

**IN THE UNITED STATES BANKRUPTCY COURT  
FOR THE NORTHERN DISTRICT OF ILLINOIS  
EASTERN DIVISION**

<b>In re:</b>	)	<b>Chapter 11</b>
	)	
<b>UAL CORPORATION, et al.,</b>	)	<b>Case No. 02-B-48191</b>
	)	<b>(Jointly Administered)</b>
<b>Debtors.</b>	)	
	)	<b>Honorable Eugene R. Wedoff</b>

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**DEBTORS' AGREED-TO MOTION TO APPROVE  
THE MODIFICATIONS TO THEIR COLLECTIVE BARGAINING  
AGREEMENTS PURSUANT TO THE RESTRUCTURING AGREEMENTS WITH THE  
AIR LINE PILOTS ASSOCIATION, ASSOCIATION OF FLIGHT ATTENDANTS,  
INTERNATIONAL ASSOCIATION OF MACHINISTS AND AEROSPACE WORKERS,  
PROFESSIONAL AIRLINE FLIGHT CONTROLLERS ASSOCIATION, AND THE  
TRANSPORT WORKERS UNION AND TO WITHDRAW  
THEIR SECTION 1113(c) MOTION**

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The Debtors and Debtors-in-Possession (collectively "United," "the Company" or "Debtors") move for an Order authorizing (a) the approval of modifications to United's collective bargaining agreements ("CBAs") negotiated with ALPA, AFA, IAM 141M, IAM 141, PAFCA, and TWU (in each case, the "Restructuring Agreement"),<sup>1</sup> and (b) the withdrawal of the Debtors' pending Motion To Reject Their Collective Bargaining Agreements Pursuant To Section 1113(c). In support of this Motion, United states as follows:

**Jurisdiction**

1. This Court has jurisdiction over the Motion under 28 U.S.C. §§ 157 and 1334. This matter is a core proceeding within the meaning of 28 U.S.C. § 157(b)(2).

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<sup>1</sup> The Restructuring Agreements contain terms and conditions modifying the parties' existing CBAs in effect as of the filing of United's Chapter 11 case. All terms and conditions in those CBAs remain in full force and effect, except as modified by the Restructuring Agreements.

2. Venue of this proceeding and the Motion is proper in this District pursuant to 28 U.S.C. §§ 1408 and 1409.

3. The bases for the relief requested are Sections 105, 363, and 1113 of Title 11 of the United States Code as amended from time to time (the "Bankruptcy Code").

#### **Background**

4. After a long period of negotiations with its unions prior to bankruptcy, United began the process of seeking modifications to its CBAs under Section 1113 shortly after filing for Chapter 11. *See* United's Section 1113(c) Memorandum at 46 - 48, 62 - 64 & n. 25. Since that time, United consistently has asserted that it must achieve the changes sought through negotiations in order to satisfy its DIP financing covenants, establish durable CBAs and transform its business model to regain the confidence of the capital markets. The time dictated by the restrictions imposed by the DIP financing covenants and the procedural requirements of Section 1113 forced United to file its motion to reject its CBAs on March 17, 2003. After the filing, negotiations became even more intense as both United and its unions made every effort to avoid litigation to reject the Company's CBAs.

5. The parties' bargaining ultimately bore fruit. On March 14, 2003, United and TWU reached a tentative agreement on modifications to the TWU collective bargaining agreement, referred to herein as the "TWU Restructuring Agreement" and attached as Exhibit A. On March 23, 2003, the leadership of the TWU advised United that the TWU membership had ratified the parties' Restructuring Agreement.

6. On March 27, 2003, United and ALPA reached a tentative agreement on significant and necessary modifications to the ALPA CBA, referred to herein as the "ALPA Restructuring Agreement" attached as Exhibit B. United's pilots ratified the ALPA Restructuring Agreement on April 11, 2003.

7. On April 4, 2003, United reached tentative agreements with both AFA and PAFCA to modify their CBAs. Those agreements are referred to herein as the "AFA Restructuring Agreement" and the "PAFCA Restructuring Agreement" and are attached as Exhibits C and D, respectively. On April 11, the PAFCA membership ratified the PAFCA Restructuring Agreement. The flight attendants ratified the AFA Restructuring Agreement on April 29.

