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Source: By John Schmeltzer, Tribune staff reporter.
Illustration: PHOTOS 3

How United lost control of rescue
Vote went awry; dollars not there

United Airlines' executives and union officials were flying high as recently as a week ago, expecting a $1.8 billion loan guarantee to carry it through a financial storm that had been building since 2000.

But it didn't work out that way. Even before the carrier's mechanics union could vote again on additional pay cuts to save United money, the federal board that was expected to bail out the airline suddenly decided Wednesday not to provide that needed loan guarantee.

Now United is expected to file for ***bankruptcy*** court protection within the next day or so, affecting its 18,000 workers in the state, most of them in Chicago, as well as thousands of passengers, suppliers, vendors, shareholders and pensioners.

How did things go sour so quickly? What follows was pieced together from interviews with United employees and officers, leaders of its unions and officials with the Air Transportation Stabilization Board.

The story began to unfold the day before Thanksgiving, when voting opened at union halls operated across the country by the International Association of Machinists and Aerospace Workers. At that point United officials and union leaders were confident of a positive vote, key to paving the way for the federal board to approve the loan guarantee.

A dramatic cut in pay, totaling $5.2 billion from all of United's unions, was necessary to reduce United's hefty labor costs--an impediment to the airline being competitive. Here is a day-by-day account of what transpired in public view and behind the scenes:

Nov. 27: District Lodge 141, representing United's 24,500 ramp, gate and customer service representatives, and District Lodge 141-M, representing 13,000 mechanics, vote on a proposal to cut wages by 6 percent to 7 percent. The pilots already had accepted pay cuts projected to save the airlines about $2.2 billion.

The machinists union was confident wage concessions were the last piece needed to secure the loan guarantee.

"This should wrap things up," said a confident Joe Tiberi, a spokesman for the two machinists unions.

In Chicago, it was a raw, blustery day. On one side of the wall of the union hall in Des Plaines, the airline's ramp and customer service workers were eagerly discussing plans for Thanksgiving and how they would deal with the pay cut. (Union workers this summer had received their first raise since 1994, when they made previous concessions in exchange for a 55 percent stake in the airline and two board seats. The airline's non-union employees, who absorbed similar cuts, also gained a representative on the board.)

On the other side of the wall, where the airline's mechanics were voting, the mood was somber. "It probably will pass but not with my vote," said Richard Sierra.

Nov. 28: A few minutes after midnight, Scotty Ford, president of the mechanics group, announced the startling outcome: The union had turned thumbs down in their vote.

It was a shocking setback for Glenn Tilton, who in September became United's third chairman and chief executive in a year. He had been assured of passage by Randy Canale, a United director and president of the ramp and customer service workers union. Nearly an hour elapsed before Tilton, who was in Minneapolis visiting his son's family, issued a statement expressing his disappointment.

Thanksgiving itself was bright and sunny, but not for other United workers who learned to their amazement that the mechanics had rejected the proposal.

Unions representing the airline's two other major employee groups, the Air Line Pilots Association and the Association of Flight Attendants, remained silent as industry experts characterized the vote as the beginning of the end for United's loan-guarantee application. Still, United officials put on a brave face.

By midafternoon, Jake Brace, the airline's executive vice president and chief financial officer, began calling reporters to assure them that the airline already was negotiating with the mechanicsunion.

He failed, however, to check with the mechanics. The mechanics weren't talking with the company, they said, and added that talks weren't even scheduled. Despite the denial, the company insisted that talks were under way.

"It's not a pretty picture, and I don't know what will happen next," said one machinists union official.

