

# A Look at Merger Events



*Chris Beebe  
MEC Chairman*

So what happens next?" How many times have you asked yourself that question during the course of the past 10 months since UAL announced their plans with US Airways?

To show you what can happen next, and to alleviate some of the confusion that has surrounded this process since May 2000, I've created two timelines with the help of the MEC Officers, our advisors, and the Merger, Negotiating and Communications committees. Having a visual structure has made it easier for me to focus on the big picture. And, the timelines point out details that may have been overlooked as we've moved forward to protect and enhance our jobs here at US Airways. Despite some of the surprises that this merger has produced for our pilot group, we've had our share of victories. Also, these timelines are a tool to develop our future, helping us plan some of our next steps.

I'm going to use the events marked on the timeline to summarize what has happened since May 24, 2000, the date of the United/US Airways merger announcement, and then I'll give you an idea of what we believe will be happening in the future.

There are two separate timelines shown in this article. The first is an events timeline that discusses merger milestones that have been important, and may be important, to the US Airways pilot group. The second, an organizational timeline, is an overview of how our MEC has been conducting its business since the merger announcement.

Although the organizational timeline mostly lists our past and future MEC meetings and is self-explanatory, I've broken down everything contained in the events timeline to explain their significance. Keep in mind that the events that have not yet occurred are not set in stone. I'm sure there will be some deviation from the expected dates, and, in fact, some events may not happen at all.

**May 24, 2000:** Date of UAL/US Airways announcement—United and US Airways announced that UAL is buying US Airways in an \$11.6 billion deal, with the Boards of both companies approving the deal late on May 23. The combined company would have \$27 billion in annual revenue and more than 145,000 employees and 1,000 aircraft. The deal is subject to approval by US Airways shareholders and government regulators, including the European Union, but management stated that they expected the deal to be completed by the end of 2000. In the event the transaction is not completed, management says that they intend to continue operating the airline as an independent competitor.

In an effort to address regulator's concerns, UAL plans to sell the bulk of operations at Washington's Reagan National Airport to Robert L. Johnson, who will use the assets to start his own airline, DC Air. However, UAL would keep the US Airways Shuttle. US Airways management told the labor leaders that there is a current need for increased capacity and said that there would be no furloughs of US Airways

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employees for at least two years after the transaction. MEC representatives, advisors, and staff begin to analyze the details of the proposed acquisition of US Airways by United and determine its effect on US Airways pilot career expectations.

**June 14, 2000:** Merger Committee elected—At the second quarter MEC meeting in Annapolis, a Merger Committee is elected. Todd Cardoza, Mike Cleary, and Randy Mowrey begin the data collection process and general project management. During this meeting, the MEC also retained the law firm of Katz & Ranzman to continue as our Merger Counsel for this project.

**September 8, 2000:** ALPA demands amendment to UAL/US Airways Merger Agreement—US Airways and United managements accepted a document titled “First Amendment to the Agreement and Plan of Merger.” This amendment would to bring the agreement of merger into compliance with Section 1(C)1 of our contract

**November 10, 2000:** Section 1(C)3 grievance filed—An expedited MEC grievance was filed to include the 1(C)3 issue and is scheduled for arbitration on March 16. This grievance addresses the triggering of the LPP provisions of our contract.

**December 14, 2000:** First Amendment to Merger Agreement attained—The UAL Board votes to accept the first amendment to the UAL/US Airways Merger Agreement. This amendment was designed to bring the corporate merger agreement into compliance with Section 1(C)1 of our contract. UAL is now bound to assume all terms of our contract as a condition of the agreement of merger.

**January 9, 2001:** AMR-UAL Memorandum of Understanding—United and AMR Corp. announce that American Airlines is offering to pay United \$1.4 billion to acquire about 20 percent of US Airways if the United/US Airways merger is completed. The reports state that assets acquired could include 86 airplanes, gates at BOS, DCA and LGA, and about 40 landing slots at LGA and half of the US Airways Shuttle, which would become a joint venture between United and American. Another part of the deal American is reportedly seeking would include acquiring 49 percent of DC Air, the carrier that was designed to alleviate antitrust concerns for United at DCA.