8. On April 8, United reached a tentative agreement with IAM 141, the "IAM 141 Restructuring Agreement" attached as Exhibit E. The Company reached a tentative agreement with IAM 141M on April 11, the "IAM 141M Restructuring Agreement" attached as Exhibit F. Both IAM memberships ratified their respective agreements on April 29. United now has reached ratified agreements with all of its unions.

#### Requested Relief

9. United and ALPA, AFA, IAM 141M, IAM 141, and PAFCA will finalize the contractual language based on each Restructuring Agreement and implement those terms as of the effective date (May 1, 2003), upon the satisfaction of the following conditions: (i) acceptance by the ALPA and AFA Master Executive Councils ("MEC"); (ii) approval by the UAL Board of Directors Labor Committee; (iii) for the ALPA and AFA Restructuring Agreements, execution by the Presidents of ALPA and AFA; (iv) ratification of the Restructuring Agreements by United Airlines employees represented by each union and execution of the Restructuring Agreements by each union; (v) approval of the Bankruptcy Court; and (vi) withdrawal of the Company's motion for rejection of the collective bargaining

agreement with the respective union.<sup>2</sup> Conditions (i) and (ii) have been satisfied. Condition (iii) will follow ratification of the Restructuring Agreements. Accordingly, pursuant to Section 363 of the Bankruptcy Code, United seeks this Court's approval of the Restructuring Agreements under Section 363(b) of the Bankruptcy Code and leave to withdraw the Company's pending motion for rejection.

10. As indicated above, the Restructuring Agreements memorialize modifications negotiated with each union to the applicable CBA in effect as of the filing of United's Chapter 11 case. In requesting this Court's approval of the Restructuring Agreements, United is not seeking to assume the CBAs. In addition, neither entry of the Order approving the Restructuring Agreements nor execution of or entry into the Restructuring Agreements by the Debtors shall, in and of themselves, create administrative expense claims as to claims that would otherwise constitute prepetition claims. Moreover, United is not waiving, by this motion or as a consequence of the Restructuring Agreements, any of its rights or its ability to seek further relief under Sections 1113, 1114 or any other Section of the Bankruptcy Code, provided, however, that nothing shall limit the Debtors' obligation to comply with the CBAs as modified by the Restructuring Agreements pursuant to Section 1113(f). Nor does this Order or the Debtors' motion restrict or in any way limit the Unions' rights or their ability to contest any such further or other relief sought by the Debtors.

11. United further requests that, subject to the satisfaction of the other conditions set forth above, the Company be authorized to withdraw, without prejudice, the

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<sup>2</sup> In the event these conditions are not satisfied with respect to a particular Restructuring Agreement by April 30, 2003, each such Restructuring Agreement will terminate and become null and void in its entirety, and none of the UAL, United Air Lines or the particular union will have any obligation to implement the Restructuring Agreement in whole or in part.

Debtors' pending motion to reject their collective bargaining agreements pursuant to Section 1113(c) as it pertains to the ALPA, AFA, IAM 141M, IAM 141, PAFCA, and TWU.

**Basis for Requested Relief**

12. Whether modifications to a CBA are considered ordinary course transactions under Section 363 of the Code or whether court approval is required has generally been determined on a case-by-case basis, with different courts reaching different conclusions depending on the specific facts. *See In re North American Royalties, Inc.*, 276 B.R. 587, 593 (Bankr. E.D. Tenn. 2002) (collecting and comparing cases). Regardless of whether approval is required under prevailing legal analyses, under the terms of the parties' Restructuring Agreements, this Court's approval is a condition to the Restructuring Agreements with ALPA, AFA, IAM 141 and IAM 141M, and PAFCA becoming effective. Thus, out of an abundance of caution and because the parties' Restructuring Agreements require it, United asks the Court to approve the Restructuring Agreements.

13. The standard under Section 363 is whether the transaction is in the best interests of the Estate. *See In re Telesphere Communications, Inc.*, 179 B.R. 544, 553 (Bankr. N.D. Ill. 1994); *see also North American Royalties*, 276 B.R. at 593 (standard for outside-the-ordinary-course modifications to CBA is whether they are justified by a sound business purpose). There can be no question that this standard is satisfied here.