Nov. 29: United officials began calling representatives of the mechanics union seeking a way to schedule another vote.
Canale, who lost credibility with United's executives after the vote, took the mechanics into the woodshed. In a blistering letter, he accused them of all but destroying the airline's chances for a loan guarantee.
"It is unfortunate that some members at United still question the need for participation in a recovery program," he wrote. "At this stage, the alternatives are so undeniably worse, I question the motives and judgment behind such a decision."
He warned that benefits won in past negotiations could be lost if the airlines wound up in ***bankruptcy*** court. "These benefits were won in decades of negotiations and are among the best in the country. ... Every benefit we currently enjoy can be lost at the stroke of a [***bankruptcy*** court] judge's pen."
Nov. 30: Moods at United suddenly brightened. The airline and the mechanics union were talking about a new proposal, and the flight attendants union announced that its 24,000 members had overwhelmingly approved wage cuts, representing $412 million in cost savings.
Greg Davidowitch, who as president of the flight attendants unit led the effort to get United's unions working together, chided industry naysayers, who had insisted the airline was on a trip to ***bankruptcy*** court.
"This ratification process demonstrates once again that the flight attendants of ***United Airlines*** will do what is necessary to prove to Wall Street, the United States government, other airlines and news journalists that we are committed to the restructuring and resurgence of ***United Airlines*** as the premier airline in the industry," Davidowitch said.
What's more, telephone talks with Ford and representatives of his mechanics negotiating committee produced a tentative plan that the full negotiating committee would consider in a face-to-face meeting with airline officials the next day.
Sunday : United and its mechanics union spend the day talking at a Rosemont hotel. Unlike the contentious telephone conversations the previous Friday, company and union officials believe they have a plan that could win acceptance with members.
Although it offers no further cuts in wages, the new plan contains Tilton's pledge that the airline would address complaints about the hours they work.
Monday: Before Wall Street trading in stocks opens, the mechanics union makes the big announcement: Members will reconsider their rejection of the proposed wage concessions. The union believes that the news will at least lift United's stock. It proves a smart move. Shares of UAL Corp., the parent of United, rise 34 percent to close at $3.28 a share. It was the highest the stock would reach during the week.
Union president Ford also issues a warning to his members. "This is the final opportunity to avoid ***bankruptcy*** and protect against the elimination of our collective bargaining agreement."
At United's headquarters, some people seem to be in the dark on how important the next few days will be. Joe Hopkins, a United spokesman, predicts an easy week, saying the only thing on tap at that point is the mechanics' re-vote.
United officials believed they still had time on their side because the loan board has tended to work slowly. A meeting on the loan hadn't been scheduled.
To shore up finances in the event of a ***bankruptcy*** filing, however, United decides to delay payment of $375 million due bondholders. That decision also sets in motion a requirement that it pay $500 million in loans owed to the German government's development bank. The airline also discloses that it is in default on another $45 million owed lenders.
"It's beginning to unwind," proclaims an attorney representing one of United's major debtors.
Late Monday, an adviser to the federal board offers the first hint that United's loan guarantee package is in trouble.
"Do you think I'd be at home if we were going to do something for United this week?"
United doesn't officially learn of its dire situation until the next day.
Tuesday: United catches wind that the board may be meeting. Brace quickly faxes a letter to Daniel Montgomery, the board's executive director, asking that it wait until the mechanics vote is completed.
In addition, the company says it needs more time to wrap up negotiations on $200 million in bonds that would be provided by the Illinois Development Finance Authority. Boeing Capital Corp. and GE Capital Corp. already had turned down a plea to fund the unsecured portion of the $2 billion loan.
The loan board's staff works late into the night considering the new information.
Wednesday: Early in the morning, Tilton, unaware that the board is about to rule on the airline's request, boards a United jet bound for San Francisco to meet with airline mechanics. He wants to make a last-ditch effort to make sure the vote slated for the next day is approved.