Upon hearing this news, I sent a letter to American Airlines CEO Don Carty, United Air-

lines CEO Jim Goodwin, and US Airways President and CEO Rakesh Gangwal informing them of their obligation to comply and honor all aspects of our contract, which includes our scope protections, minimum growth and no-furlough protections, and other career protection and job security provisions.

**January 12, 2001:** EU approval—The European Commission announces that it approves the UAL/US Airways merger after United Airlines agreed to give up some slots for transatlantic flights at the Frankfurt and Munich airports.

**February 15, 2001:** Section 1(F) grievance filed—I filed an expedited MEC grievance on the Company’s failure to require that UAL Corporation and AMR Corporation comply with the labor protective provisions and fragmentation protections in the US Airways Pilots Working Agreement in connection with their Asset Transfer Agreement and related agreements announced on January 10, 2001. The Asset Transfer Agreement proposes to transfer up to 1,100 US Airways pilots, 86 aircraft, 36 slots, 14 gates and other US Airways assets to AMR, along with other assets required for AMR to support the operations of DC Air and to operate one-half of the BOS-LGA-DCA Shuttle.

Contrary to sections 1(C)3 and 1(F)1, and related sections and LOAs of the Pilots Working Agreement, US Airways has failed to ensure that the Asset Transfer Agreement between AMR and UAL guarantees ALPA the right to determine, in its sole discretion, whether or not US Airways pilots will have the option to transfer to American Airlines and the methodology and procedures for determining which US Airways pilots will transfer.

The grievance states US Airways has further violated the Pilots Working Agreement by failing to ensure that the transferring US Airways pilots are guaranteed a seniority integration into the American Airlines Pilots Seniority List governed by Sections 3 and 13 of the Allegheny-Mohawk LPPs. US Airways also failed to require AMR and UAL to provide the US Airways pilots who transfer to American Airlines labor protective provisions no less favorable than those specified by the Civil Aeronautics Board in the Allegheny-Mohawk merger upon the consummation of the Asset Transfer Agreement.

The Company’s position on this issue has been, in part, that the assets proposed for sale to AMR by UAL do not meet the 20 percent

asset-value triggering event of section 1(F)1 of the Contract.

**March 2001:** TWA-AMR integration to potentially begin—If AMR successfully acquires TWA, and it appears that it will, an operational integration will begin between the two carriers. (The AMR/UAL offer is contingent upon the UAL/US Airways deal, but not a TWA/AMR acquisition.)

**March 2001:** Potential agreement to Section 1(C)3 grievance—An expedited MEC grievance that was filed on November 10, which included the now-resolved first amendment to the UAL/US Airways Merger Agreement, as well as the effective date of the Allegheny-Mohawk Labor Protective Provisions, has been postponed. This is due to a potential agreement between the Association and the Company on a last-minute settlement. As this is being written, the details of this settlement are being worked out. I will be sure to keep you apprised if and when the settlement is finalized.

**March 27, 2001:** Fence negotiations begin—On February 8, in preparation for possible fence negotiations if the United/US Airways merger is approved, the MEC unanimously voted to charge the Merger and Negotiating committees to begin meetings with their counterparts at United to negotiate a fence agreement. If the merger is approved, and the Yellow Jacket transaction completed, a fence agreement is necessary because US Airways and United Airlines will be separate airlines operating under the common corporate parent of UAL. (The Yellow jacket transaction is the companies' names for the UAL acquisition of the US Airways stock.) These negotiations will provide an appropriate mechanism to properly protect and allocate flying between the separate airlines operating under UAL, as well as addressing other issues, until an operational integration is completed. The MEC will be consistently updated regarding the status of these talks, and any tentative fence agreement will be subject to MEC approval. The MEC also passed a resolution outlining the goals for a fence agreement for US Airways pilots.

**Late March, 2001:** Parity Review arbitration—There are a number of open parity issues which the Company and ALPA have been discussing. If we cannot work these differences out with the Company, both parties have agreed that any issues not resolved will be referred to an arbitrator. The arbitrator will resolve these

open issues and that ruling will be the basis for the parity calculation.

**March 29, 2001 (tentative):** Department of Transportation (DOT) approval of US Airways/United—Although the DOT has authority to investigate and decide whether an air carrier is engaged in an unfair method of competition, the Department is unlikely to use this authority to review the competitive effects of the proposed acquisition and will almost certainly defer to the DOJ on the antitrust issues. The DOT will exercise review authority in these areas: the transfer of US Airways international routes to United, the transfer of US Airways codeshare authority to United, and the startup of DC Air.