14. As recognized by the Court on the day of United's Chapter 11 filing, "a consensual agreement [that addresses the Company's needs] is the most desirable outcome." 12/09/02 Hr'g Tr. at 26 - 27. United and its unions reached agreement on modifications to the CBAs only after careful deliberations and extensive negotiations. The modifications equitably address the financial, transformational, and labor relations imperatives presently facing United in a cooperative manner that will best serve the interests of the Estate. To begin with, the

modifications to the CBAs will generate the level of labor-related savings that United determined during negotiations are necessary to make the airline competitive. From 2003 - 2008 (with savings continuing into 2009), the Restructuring Agreements will save on an annual basis an average of approximately \$1.1 billion for ALPA, \$302 million for AFA, \$347 million for IAM 141M, \$445 million for IAM 141, \$4.5 million for PAFCA, and \$563,000 for TWU. In addition, salaried and management employees will contribute approximately \$334 million in annual savings over this period.

15. At the same time, the modifications provide United with the business flexibility necessary to transform its operations to meet today's rapidly shifting market for air travel, while bearing in mind the legitimate interests of the Company's employees and other stakeholders. The unions' leadership and members deserve credit for taking on a fair share of the sacrifice that everyone working to transform United agrees is necessary to build a more competitive, profitable enterprise for the long term.

16. Because much of the savings comes from changes to work rules and "scope clause" limitations, the CBA modifications will prevent United from devolving back into a high-cost carrier than cannot sustain its cost structure. These changes allow the Company to create new products and services that can compete effectively across product lines and geographical markets. The proposed term of six years for these modifications complements these changes and helps to ensure that the transformation of United will be sustainable. Ex. A at 3 - 4; Ex. B at 3; Ex. C at 3; Ex. D at 3; Ex. E at 3; Ex. F at 2. In addition, the CBA modifications do not provide for any "snapbacks" to old rates.

17. As summarized below, the Restructuring Agreements achieve, on a consensual basis, significant cost savings through wage reductions and work rule changes that

will enable United to meet competitive challenges.<sup>3</sup> Three important components enable United's employees to share in the upside of the Company's recovery, now made possible by the Restructuring Agreements. The first is a profit sharing program that pays out to employees if United exceeds specified profit margins. Ex. B at 33 - 34; Ex. C at 21 - 22; Ex. D at 13; Ex. E at 44; Ex. F at 20 - 21. The second is an incentive payment plan pursuant to which they can earn a bonus as large as 10 percent of wages based on business unit performance. Ex. B at 32 - 33; Ex. C at 20 - 21; Ex. D at 11 - 12, Ex. E at 42 - 43; Ex. F at 19 - 20. And third, the Restructuring Agreements provide that any plan of reorganization proposed or supported by the Debtors shall provide that, upon the effective date of such a plan, the unions will receive a percentage distribution of the equity, securities and/or other consideration provided to general unsecured creditors under the plan as calculated by a formula agreed to in the Restructuring Agreements. Ex. B at 36 - 37; Ex. C at 23 - 24; Ex. D at 14 - 15; Ex. E at 45 - 46; Ex. F at 22 - 23.<sup>4</sup> If a confirmed plan of reorganization does not provide for this consideration, then the Restructuring Agreements provide that the unions will be entitled to a stipulated and allowed nonpriority pre-petition general unsecured claim equal to 110 percent of a previously agreed to amount (*see* footnote 4 below). *Id.* The modifications to the ALPA and IAM CBAs also provide that the plan for reorganization will provide for an ALPA and an IAM designee on UAL Corporation's Board of Directors. Ex. B at 5; Ex. E at 7; Ex. F at 8. Moreover, subject to separate bankruptcy court approval, United will also reimburse the unions for reasonable fees and expenses as agreed

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<sup>3</sup> This motion provides only a summary overview of the Restructuring Agreements. The Restructuring Agreements themselves, not this motion, govern the terms and conditions agreed to by the parties.