Two hours into the flight, Tilton begins making plans to return to Chicago after being told that the federal board is preparing to announce its decision.
Meanwhile, the financial adviser to the board says the new information from Brace won't reverse its decision.
United's fate is sealed when Fitch Ratings Service, an international bond-rating company, tells the board that the loan would have "an extremely low credit rating." Fitch, working on behalf of the board, had evaluated United's application for the loan guarantee.
By 11 a.m., word leaks that the board--not just the staff--is meeting.
Board member Kurt Van Tine, general counsel of the Department of Transportation, urges the panel to give United another week in which to gather new data before rendering its decision.
But Van Tine is overruled by the other two board members: Federal Reserve Board governor Edward Gramlich, an expert on the government's bailout of Chrysler, and Peter Fisher, undersecretary of the treasury.
The big hitch in United's plan is a provision that would restore union wages to their current level in 2007. Board members and staff members project that the airline would face another liquidity crisis "within the next few years."
By 12:30 p.m. the decision is final. But United isn't told a thing. Executives were "in the white," said one source."There was absolute silence."
The airline wouldn't learn of the decision until 3:45 p.m. when Montgomery faxes Brace a three-page letter detailing the denial. He also tells Brace in a phone call that the agency will hold a teleconference for the news media announcing the decision.
It will mark the board's first such conference call to explain a decision since it began taking applications from airlines for loan guarantees 12 months earlier. The board was created to administer a $15 billion airline bailout fund created last year by Congress in the wake of the terrorist attacks.
Over the next few hours, turmoil reigns at the airline's Elk Grove Township headquarters as it struggles to decide how it will respond to the decision.
At about 4:30 p.m. the federal board issues a news release and a copy of its letter to Brace in which it denies the loan guarantee.
United's unions react slowly to the news. None had received advance notice from the company that the airline's bid had been turned down.
They finally issue short statements saying that they have agreed with each other to resume negotiations the next day in the hope of developing a new concession package. Their goal is to put together a package that would garner approval of a loan guarantee on a reapplication.
Thursday: Led by the flight attendants' Davidowitch, the union coalition agrees on what they are willing to cut voluntarily to avoid a ***bankruptcy***. Discussions continue with United officials over possible cuts they can make to obtain the financing.
Friday: United learns that the federal board believes the airline was $1 billion per year short in the required cash savings it presented to secure the loan, and that the collateral it offered to secure the loan guarantee was insufficient.
Collateral consisted of its landing rights at Heathrow International Airport in England and its Latin American and Pacific routes.
In addition, the airline is told the pay cuts proposed by the unions would have to be permanent during the 5 1/2 years of the loan guarantee.
Tilton, in a shock to the carrier's unions, warns that a ***bankruptcy*** filing is likely and that deeper cost savings are necessary.
Saturday: United's board met to consider its options and was expected to reconvene Sunday. ***Bankruptcy*** appears to be the only option that is viable.
Captions: PHOTO: The giant shadow that ***United Airlines*** casts in the travel industry could shrink as a result of its failure to obtain a loan guarantee. Tribune photo by Jose More.
PHOTO: The failure of United's machinists to approve a wage-cut plan proved to be a shocking setback for airline officials, who had been assured by a union leader that the plan would be approved. Tribune photo by Heather Stone.
PHOTO: CEO Glenn Tilton was caught off guard when he learned that the Air Transportation Stabilization Board was meeting on United's loan application. Tribune file photo.

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Chapter 11 next step for United

Airline official says filing won't interrupt service

United Airlines plans to file for ***bankruptcy*** protection Monday, sources close to the company said, ending a 14-month struggle by the world's second-largest carrier to stabilize its finances and restructure without protection from creditors.

The Elk Grove Township-based airline, which employs 83,000 worldwide, including 18,000 in Illinois, will file for Chapter 11 reorganization Monday in U.S. ***Bankruptcy*** Court in Chicago, sources said Sunday. It would be the largest ***bankruptcy*** filing by a domestic airline and one of the largest in U.S. history.

Passengers, however, are not likely to notice a difference in the short term. A top United official reiterated Sunday that service would continue uninterrupted. The carrier also has pledged that travelers can continue using and accruing frequent-flier miles.

Though many of the nation's air carriers have landed in ***bankruptcy*** court, this would be the first filing in United's 76-year history. It is a stunning turnabout for a company that once was the industry leader in air traffic and prestige. Four years ago, United's stock sold for more than $100 a share. On Friday, with investors spooked by the threat of ***bankruptcy***, shares closed at 93 cents on the New York Stock Exchange. A ***bankruptcy*** filing would take that value to zero, most experts said.

United's employees own 55 percent of the company through their employee stock ownership plan. A ***bankruptcy*** filing also would be a bitter end to the carrier's experiment, the most aggressive in the industry, in employee ownership of an airline.

The board of directors of UAL Corp., United's parent company, adjourned Sunday without issuing a statement after spending the weekend meeting to consider the company's fate. But after a government bailout board last week rejected United's request for $1.8 billion in loan guarantees, UAL directors determined that the carrier had no choice but to file for ***bankruptcy***, sources said.

"It will go quickly," one source said of the filing. "Very soon."

Sunday evening, the company wrapped up details of new loans that it would receive once it files for ***bankruptcy***. Chicago-based Bank One Corp., which issues a credit card allowing users to earn United frequent-flier miles, will be the lead lender in a coalition of banks that also includes J.P. Morgan Chase & Co. and Citigroup Inc.

For days, obtaining the so-called debtor-in-possession financing had been a problem for United because of a decision by lending giant GE Capital Services Corp. to pull out of the lending team. GE Capital holds more than $4 billion in debt from United and US Airways, which filed for ***bankruptcy*** in August.

Without the debtor-in-possession loans, United would have been left to draw down its cash reserves, estimated at less than $1 billion. With the carrier losing $7 million a day, it could burn through its cash in about four months. United is on track to lose a record $2.5 billion this year.