**April 2, 2001 (tentative):** DOJ decision—April 2 was the original DOJ decision date; however, US Airways and United decided on March 6 that they would agree to extend the period for completing their merger beyond April 2 to allow the DOJ to review more materials. They also agreed to a 21-day notification to the DOJ prior to closing their proposed transaction.

**April 2, 2001 (tentative):** State Attorneys General approval—Several state attorneys general are participating in the review of the acquisition. However, as state attorneys general have not previously sought to play a major role in the antitrust review of airline acquisitions, the exact scope of their jurisdiction and role is not clear. What is most likely is that interested attorneys general are working collectively, perhaps through the National Association of Attorneys General, to influence any negotiations between the Department of Justice and the carriers.

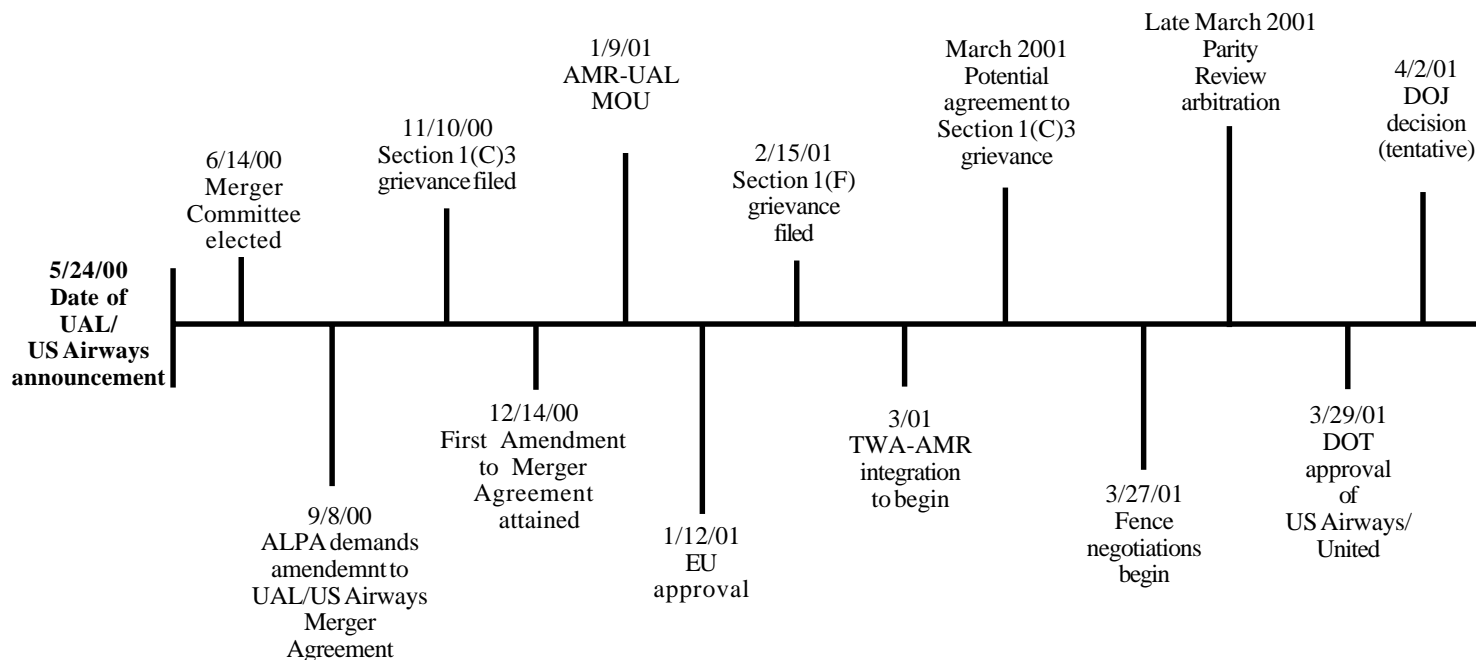
**April 4, 2001 (tentative):** Yellow Jacket transaction—United management has told senior US Airways management that they expect the transaction to take place 48 hours after DOJ approval. Although we had expected April 2 as a DOJ approval date, making April 4 the date of the Yellow Jacket transaction, UAL and US Airways agreed on March 6 to extend the period for completing their merger beyond April 2 to allow the Department of Justice (DOJ) to review the materials. Therefore, at the time this magazine went to print, the new possible date of the transaction is unknown.