<sup>4</sup> The formula for the distribution agreed to in the Restructuring Agreements is  $A/A+B$ , where: "A" is the dollar value of 30 months of average cost reductions under the 2003 Restructuring Agreement as reasonably measured under Labor Model 1.1a; and "B" is the total amount of all other allowed pre-petition general unsecured claims against the Debtors (UAL and its 27 debtor subsidiaries).

to by the parties and will not charge the unions for the lost work time of their negotiators. See, e.g., Ex. B at 38 - 39, Ex. C at 25 - 26. Thus, United's employees will be highly motivated to continue delivering high quality service to United's customers at the same time the Company satisfies its restructuring imperatives.<sup>5</sup>

18. An overview of the principal changes in each Restructuring Agreement establishes how the CBA modifications fulfill each imperative United now confronts:

**The Modifications to the ALPA CBA**

19. *Immediate Wage Savings.* By reducing wages and other direct compensation, the modifications provide a critical portion of the near-term earnings improvements that, subject to the exigencies of the conflict with Iraq and now the outbreak of SARS,<sup>6</sup> will enable United to satisfy its DIP covenants. See Section 1113(c) Memorandum at 78. Pilot base pay rates (those in effect as of December 31, 2002) will be reduced by 30 percent, starting May 1, 2003, and pilot wage rates will not increase until 2006, thus eliminating 4.5 percent increases scheduled for May 1, 2003 and May 1, 2004. Ex. B at 3. The wages of United's highest-paid pilots, who fly the Company's B747-400s, will be reduced by approximately 35 to 40 percent. *Id.* at 3, 6. As described below, wages for Airbus pilots will be reduced to the level of B737 pilots. The guaranteed number of hours that pilots are paid each month will be reduced from 75 for all pilots to 65 for lineholders and 70 for reserves. *Id.* at 6. Other changes in pilot wages are described in Exhibit B at pages 6 - 7.

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<sup>5</sup> Indeed, under the incentive plan proposed by the Company, employees will be entitled to incentive payments (*i.e.*, a percentage of salary) based on the performance of the units in which they work. United is prepared to commit that the same performance criteria for this plan will be applied to unionized employees, non-unionized employees, and executives in each business unit.

<sup>6</sup> The Restructuring Agreements provide for the parties to negotiate with respect to any further revisions to the CBAs in connection with hostilities over Iraq. *E.g.*, Ex. B at 5; Ex. C at 4; Ex. D at 5; Ex. E at 8; Ex. F at 8.



20. *Reduced Benefits Costs.* United will no longer bear the full expense of medical and dental insurance for its pilots, who will be responsible for contributing 20 percent of the cost, subject to increase of up to 7 percent per year. Ex. B at 15, 16. United's contributions to the pilot pension plans also will be reduced. *Id.* at 8, 17. The benefit changes are described in more detail in Exhibit B at page 15 - 18.

21. *Elimination or Modification of Work Rules.* The modifications to the ALPA CBA also shed a number of rules that increase the costs of United's operations. The number of hours United pilots in the mainline operation can be scheduled to fly during a month will be increased from 81 to 89. Ex. B. at 9. United will implement a "preferential bidding system," streamlining the bidding process and eliminating vacation overrides. *Id.* The period of time during which a pilot cannot bid to change aircraft after training on a new aircraft will increase from fourteen months or two years (depending on the length of training) to three years in all cases, decreasing training costs. Ex. B at 9. The requirement to provide accommodations at "downtown" hotels now will apply only if the layover lasts 20 hours or longer, instead of 14. *Id.* at 11. The requirement to staff an additional First Officer on international flights scheduled for less than eight hours will be eliminated. *Id.* Other work rule changes are explained in Exhibit B at page 9 - 12.

22. *Strategic Flexibility.* The modifications are also a breakthrough in transforming United into a nimble business that will be capable of weathering the cycles of the airline industry and seizing new opportunities. *See* Section 1113(c) Memorandum at 2 - 4, 53 - 54. Furlough prohibitions have been removed, as have minimums on fleet size and the number of active pilots. Ex. B at 4, 20 - 31. But the pilots are not left without any job security: United

is required to schedule a minimum number of hours of flying, subject to modification under various circumstances. *Id.* at 26 - 27.

23. The modifications also allow United to capitalize on a wide range of new opportunities. Reciprocal code and revenue sharing agreements, governed by complex formulae and limitations under the old CBA, can be entered into subject to a “meet and confer” with ALPA and the requirement to negotiate for as much reciprocity as reasonably possible subject to circumstances beyond United’s control. Ex. B at 21 - 24. In addition, the modifications will eliminate all limitations in the ALPA CBA on the Company’s ability to transport cargo. *Id.* at 4, 20 - 31. Thus, while United will most certainly continue to consult with its pilots, the Company will be able to make strategic decisions that best serve the interests of all of its stakeholders without having first to renegotiate the pertinent terms of the ALPA CBA.

