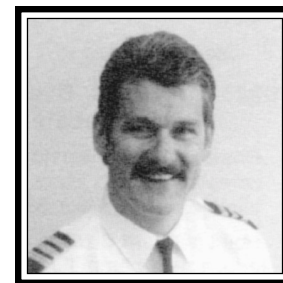


Merger Assessment Fund Overview



*Philip Osterhus
MEC Secretary-Treasurer*

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The corporate failure of the merger with United now seems to be in the distant past, but it happened only a few months ago. The MEC recently voted to refund the remaining amount of the assessment that was authorized to fund UAL merger-related activity. What follows is an overview of the assessment and the spending to prepare for what would have been the biggest merger, and seniority integration, in history.

I don't know about you, but it is a little hard for me, post 9/11, to bring into my mind the same feeling of excitement and potential that I felt back when the merger seemed a good possibility. The synergies possible from the combination of our two airlines, with their complementary route structures, filled us with hope and promise. There was the certainty of turbulence ahead, though. A fair integration of the seniority lists would be a crucial element of a successful merger. Would we get a fair shake? We were up against a battle-hardened ALPA veteran in UAL MEC Chairman Rick Dubinsky, and a seasoned United pilot group with a history of unity and hard-nosed bargaining. What kind of effort would we mount? Should it be a half-hearted, “just glad to be here, please staple me and my 15 years of service to the bottom of your list” kind of effort? Or would we send our best and our brightest, armed to the teeth, accompanied by the best legal and professional representation that money could buy? Of course, we took the approach that we would vigorously pursue every avenue that might yield a favorable result.

ALPA Merger Policy prescribes a process by which pilot groups integrate seniority lists. In its simplest form, the policy provides for the

respective merger committees first to negotiate with each other to reach agreement on a merged list. If that doesn't work, they continue to negotiate with help of a mediator, and if they are still unable to reach agreement, the mediator becomes an arbitrator, and, after a hearing, the arbitrator makes the final seniority integration. Before any of that began, our Merger Committee prepared thoroughly, by educating themselves on merger history and current policy, and by developing a strategy in concert with merger counsel and the MEC.

The merger was announced in May 2000. The MEC elected Mike Cleary, Randy Mowrey, and Todd Cardoza to the Merger Committee in June 2000, and also selected Katz and Ranzman as merger counsel in June 2000. In September 2000, the MEC authorized an assessment of the pilots with the following resolution:

AI 00-106 Merger Assessment Fund

WHEREAS US Airways has announced a plan to merge with United Airlines, and
WHEREAS the US Airways MEC desires to prepare appropriately for this and any other potential merger by maintaining a sufficient merger fund, and

WHEREAS such preparations, if not funded from an assessment, may deplete MEC account funds to the point that the MEC may not be able to adequately address other legitimate issues,

THEREFORE BE IT RESOLVED that the MEC, in accordance with Article IX, Section 7C, of the ALPA Constitution and By-Laws, and Section 45J of the ALPA Administrative

Manual, hereby assesses all active US Airways pilots as of September 18, 2000, in the amount of \$450, to be billed at \$75 per month, beginning with the October billing cycle, and

BE IT FURTHER RESOLVED that pilots who become active members prior to January 1, 2002, will then be required to pay the \$450 assessment in six equal payments beginning with the billing cycle of the first month after they become active members, and

BE IT FURTHER RESOLVED that the funds from such assessment will be used to fund activities generated by an actual or potential merger transaction and will be administered as follows:

- Merger committee expenses of attorneys fees, expert witness fees and associated expenses, must be accompanied by an itemized voucher or invoice signed by any two members of the Merger Committee,
- Merger Committee, MEC meetings, and Negotiating Committee and other support committee expenses, including flight pay loss, member expenses, meeting costs, and other appropriate expenses, will be approved through the normal MEC administration procedures,

- Checks written from the assessment account to pay for such appropriate expenses must be signed by two MEC officers.

BE IT FURTHER RESOLVED that a detailed monthly accounting of these assessed funds will be provided to the MEC, and made available to the membership as authorized by the MEC, and

BE IT FURTHER RESOLVED that an estimated budget for merger related costs will be submitted by the Merger Committee, and

BE IT FURTHER RESOLVED that, in accordance with Section 45 J 3 of the ALPA Administrative Manual, monies received from each pilot will be recorded in a manner showing the amount paid by each pilot, and

BE IT FINALLY RESOLVED that any unused funds in this merger account will be refunded on a pro rata basis, to the pilots who paid these assessments, when the MEC determines that the fund is no longer necessary, or as required by ALPA Administrative Manual.

Secretary-Treasurer Osterhus is teller of Secret Ballot Committee; members are Brian Reno ALPA #1237866 and Bill Turbett ALPA # 0991190

Vote is 15 yes, 0 no; Assessment passes unanimously.

So each pilot was assessed \$450 to fund our merger preparation and the aggressive defense of our claim to a fair integration. The money spent was spent in accordance with the resolution and ALPA policy. Please note that the authorizing resolution specifically recognized that the additional work of preparing for a merger would be accomplished not only by the Merger Committee, but would also, at times, include the Negotiating Committee, Grievance Committee, and MEC.