**US Airways/UAL seniority integration (Negotiations-mediation-arbitration)**—This period of time will run approximately from date of approval until the end of seniority inte-

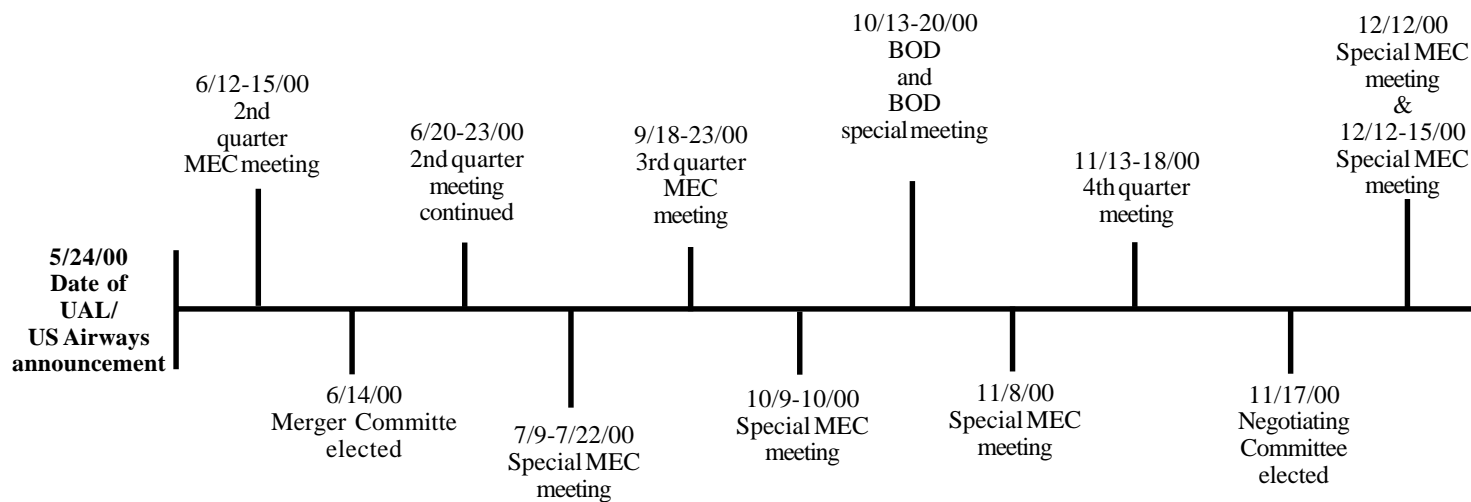
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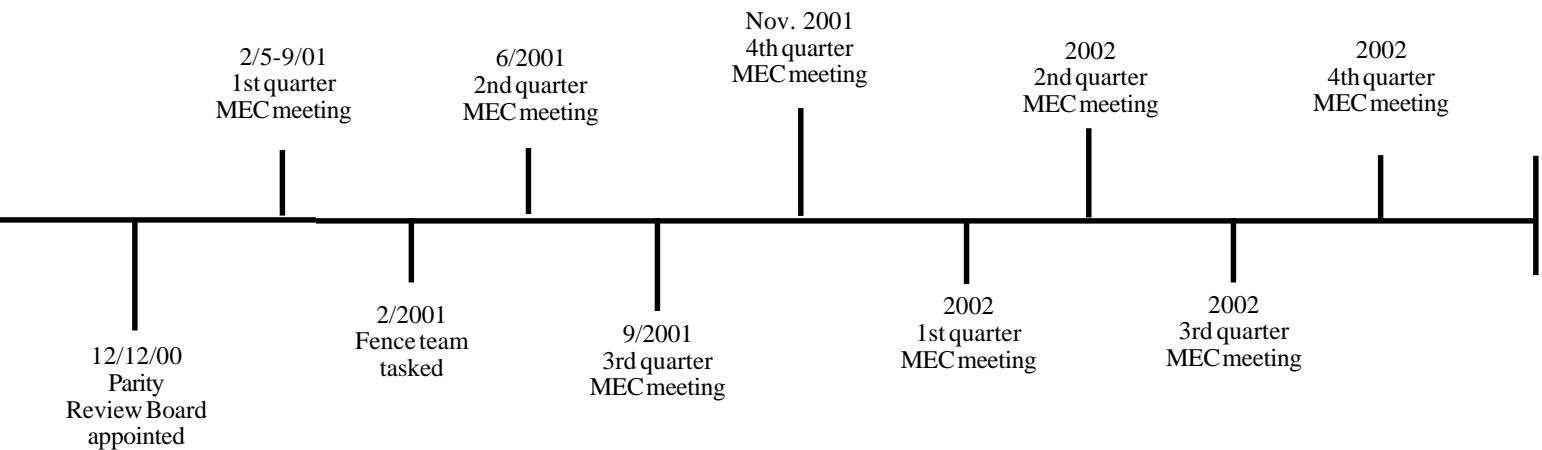
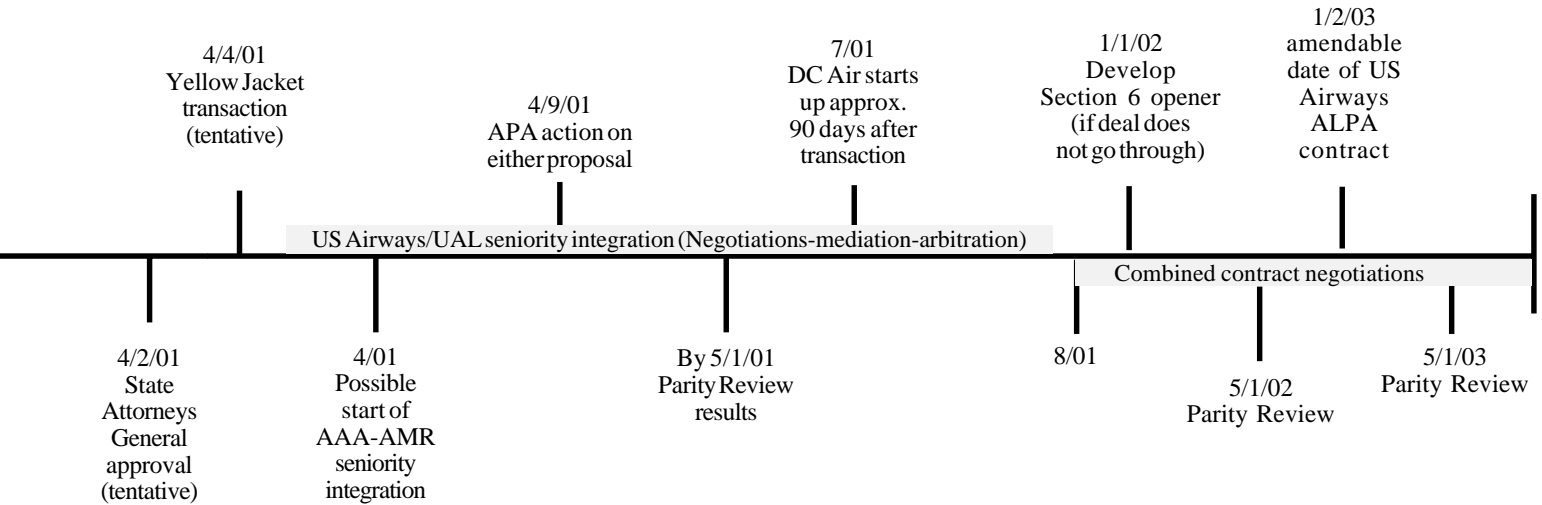