24. Restrictions on regional jets (“RJs”),<sup>7</sup> a key instrument for increasing revenues and the breadth of United’s network, have been greatly relaxed. For example, the modifications eliminate all caps on the number of RJs and allow the Company to operate 70-seat RJs, while providing a balance between the size of the United Express and the United operation. Ex. B at 21 - 22, 30 - 31. Other relief from the present CBA’s “scope clause” is described in Exhibit B at pages 20 - 31.

25. ***Low Cost Operation.*** The modifications to the ALPA CBA also afford United the option to launch a low-cost operation (“LCO”) to compete at even lower costs with carriers such as Southwest. Ex. B at 13 - 14. This operation may be launched with one or all of the Airbus and B737 aircraft. *Id.* at 13. The pilots who operate these aircraft will work under the

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<sup>7</sup> The Restructuring Agreement refers to such aircraft as Small Jets. Ex. B at 31.

reduced pay and more efficient work rules whether they are scheduled in the mainline or in the low cost operation, giving United ultimate flexibility in exploring and establishing a low cost product. *Id.* The pay rates for all aircraft in this group (the "LCO fleet") will be the B737 rate reduced 30 percent from the base pay rates in effect of December 31, 2002. Furthermore, the two fleets accessible for the LCO will have increased scheduling flexibility and efficiency, with pilots able to fly up to 95 hours a month, as compared to 89 hours on the other fleets. *Id.* at 14. Other provisions of the LCO fleet and its use either as part of the mainline or as a separate product are detailed in Exhibit B at pages 15 - 17.

#### **The Modifications to the AFA CBA**

26. *Immediate Wage Savings.* Like the ALPA Restructuring Agreement, the AFA modifications provide a critical near-term earnings improvement via reduced wages and other direct compensation. The hourly wage and premium rates for flight attendants will be reduced by nine percent. Ex. C at 3, 5. The two percent wage rate increase previously scheduled for March 1, 2004 and the two percent premium increases previously scheduled for August 1, 2003 and August 1, 2004 will be eliminated. Instead, flight attendants' hourly wage and premium rates will be increased by two percent on May 1, 2007, May 1, 2008, and April 30, 2009. *Id.* Two lump sum payments scheduled for March 1, 2003 and March 1, 2005 will be eliminated, as will premiums for ground pay, cost of living adjustments, and layovers in foreign cities with high costs of living. *Id.* at 5. Finally, the AFA modifications will eliminate the letters of agreement to the CBA providing that changes in flight attendants' wages will be determined by arbitration and that flight attendants will receive retroactive pay. *Id.*

27. *Reduced Benefits Costs.* United will no longer bear the full expense of medical and dental insurance for its flight attendants, who ultimately will be responsible for contributing twenty percent. Ex. C at 8, 9. United's contributions to the flight attendants'

pension plans also will be reduced. *Id.* at 11. Instead of having separate occupational and non-occupational sick leave banks, flight attendants will have a single sick leave bank with a cap of 950 hours. *Id.* at 10. The maximum length of time for illness leaves of absence, during which flight attendants are unpaid but still receive medical and dental benefits, will be reduced from seven to three years. *Id.* at 11. And, the number of paid holidays per calendar year will be reduced from ten to five. *Id.* at 5. The benefit changes are described in more detail in Exhibit C at pages 6- 12.

28. *Elimination or Modification of Work Rules.* The modifications to the AFA CBA also revise a number of work rules to increase the productivity of United's flight attendants and decrease the Company's costs. Many of these changes provide United with greater efficiency in scheduling its flight attendants. Limits on actual hours will increase beginning in August 2003 from 90, 180, and 255 to 97, 194, and 276. Ex. C at 13. Caps on the averages for lines of flying (that is, a flight attendant's monthly flight schedule) will be increased by five hours each month. *Id.* Effective August 2003, the number of hours flight attendants can be scheduled to fly will be increased from 85 to 92 hours in the first month of a quarter, from 170 to 184 hours over the first two months of a quarter, and from 255 to 261 hours for an entire quarter. *Id.*

29. United can also schedule flights attendants to work a greater number of consecutive flights while they are on duty, as well as more hours each day. Ex. C at 13. The Company also has increased flexibility to reassign flight attendants when a flight is cancelled. *Id.* Finally, the minimum amount of rest attendants must receive for layovers will be decreased. *Id.* at 13.