A United ***bankruptcy*** filing would end 14 months of financial scrambling that began when terrorists hijacked two of the carrier's jets on Sept. 11, 2001. One crashed into the south tower of the World Trade Center in New York, the other into a Pennsylvania field.

Woes predate 9/11 attacks

But the attacks alone did not bring United to ***bankruptcy's*** door. The carrier had been financially weakened long before. In the three financial quarters leading up to the attacks, United lost a combined $950 million. And for nearly two decades, the company and its employees have been dodging financial and labor crises--some of them homegrown and some the result of dramatic turbulence in the airline industry that has claimed such legendary carriers as Trans World Airlines and Eastern Airlines.

For United's employees, the trip through ***bankruptcy*** court promises to be particularly harsh. Workers would lose the value of their stock holdings, which they had accepted over the years in exchange for raises. And no longer would the airline's powerful pilots and machinists unions have a say in every major business decision through their seats on UAL's board.

In ***bankruptcy***, "the creditors and bondholders become the directors" of the company, said Paul Biederman, a professor at New York University who was involved in TWA's two ***bankruptcy*** filings. "They become the controlling people."

Employees appeared to be accepting the inevitable. The leaders of the two unions that represent the airline's 37,500 mechanics, ramp workers, customer service agents and gate workers warned members over the weekend in a written statement that ***bankruptcy*** "appears unavoidable and imminent."

But Biederman, noting that TWA and Continental each made two successful trips through ***bankruptcy***, said a Chapter 11 reorganization isn't necessarily the end of United.

"They can get through this, and many passengers won't know the difference," he said.

Workers face more wage cuts

A key factor will be how already dispirited employees respond after losing their stock value and power in the company. The workers also face new wage concessions that experts say are necessary if United is to reduce its labor costs, the industry's highest.

For months, United had warned that ***bankruptcy*** was likely if it didn't get $2 billion in new loans, with $1.8 billion of that guaranteed by the federal Air Transportation Stabilization Board. Congress and President Bush created the board to help the airline industry after last year's terrorist attacks.

On Wednesday, the board rejected United's request, saying the company's financial plan was "fundamentally flawed."

United offered $5.2 billion in labor savings, but forecast that it would turn an operating profit by 2004--long before its competitors were predicting that for their own operations. Over the weekend, the unions offered to accept $3.2 billion more in savings.

But United officials who reviewed the last-minute offer determined that it wasn't enough. The federal board said the savings that United and the unions already had offered were far less than they appeared, leaving United far short of the mark.

A Chapter 11 filing would be complex because of the 55-percent ownership stake by the airline's employees. On Sunday, Kevin Mitchell, president of the Business Travel Coalition, an advocacy group for the business travel industry, suggested the appointment of an advocate to represent the airline's passengers in court proceedings.

Through the weekend, United has been sending e-mail to reassure customers who might be nervous about the airline's future.

"I want to be emphatically clear that United will continue to fly and deliver exceptional service to customers worldwide," said Chris Bowers, senior vice president of marketing and sales.

"Challenging times make a company stronger, leaner and more focused," he added. "The employees of this airline stand ready and committed to serve you today and in the future."

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Illustration: PHOTOS 9 GRAPHIC

Managers to seek fresh ideas
Tilton, assisted by veteran team, to forge strategy

Is ***United Airlines***' management team up to the difficult task of putting the nation's second-largest carrier back on course?

That's the question that industry experts were asking after UAL Corp. sought Chapter 11 ***bankruptcy*** protection Monday.

The fact that United failed to avoid a filing is viewed by some as evidence that it is not. Others worry that high-level turnover since United became employee-owned eight years ago has depleted its bench strength.

"I don't think we've seen this version of United's management in place long enough to know," said James Schrager, clinical professor of entrepreneurship and strategy at the University of Chicago's Graduate School of Business.

Even United's new chief executive, Glenn Tilton, acknowledges the need for fresh blood and new thinking.

"We will be creating a position of executive vice president of strategy, and we will also create a position of senior vice president--customer," Tilton said Monday. United also has hired consulting firm McKinsey & Co. to help come up with a vision for the airline.

It may be just the start. Tilton says he will "bring some new people into United where I believe United will benefit."

Indeed, United's Chapter 11 filing may provide Tilton with more of a free hand to reshape the airline and the future of its 83,000 employees. But first, United has to come up with a reorganization plan that passes muster with its board and the court.

And that won't be easy without top-notch strategic thinkers because United's core business model has been called into question.