### Events Timeline



### Organizational Timeline





*“The results of this review will determine if our hourly rates of pay and productivity costs are less than or greater than parity plus one, and the appropriate actions that must be taken to bring us into parity with our composite competitors.”*

gration. Events that could occur during this time include:

- **April 2001**—Possible start of US Airways/AMR seniority integration: If the US Airways/UAL merger is consummated, AMR Corp. buys part of US Airways, and the APA and ALPA begin to work towards an agreement about our pilots transferring to American, a seniority integration could potentially begin.

At the first quarter meeting in DCA, the MEC authorized the Merger Committee to begin discussions with the APA. These discussions would be held to achieve a “fair and equitable” seniority integration for US Airways pilots who may elect to transfer to American, if the United/US Airways transaction is approved. The MEC’s resolution also states that the MEC reserves the right to approve or disapprove any agreements reached by the Merger Committee and the APA. The MEC directed that any agreed-upon integration will provide adequate protections for all US Airways pilots.

- **April 9, 2001**—APA action on either proposal: The UAL/AMR January 9 Memorandum of Understanding, in which American Airlines proposes to purchase approximately 20 percent of US Airways assets from United Airlines, contained two proposals in the MOU concerning job offers for US Airways pilots.

Proposal One is subject to Allied Pilot Association consent. It offers jobs on a seniority basis to 250 Captains current and qualified on the B-757 as well as 250 current and qualified B-757 First Officers. These pilots would be offered seniority integration per AAA-MOH LPPs Sec. 3 and 13. Should less than the full 500 B-757 pilots elect to transfer to AMR, UAL would have the right to reduce the number of B-757 aircraft delivered. AMR would offer jobs to 600 MD-82 and F-100 current and qualified pilots. These pilots would be placed on the American seniority list in a manner to be agreed to by APA and the US Airways MEC.

Proposal two is an alternative proposal, absent APA consent for Proposal One, and requires agreement among the parties involved. In this proposal, AMR would offer jobs to 1,100 US Airways pilots. Seniority integration would occur in a manner agreed to by AMR, UAL, US Airways, APA, and ALPA. This proposal does not include LPP protections for seniority integration.

The MOU stated that both proposals are subject to agreement of the parties within 60 days from the date of the MOU, January 9, if the APA does not require membership ratification, and are subject to agreement of the parties within 90 days if the APA requires membership ratification. Recently, Michelle Bryan, US Airways Senior VP of Human Resources, informed me during a March 1 meeting that the 60-day consent period for the APA pilots had been extended to 90 days.

- **By May 1, 2001:** Parity Review results—As agreed to in LOA 47, Mainline Parity Adjustments, and as amended by LOA 79, Interim Small Jet Agreement, the first parity plus one percent review will be completed by May 1, 2001. The results of this review will determine if our hourly rates of pay and productivity costs are less than or greater than parity plus one, and the appropriate actions that must be taken to bring us into parity with our composite competitors.
- **July 2001:** DC Air starts up approximately 90 days after transaction—It will take about 90 days after the closing of the US Airways/United deal for DC Air to come into existence. In the meantime, US Airways/United would probably be allowed, with DOJ approval, to operate those routes. DC Air is currently scheduled to operate to 44 cities with 37 aircraft.

**August 2001:** Combined contract negotiations—After a seniority integration is achieved, the last step to creating a single pilot group is to combine our contracts, which will involve another negotiation.

**January 1, 2002:** Develop Section 6 opener (if deal does not go through)—There is no guarantee that this transaction will occur. Though the ongoing and omnipresent news of



potential mergers have held our attention for the past 10 months, we cannot forget that we could very well be on our own as a company. We are preparing for the possibility that 1) We will remain unmerged, and 2) Our management could be asking for concessions.

**May 1, 2002**—Parity Review and **May 1, 2003**—Parity Review: There will be two subsequent parity plus one percent reviews beginning on January 1, 2002, and January 1, 2003. The reviews will determine whether the Company's pilot hourly rate of pay and productivity costs are equal to parity plus one percent as of May 1, 2002 and May 1, 2003.

**January 2, 2003**—Amendable date of US Airways ALPA contract: As I mentioned in my May 2000 *US AIRWAVES* article (before the merger was announced), we may be at a crossroads regarding our next contract if we are in the position to negotiate one. The achievement

of a new contract will depend on the state of the industry, the actions of management, and our collective resolve to stand firm through this time.

Idle and not-so-idle speculation about the deals our airline is involved in is normal, but don't let it overwhelm you so much so that it becomes a distraction from your work. At times like these, the best thing we can do is remain the world-class pilots we have always been by focusing on the task of safely flying our passengers to their destinations. I greatly appreciate your ability to maintain your decorum and professionalism as you interact with each other, our passengers, and our counterparts at other airlines.



*“ There is no guarantee that this transaction will occur. ”*

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