30. Other work rule changes include paying an understaffing premium only if the aircraft as a whole, instead of just one cabin, is understaffed. Ex. C at 5. United will implement a “preferential bidding system” to streamline the bidding process. *Id.* at 16. Vacation overrides will be eliminated. The productivity of United’s reserve flight attendants will increase because they no longer will be designated only as either domestic or international, the number of hours reserve flight attendants may be assigned to fly in the last month of a quarter will be increased, and the number of reserve days off will be reduced from twelve to eleven. *Id.* at 14 - 16. The requirement to provide accommodations at “downtown” hotels will now apply only if the layover lasts 20 hours or longer, instead of 14. Ex. C. at 15. Other work rule changes are explained in Exhibit C at page 13 - 17.

31. ***Low Cost Operation.*** The modifications to the AFA CBA also afford United the option to launch a low-cost operation (“LCO”) to compete at even lower costs with carriers such as Southwest. *See* Section 1113(c) Memorandum at 32-40. United and the flight attendants will share a mutual commitment to allow United to compete more effectively against low-cost carriers and to work together to resolve any ongoing issues with respect to maintaining United’s competitiveness. Ex. C at 18. United flight attendants will perform all flight attendant work on the LCO. *Id.* Unless a separate LCO subsidiary is established, flight attendants scheduled to work in the LCO will work under the reduced pay and more efficient work rules applicable to flight attendants scheduled to work in the mainline, thereby giving United flexibility in exploring and establishing a low-cost product. *Id.* at 18 - 19. If a separate LCO subsidiary is established, United and the AFA will negotiate separate pay rates and work rules for the flight attendants scheduled to work in the LCO subsidiary, and those flight attendants will

be able to fly up to 95 hours a month. *Id.* at 19. Other provisions of the LCO and its use either as part of the mainline or as a separate product are detailed in Exhibit C at pages 18 - 19.

### **The Modification to the IAM 141M CBAs**

32. ***Immediate Wage Savings.*** The base pay rates and most premiums for all IAM 141M-represented employees at United Air Lines will be reduced by 13 percent. Ex. F at 2. Currently scheduled pay and license premium increases will be cancelled, with employees instead receiving 1.5 percent annual raises starting in 2004. *Id.* The pay scale for utility employees will be extended from its current five year length to ten years for all current and future utility employees. *Id.* at 3. Other changes in wages are described in Exhibit F at pages 2 - 3, 9 - 12.

33. ***Reduced Benefits Costs.*** United will no longer bear the full expense of medical and dental insurance for its 141M-represented employees, who will be responsible for contributing 20 percent of the cost. Ex. F at 13 - 15. The benefit changes are described in more detail in Exhibit F at pages 13 - 16.

34. ***Modification of Work Rules.*** The Restructuring Agreement provides United with significantly more flexible work rules, resulting in large costs reductions. Receipt and dispatch of aircraft will be able to be performed by any IAM-represented employee (including ramp workers from IAM 141), instead of being within the exclusive jurisdiction of mechanics. Ex. F at 3. Restrictions requiring the Company to have a minimum number of lead employees, who supervise other workers and receive premium pay, will be relaxed, resulting in fewer leads. *Id.* The Agreement also removes or modifies rules governing the assignment of Maintenance Instructors, giving United more options in using these employees. *Id.* at 7.

