

*(Interim Relief Letter of Agreement)*

LETTER OF AGREEMENT  
between  
UNITED AIR LINES, INC.  
and  
THE FLIGHT ATTENDANTS  
in the service of  
UNITED AIR LINES, INC.  
as represented by  
THE ASSOCIATION OF FLIGHT ATTENDANTS

THIS LETTER OF AGREEMENT is made and entered into in accordance with the Railway Labor Act by and between UNITED AIR LINES, INC. (hereinafter referred to as the "Company") and the ASSOCIATION OF FLIGHT ATTENDANTS (hereinafter referred to as "AFA" or the "Association").

WHEREAS the Company and the Association have reached agreement concerning flight attendant participation in consensual economic relief for the Company (the "Interim Relief Letter of Agreement"), pending negotiations for permanent relief under §1113(c),

THEREFORE the parties to this Letter of Agreement hereby agree as follows:

1. The United/AFA Collective Bargaining Agreement signed December 3, 1997, (the "Agreement") shall be amended to provide the following compensation changes retroactive to December 31, 2002, for work beginning December 31, 2002<sup>1</sup>:
  - a. the Wage Arbitration process scheduled to begin on February 3, 2003, and the Lump Sum payment scheduled for March 1, 2003 shall be foregone until a ruling on the Company's §1113(c) Motion as it pertains to the Association is rendered, or a final and binding consensual agreement between the Company and the Association, in lieu of a decision on its §1113(c) Motion, is reached; and
  - b. a compensation reduction totaling 9% to be comprised of the following elements:
    - i) Section 5.K. COLA shall not be paid for the duration of this Interim Relief Letter of Agreement; and

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<sup>1</sup> December 31, 2002 is the first day of the January 2003 schedule month. Should there be any successful claim that the retroactive application of these reductions are in violation of any state or federal law, the parties agree that any portion of the reduction that was applied retroactively in violation of such law shall instead be prospectively applied over the term of the concessions.

- ii) the base wage rates provided for in Section 5.A.1. and 2. shall be reduced by 8.16%; and
- iii) all pay premiums shall be reduced by 8.16%. These premiums include:
  - (a) Reserve Override
  - (b) Understaffing Pay
  - (c) Training Pay
  - (d) Qualified and Non-Qualified Purser Pay
  - (e) Language Qualified and Language Incentive Pay
  - (f) Night Pay
  - (g) Ground Pay

2. The Company will withdraw its Conditional §1113(c) Motion, filed December 27, 2002, and will not refile such motion prior to March 15, 2003, provided:

- a. The AFA/United flight attendant membership ratifies this Interim Relief Letter of Agreement no later than January 8, 2003; and
- b. The memberships of the remaining United union groups (ALPA, IAM 141, IAM 141M, TWU and PAFCA) either:
  - i) ratify their corresponding Interim Relief Letters of Agreement (attached as Exhibits) no later than January 8, 2003; or
  - ii) the Court orders §1113(e) interim relief against that union(s) upon the Company's motion on the concessionary terms contained therein no later than January 10, 2003.

3. If the conditions of paragraph 2 are not met by January 10, 2003, then AFA agrees that the Company may proceed forthwith with its §1113(c) Motion and, in particular, shall not object to timing of the Company's filing a memorandum of law and other supporting material at that juncture.

4. This Interim Relief Letter of Agreement shall not be cited by either party as evidence of the propriety of the Company's §1113(c) request or the Association's response to such request.

5. This Interim Relief Letter of Agreement is intended to ensure at least \$100 million of "head room" under the EBITDAR covenants through May 1, 2003. Should the Company have more than \$100 million of "head room" as of April 30, 2003, this fact shall be given full consideration in negotiations and shall be a factor to be taken into account by the Court in any §1113(c) proceeding.

6. The parties expressly agree and acknowledge that this Interim Relief Letter of Agreement is in no way an assumption by the Debtors of the Agreement and the Company denies that the unions or employees have any claims for damages resulting

from this Interim Relief Letter of Agreement. To the extent that the Association or any employee is nonetheless found to have any such claim, the parties agree that their joint position is that such claim would be a pre-petition and unsecured claim, and this Interim Relief Letter of Agreement in no way converts any such claim into an administrative claim. The Association agrees that it will neither assert, support, nor solicit any assertion in any proceeding before the Bankruptcy Court or any other tribunal that any claims allegedly arising from this Interim Relief Letter of Agreement constitute administrative claims under Sections 503, 507 or any other section of the Bankruptcy Code.

7. All benefits under the United Airlines Flight Attendant Defined Benefit Pension Plan shall be calculated and paid on the basis of Book Rates (the rates that would apply in the absence of this Interim Agreement). All other benefits under the Flight Attendant Agreement shall be calculated and paid on the basis of actual rates.

8. This Interim Relief Letter of Agreement shall become effective upon its execution and completion of the conditions in paragraph 2 above, and shall become null and void in its entirety on the earlier of (i) a failure to meet the conditions in paragraph 2 above; (ii) a ruling on the Company's §1113(c) Motion as it pertains to the Association; (iii) a final and binding consensual agreement between the Company and the Association in lieu of a ruling on the Company's §1113(c) Motion; or (iv) May 31, 2003, provided that the delay in a ruling on the Company's §1113(c) Motion beyond May 1, 2003 is not attributable to a delay by the Company in filing its §1113(c) Motion after March 15, 2003.

IN WITNESS WHEREOF, the parties have signed this Letter of Agreement this \_\_\_ day of December, 2002.

WITNESS:

FOR UNITED AIR LINES, INC.

