over the assets to the DAP. You may then arrange a distribution schedule other than a one time single sum payout. **HU**

Survey—Tell Us Your Thoughts!

What can we do to improve the DAP/401(k) Plan and the *Heads Up* newsletter? Your input is vital to helping us help you make the most of your savings. Please take a few minutes to complete this questionnaire. All answers will be completely confidential and anonymous. Watch for answers to commonly asked questions in upcoming issues of "Heads Up." **Please stamp and mail the completed form by September 15, 1996. Or, fax to (314) 739-7978.**

Please rate the following two questions using the following scale: 1—strongly agree 2—agree 3—neutral 4—disagree 5—disagree strongly

- I am satisfied with the current investment choices offered by the plan.
 1 2 3 4 5
- I am satisfied with the *Heads Up* newsletter.
 1 2 3 4 5

Please use the space below to respond to the following questions or ask questions on other DAP/401(k) issues.

- What would you like to see changed in the newsletter?
- What would you like to see changed in the DAP/401(k) Plan?
- What additional investment options would you like to see?
- FOR RETIREES:** When would you prefer

to receive your DAP monthly distributions?

- OK as is (around the 8th of the month)
 Preferred date _____

- Would you like to read more or less of the following topics?

- Investment concepts
 more less
- Market and economic trends
 more less
- Features and benefits of the DAP/401(k)
 more less
- DAP/401(k) investment funds and their performance
 more less
- Retirement planning
 more less
- Post-retirement issues
 more less

Performance



See printed newsletter for performance

How To Read Performance: The graphic display above shows fund performance as arrows and market performance, represented by the benchmarks, as bars. Fund and market performance YTD runs through June 30, 1996. Fund performance is reported net of all expenses. One year performance runs from July 1, 1995 through June 30, 1996. Three year annualized performance runs from July 1, 1993 through June 30, 1996.

FUND COMPONENT WEIGHTING

These tables represent component weighting for individual investment funds as of June 30, 1996. Weighting percentage does not include index fund target of \$20 million.

Stable Value Fund	Weighting
Wellington Bonds	Liq 10%/Core 40%
PRIMCO GIC	45%
Cash/BZW Money Market	5%

Conservative Equity Fund

Federated Stock Trust	20%
Morgan Core	20%
Neuberger/Berman Guardian	20%
USAA Income Stock	20%
BZW Global TAA	20%

Equity Index Fund

BZW Global US Equity	100%
----------------------	------

Growth Stock Fund

Fidelity Contrafund	20%
Fidelity OTC	20%
Janus Fund	20%
MFS Research	20%
Vanguard US Growth	20%
BZW Growth Index	

International Stock Fund

EuroPacific Growth	38%
Templeton Foreign	38%
20th Century Intl Equity	10%
Morgan Stanley Instl Asian	7%
Morgan Stanley Instl Emerg Mkts	7%
BZW EAFE Index	

Aggressive Growth Stock Fund

AIM Constellation	16.7%
-------------------	-------

DFA 9-10 US Small Co.	16.6%
Heartland Value	16.7%
PIMCO Adv. Oppty "A"	16.7%
20th Century Vista	16.7%
BZW Extended Market	16.6%

Net Value of Funds (Millions) 401(k)	DAP	
Stable Value Fund	\$20.3	\$94.1
Conservative Equity Fund	28.1	59.9
Equity Index Fund	8.3	41.4
Growth Stock Fund	9.2	43.7
International Stock Fund	14.9	51.6
Aggressive Growth Stock Fund	35.9	94.4
Conservative Portfolio	0.8	13.8
Moderate Portfolio	11.9	477.7
Aggressive Portfolio	5.5	27.8
Fidelity Funds Window	—	100.2
Total	134.9	1,004.6

Place
Stamp
Here

TWA PILOT'S DAP/401(K)
SURVEY
3221 MCKELVEY ROAD SUITE 105
BRIDGETON MO 63044-2551

DAP/401(k) Important Telephone Numbers

Performance:

Benefits Express Daily NAV	1-800-892-2017
Fidelity Funds	1-800-881-4015

Account Information:

Benefits Express 1-800-828-8100
For account balance information or to make transfers, 8 am to 5 pm CST Monday through Friday.

From rotary telephones or from outside the U.S., call 1-847-883-0471.

Use company ID# 6662 followed by the # sign.

Comments and Other Information:

TWA Pilots' DAP/401(k)
Investment Committee
3221 McKelvey Road, Suite 105
Bridgeton, MO 63044-2551

Telephone: (314) 739-7373
Fax: (314) 739-7978



The intent of this communication is to provide useful information, not investment advice. Each participant in the TWA Pilots' DAP/401(k) Plan is ultimately responsible to make his or her own investment decisions.