35. United also receives additional flexibility in using part-time utility employees. Ex. F at 8, 24. Part-timers will now be able to work more hours per week, and the

number of start times per day will increase. United can now use part-timers even if full-time employees are furloughed. *Id.*

36. ***Strategic Flexibility.*** The 141M Restructuring Agreement gives United far more options to use low cost vendors in key areas and weather the business cycles of the airline industry. The Company may contract out heavy maintenance without restriction. Ex. F at 4. Outsourcing heavy maintenance will not count against the CBA's 20 percent limit on the amount of maintenance work United can contract out. United also will be able to dispose of the Oakland and Indianapolis maintenance facilities. *Id.* All utility work except at seven larger airports can now be contracted out. *Id.* at 5 - 6. At those seven airports, the Restructuring Agreement allows limited outsourcing so long as senior employees hired before January 1, 1990 are not displaced. *Id.*

37. United will also be better positioned to properly size its workforce. The 141-M modifications remove provisions protecting employees from lay off as a result of contracting out. Ex. F at 4. This change allows United to outsource the maintenance for certain components, generating savings from lower cost vendors. The anti-furlough clause, which protected all mechanics and related employees on the payroll as of January 26, 1994, will protect only employees hired as of January 1, 1990. *Id.* at 5 - 6. Furlough protection for maintenance and fleet technical instructors likewise will be reduced. *Id.* at 6 - 8.

38. ***Low Cost Operation.*** The modifications to the IAM 141M CBAs also allow United to launch a low-cost operation ("LCO") with even lower costs. See Section 1113(c) Memorandum at 32-40. United and the IAM 141M-represented employees will share a mutual commitment to allow United to compete more effectively against low-cost carriers and to work together to resolve any ongoing issues with respect to maintaining United's

competitiveness. Ex. F at 17. United employees will perform all maintenance work at designated maintenance stations; work at non-maintenance stations can be contracted out. *Id.*

### The Modification to the IAM 141 CBAs

39. ***Immediate Wage Savings.*** The base pay rates and most premiums for all IAM 141-represented employees at United Air Lines will be reduced by 13 percent.<sup>8</sup> Ex. E at 3. Currently scheduled pay increases will be cancelled, with employees instead receiving 1.5 percent annual raises starting in 2004. *Id.* at 3. The pay scale for ramp workers will be extended from its current five year length to ten years for current part-time or new full time employees. *Id.* at 4. Other changes in wages are described in Exhibit E at pages 3 - 4, 9 - 19.

40. ***Reduced Benefits Costs.*** United will no longer bear the full expense of medical and dental insurance for its 141-represented employees, who will be responsible for contributing 20 percent of the cost. Ex. E at 20 - 22. The benefit changes are described in more detail in Exhibit E at pages 20 - 24.

41. ***Modification of Work Rules.*** The Restructuring Agreement provides United with far more flexibility in using part-time ramp workers, significantly reducing the Company's costs. Ex. E at 4 - 5, 29 - 31. Restrictions on the percentage of part-time work will be relaxed at larger airports and eliminated at the smaller ones. Part-timers will now be able to work more hours per week, and the number of start times per day will increase. Most importantly, United can now use part-timers even if full-time employees are furloughed.

42. ***Strategic Flexibility.*** The 141 Restructuring Agreement permits United to take advantage of lower cost vendors in key areas. Cargo warehousing and reservations can now

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<sup>8</sup> IAM 141-represented employees at United's Mileage Plus, Inc. ("MPI") subsidiary will be reduced by 10 percent. Ex. E at 3 - 4.



be outsourced, resulting in very large savings for United. Ex. E at 6, 37 - 38. Moreover, United can now contract out work covered by the Public Contact Employees CBA so long as the outsourcing does not result in the layoff of employees hired as of January 26, 1994. Ex. E at 6. This change allows the Company to use third party vendors with much lower costs to handle less complex passenger reservations.

43. **Low Cost Operation.** The modifications to the IAM 141 CBAs also allow United to launch a low-cost operation ("LCO") with even lower costs. See Section 1113(c) Memorandum at 32-40. United and the IAM 141-represented employees will share a mutual commitment to allow United to compete more effectively against low-cost carriers and to work together to resolve any ongoing issues with respect to maintaining United's competitiveness. Ex. E at 35 - 36. United employees will perform all ground handling work on the LCO. *Id.*

#### **The Modifications to the PAFCA CBA**

44. **Immediate Wage Savings.** The modifications provide immediate cash savings by reducing dispatcher wages and other direct compensation. Flight dispatcher wages will be reduced by 13 percent starting May 1, 2003, with 2 percent increases every year beginning on May 1, 2004. Ex. D at 3. The modifications also cut other payments, such as a 13 percent reduction in the "high skill desk premium" (a monthly bonus for working this particular desk) and the "training override" (a payment for working as a training instructor). *Id.*

45. **Reduce Benefits Costs.** Under the modifications, United's dispatchers will contribute 20 percent of their medical and dental costs. The same pension plan that applies to salaried and management employees will also cover dispatchers. Ex. D at 6 - 9.