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Peter B. Kain  
Vice President – Labor Relations

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FOR THE ASSOCIATION OF FLIGHT  
ATTENDANTS

WITNESS:

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Patricia Friend, International President

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Gregory E. Davidowitch, President  
United Master Executive Council

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# Analysis of Interim Relief Letter of Agreement

- Paragraph 1. If ratified on January 8, 2003, the reductions in wages and premiums will be effective for work beginning December 31, 2002.
- a. the Wage Arbitration process and the Lump Sum payment scheduled for March 1 will be forgone until either: the Court issues an order under §1113 [c] or AFA and the Company reach an agreement after negotiations on the larger issues and broader package of cuts proposed by the Company on December 13. If the Company and the Union do not reach agreement the Company will seek a court order under §1113 [c] of the Bankruptcy Code to impose the cuts proposed earlier. This paragraph will also preserve credit for Flight Attendant participation in these cuts until the negotiations over the larger package of cuts can be completed.
  - b. The cuts contained in the Interim Agreement total 9% of Flight Attendant compensation, consisting of:
    - the elimination of COLA ( Section 5.K.) payments for the duration of the Interim Agreement
    - reduction of base wage rates (Section 5.A.1. and 2.) by 8.16%, and
    - reduction of premiums by 8.16% (see list)

Paragraph 2. The Company has agreed to withdraw its §1113 [c] motion and not refile it prior to March 15, 2003. **This buys important time for the parties to attempt to negotiate the details of the larger package of cuts proposed by the Company. And, it puts off the date when the Company will seek, in bankruptcy court, to impose such cuts from approximately January 15 to March 15. During that period we will have saved the value of the larger cuts the company is seeking by delaying them until at least approximately May.**

For this to happen several things must take place, otherwise we would be back on the track of defending against the larger cuts in court in January. Paragraph 2 is subject to the following conditions:

- a. flight attendant ratification no later than January 8

AND

- b. membership ratification by the other Unions OR a Court order of emergency relief in line with these cuts by January 10.

Paragraph 3. If the conditions in paragraph 2 are **not** met (for example, either some of the groups do not ratify the Interim Agreement, or the Court fails to impose emergency relief) then the Company may (and will) proceed immediately with its §1113 [c] motion to seek an order rejecting the Union Contracts. In other words, ratification of these agreements is important because it will delay action by the Company to impose the larger cuts until at least a March 15 filing with an approximate May 1 Court decision.

Under paragraph 3., AFA will not object to the *timing* when the company files its brief (it normally would be filed earlier but is being delayed in light of the Interim Agreement in the hope that it will not be necessary in January). AFA, of course, retains the right to object to the Motion itself and to vigorously dispute in court the Company's attempt to reject our Contract and impose its propose cuts. If it comes to such a hearing because this Interim Agreement does not go into effect, AFA's attorneys will make every effort to defeat or limit the impact of the motion.

- Paragraph 4. This Interim Agreement cannot be referred to by either the Company or the Union in arguing to the Bankruptcy Court over the merits of the Company's demand for larger cuts under §1113 [c]. This will preserve AFA's right, for example, to argue to the Court that a smaller pay cut is appropriate to our package, while the Company will no doubt seek a larger pay cut.
- Paragraph 5. This Interim Agreement is intended to give the Company at least a \$100 Million cushion over the EBITDAR covenants contained in the "DIP" loans the Company obtained in order to continue flight operations during the bankruptcy process. "EBITDAR" is an accounting term – it stands for Earnings Before Interest, Taxes, Depreciation, Amortization and Rents – that measures earnings from a company's operations. The loan covenants require United to meet strict earnings and cost targets. Because failing to meet these requirements could result in the loss of the funding, jeopardize our continued operation, and greatly increase the risk that United will be forced to liquidate. Because these risks are so great it is important to maintain a substantial financial cushion to prevent a default.

If the financial cushion exceeds \$100 Million that fact will be given full consideration in the negotiations, and in Court, when the parties seek to resolve the Company's proposal for larger cuts. In other words, if the Company is doing better than projected it will be easier for us to argue that fewer additional cuts are needed.

- Paragraph 6. This provision details bankruptcy procedural matters, essentially stating that the Union will not try to claim that these cuts should be treated as "administrative claims" in the bankruptcy proceedings. While we do not believe that these concessions would qualify as administrative claims in any event, this language gives a measure of certainty to the cost savings we are negotiating. No one would expect to get the entire value of the concessions back through a claim in the bankruptcy process. Instead, our concessions will be treated like all other unsecured claims.
- Paragraph 7. This paragraph protects our pensions by maintaining our current Contractual pay rates as "book rates" for purposes of calculating our pensions. Other benefits will be calculated based on the new, reduced actual wage rates (reduced 8.16% from the current rates) if this Interim Agreement is ratified. Without this provision our pensions would also be reduced by the effect of the 8.16% cut in wages.
- Paragraph 8. This Interim Agreement will go into effect once it is signed by the Parties and once the conditions in paragraph 2., above, are met. There are several conditions that can render this Agreement null and void:
- failure to meet the conditions in paragraph 2
  - a ruling from the Bankruptcy Court on the larger cuts the Company seeks from Flight Attendants under its §1113 [c] motion
  - the Company and the Union reach a new agreement in the negotiations over the Company's proposal for larger cuts
  - or May 31, 2003 if the delay in a Court ruling on the Company's §1113 [c] motion is not caused by the Company's own delay in filing it's motion later than March 15, 2003. [This last provision is meant to leave the smaller cuts contained in the Interim Agreement in place if the Court or the Company determines that the urgency of the larger cuts is diminished and can wait beyond May, 2003. Put another way, this provision encourages the Company not to seek the additional cuts any sooner than necessary.]