For example, the MEC spent over half of its second quarterly meeting interviewing candidates for Merger Committee and merger counsel and spent significant portions of other meetings addressing merger-related issues. Also, as you may recall, when the UAL Board of Directors initially failed to amend the merger agreement and obligate themselves to honor our Pilots Working Agreement, as a condition of the merger, the Merger, Grievance and Negotiating committees were fully engaged in the fight to uphold our contract. Similarly, all three of these committees and the MEC itself became involved when it became apparent that management was attempting to short change the pilot group with regard to the Labor Protective Provisions to which our

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Working Agreement entitled us. Both of these fights ended successfully for our pilots. Another contract enforcement effort by all three committees involved protections for those wishing to transfer with US Airways assets to American as part of the transactions announced in January 2001, and it remained pending when the carriers withdrew the merger agreement based on government opposition in the summer of 2001. Additionally, the Merger and Negotiating committees (at the direction of the MEC) constituted our Fence Negotiating Team, which met with their counterparts at UAL prior to the termination of the Merger Agreement.

So the test for spending the assessed funds would be this: If the cost was incurred because of the announced merger, and would not have been incurred in the absence of the merger announcement, then the assessed funds were used to pay the cost.

The costs incurred by professionals came from our merger counsel, Katz and Ranzman, and from Cohen Weiss and Simon, general counsel for ALPA International. Additional professional fees were paid to firms that performed economic and

financial analyses that were used to construct our case for equitable seniority integration. The costs incurred by pilots came mostly from the Merger, Negotiating, and Grievance committees and the MEC, with some other costs from volunteers doing computer or other technical support work for the Merger Committee. These pilot costs included Flight Pay Loss, and expenses for travel, lodging, meals, telephone, and supplies and equipment.

Now that the MEC has authorized a refund of the assessment, Grant Thornton will begin to audit the account in November. The bulk of the funds will be refunded as soon as the audit is complete, with each pilot who paid the assessment in full receiving approximately \$190. My goal is to have the checks in pilots' hands by Christmas. The account will remain open with a small balance sufficient to pay for administrative costs of the assessment, and to allow for the payment by those who have so far refused to pay their fair share. Look for the names of those who have not paid on a crew room posting in each crew base.

Here is the fund balance:

Katz and Ranzman	
Attorneys' Fees	\$ 678,175
*Merger Committee	
Flight Pay Loss	\$ 642,322
Expenses	\$ 163,350
MEC Meeting	
Flight Pay Loss	\$ 315,549
Expenses	\$ 139,812
Negotiating Committee	
Flight Pay Loss	\$ 312,272
Cohen Weiss and Simon	
Attorneys' Fees	\$ 92,864
Other Professional Fees	\$ 79,141
Bank Fees	\$ 551
Total Spent as of Dec. 1, 2001	\$ 2,424,036
Assessments collected through December 1, 2001	\$ 2,486,721
US Airways contribution	\$ 1,000,000
Interest gained	\$ 31,056
* Merger Committee Flight Pay Loss and Expenses amounts include some work done by members of other committees in a support role.	



Year 2002 Budget

The 2002 US Airways MEC budget was a difficult one to conclude. ALPA International calculated a 23 percent reduction in our 2002 payroll, based on announced capacity reductions, which resulted in a similar reduction in expected dues income.

That, plus the higher hourly rates (compared to last year) from the Parity Review combined to require significant reductions in nearly every committee to produce a balanced budget. We budgeted the full amount of our projected income for 2002, including SMRA (Special MEC Reserve Account) to fund our committee structure.

Accident Investigation	30,519	Routes	5,300
Central Air Safety	200,000	Electronic Information	25,066
Employee Stock Own	5,000	National Steering	10,335
FAA Enforcement	90,000	Jumpseat	11,454
Grievances	180,000	Parity Review	250,000
HIMS	18,260	Negotiations	450,000
Investment Banker	206,000	Central Scheduling	145,482
MEC Administration	170,565	R&I	110,000
Aeromedical	8,300	Strike Preparation	65,000
MEC Chairman	49,994	Internal Comm	15,000
Comm Project	109,880	Family Awareness	65,000
MEC Duty Officer	68,059	Grievance Training	5,652
Crew Accommodations	27,058	MEC/LEC Activity	15,000
Legislative Affairs	9,330	Merger	15,500
MEC Meetings	750,000		
MEC Membership	124,600	Subtotal	4,888,669
US AIRWAVES	132,634	1,500-Hour Bank	(350,000)
MEC Offices	787,000	Total	4,538,669
Professional Standards	4,665		
Block Building	119,301	Est. 2002 MEC Acct. Income	2,006,010
Secretary-Treasurer	113,743	Est. 2002 SMRA	<u>2,340,345</u>
Training	69,637	Est. Total Income	4,346,355
Vice Chairman	159,758	Est. SMRA Retained from 2001	<u>200,000</u>
System Board	225,000	2002 Est. Total Funds Avl	4,546,355
Uniform	581		
Flight Security	10,989		
Bid Closing	9,130		
Local Council Support	10,000		
Over 85 Hour Committee	9,877		