46. **Work Rule, Scope, and LCO Provisions.** The modifications streamline dispatcher work rules and allow United to adapt its business to changing economic conditions and to take advantage of new opportunities. For example, the CBA changes simplify the

assignment of overtime and eliminate "bypass" pay except in case of malicious errors. Ex. D at 4. The modifications also remove furlough prohibitions and relax restrictions on using non-U.S. flight dispatchers at foreign locations. Additionally, United will have the option to launch a low-cost operation to compete with low-cost carriers such as Southwest. *Id.* at 10. Any LCO will employ PAFCA dispatchers, and United and PAFCA will work together to maintain the competitiveness of the LCO. *Id.* Other modifications to the PAFCA CBA are detailed in Exhibit D.

#### **Modifications to TWU's CBA**

47. Meteorologist base wages will be reduced by 13 percent, followed by annual increases of 1.5 percent. Ex. A at 2. The modifications also relax overtime rules and reduce the advance notice that United must give to furloughed employees from 6 to 3 months. *Id.* In addition, the modifications provide that meteorologists will participate in common medical and dental plans and eliminate two paid holidays. *Id.* at 2 - 3. All other modifications to the TWU CBA are detailed more fully in Exhibit A.

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48. Through an extensive and collaborative effort, United and its unions have negotiated modifications that, based on current conditions, equitably satisfy the Company's need for long-term, permanent structural changes. As mentioned above, United's employees and unions deserve high praise for stepping up to provide such invaluable leadership in confronting the fundamental issues facing United. The Company readily acknowledges that the modifications to the CBAs represent significant sacrifices for United's unionized workers. United commends its employees for recognizing that these sacrifices are necessary and making this investment to enable the Company to compete more effectively, both immediately and over the long-term. With the modifications, United achieves both significant cost reductions and the

ability to adapt, collaboratively with its employees, to an increasingly dynamic industry. The Restructuring Agreements are an important step forward in United's successful reorganization, to the benefit of all its creditors and stakeholders, including the unionized employees who will once again enjoy stable employment at a reinvigorated United.

#### Notice

49. Pursuant to Section C.3.d(2) of the Notice, Case Management and Administrative Procedures (the "Case Management Procedures") approved in these Chapter 11 cases, notice of this Motion has been provided to: (a) the Core Group (as defined in the Case Management Procedures); and (b) those parties on the 2002 List. The Debtors hereby submit that under the circumstances, such notice is appropriate.

50. To the extent the modifications are in fact outside the ordinary course of business, then the procedures governing notice of the Motion are set forth in Bankruptcy Rules 6004(a) and 2002(a)(2). Bankruptcy Rule 6004 requires that notice of a proposed use, sale or lease of property not in the ordinary course of business be given pursuant to Rule 2002(a)(2). Fed. R. Bankr. P. 6004(a). Bankruptcy Rule 2002(a)(2) requires that 20 days notice by mail be given to certain parties for the proposed use, sale or lease of property of the estate other than in the ordinary course of business, but the court can shorten this period for cause. Fed. R. Bankr. P. 2002(a)(2). Notwithstanding the foregoing, the Case Management Procedures allow for less than twenty days' notice for transactions outside the ordinary course of business that do not involve a sale of substantially all of the Debtors' assets (provided that such notice is otherwise consistent with such Procedures).

WHEREFORE, United respectfully requests that the Court enter an Order substantially in the form to be submitted to the Court at the conclusion of the hearing.

Dated: April 30, 2003

Respectfully submitted,



James H.M. Sprayregen (ARDC No. 6190206)  
Alexander Dimitrief, P.C. (ARDC No. 6190494)  
Andrew A. Kassof (ARDC No. 6271263)  
R. Christopher Heck (ARDC No. 6273695)  
KIRKLAND & ELLIS  
200 East Randolph Drive  
Chicago, Illinois. 60601  
(312) 861-2000.

*Counsel for the Debtors  
and Debtors-in-Possession.*