"They have had no long-term strategic planning for a year. They've been rudderless," said Michael Boyd, president of the Boyd Group, an aviation consulting firm in Evergreen, Colo. "That's why they've fallen further and further behind."

Added Schrager: "They are going to have to make a wholesale re-evaluation of where they're flying. We've got a strategic chess game that has to be embodied in the reorganization plan."

Those who worry about United's ability to manage through this crisis are flying off course, said United spokesman Joe Hopkins. "We do have good leadership at United. We have very talented people with a lot of airline experience."

Still, a revolving door to the executive suite hasn't helped the situation. In September, Tilton, a corporate veteran with more experience in oil than the aviation business, became United's third CEO in a year.

Some industry experts say Tilton now needs to shake up the old guard.

"The finance group has bungled it. They should all be fired," said Darryl Jenkins, director of the Aviation Institute at George Washington University. "Just six months ago, they told the Air Transportation Stabilization Board they didn't need the money. These guys should go."

Others defend United Chief Financial Officer Jake Brace, who could not be reached for comment Monday.

"I don't think the chief financial officer had anything to do with screwing this up," said James Drury of James Drury Partners, a Chicago executive search firm. "It was more at the CEO leadership level."

Other industry experts are less strident, but they agree that United's management failed to react quickly enough to the post-Sept. 11 environment.

"United's corporate culture worked best when the airline was expanding," said Joseph Schwieterman, a transportation expert and director of the Chaddick Institute for Metropolitan Development at DePaul University. "It has not been particularly nimble in a crisis-management mode."

For years, the management of United has been a joint venture of the airline's executive team and the unions representing its pilots and machinists. Union leaders, who also held seats on United's board, had a say in everything from potential mergers to executive succession.

Still, now is not the time to make wholesale changes at the top, executive search experts say.

Tilton, who left his job as vice chairman of ChevronTexaco Corp. to join United, is expected to stay on board while the airline reorganizes, a process that he says could take 18 months.

Tilton, unlike many other CEOs of bankrupt companies, can't be blamed for United's woes. He came on board in September after United executives said the company would have to file ***bankruptcy*** in mid-September. That move was postponed, and Tilton succeeded better than many expected in getting unions to agree to wage cuts.

In the process, Tilton has impressed many workers with his open manner and people skills, insiders say. Those qualities were on display Monday, when Tilton spent time at O'Hare International Airport calming passengers and employees.

"I don't see any indication that he is the wrong guy to lead them down the path," said headhunter Drury. "He seems to be in total control of the situation."

In addition, Tilton has plenty of reason to stay on. The equity part of his compensation package is now practically worthless. The only way Tilton will get what he was promised is to receive equity and stock options in a reorganized United. "At some point, they'll go public again, and Glenn will become a very wealthy man," Drury said.

On the plus side, Tilton is backed by some solid veterans at United.

United's CFO Brace is an airline veteran who joined United's finance department 14 years ago from American Airlines. Douglas Hacker, United's former CFO, is president of UAL Loyalty Services, the unit responsible for frequent-flier programs such as Mileage Plus.

Operations are in the hands of Pete McDonald, who joined the carrier in 1969, and Christopher Bowers, the executive in charge of marketing and sales, has been with United for almost 30 years.

Flight operations are headed by a United pilot, Stephen Forte, while its human resources department is led by Sara Fields, who started her career at United as a flight attendant in 1963.

Such individuals have a lot invested in United because, like most other employees, they traded pay cuts for stock in 1994.

Many top managers likely will stick around because they have spent their careers at United and are determined to see the carrier through this latest turbulence, insiders say.

That loyalty will likely be rewarded, ***bankruptcy*** experts add. It is common to pay retention bonuses to key managers to prevent talented people from leaving during reorganization.

Memo: THE STRUGGLE AT UNITED.

Captions: PHOTO: ***United Airlines*** employee Sandra Holmes greets CEO Glenn Tilton at O'Hare International Airport, where he talked with customers and workers on Monday. Tribune photo by Jose More.

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Day 1 gets good mark in public relations

How well its executives handle a bad situation will play a key role in deciding whether ***United Airlines*** exits ***bankruptcy*** as a going concern or joins Eastern and Pan Am in the graveyard of failed carriers.

Consultants in the field of crisis public relations say United must retain the goodwill of its passengers, gain the trust of its workers and win the confidence of Wall Street. All are essential to the future of the airline.

Some industry observers say United adroitly handled its first day of ***bankruptcy***. Executives made public appearances in Chicago, Denver, San Francisco and Washington to say the airline is still flying.

"Their CEO did exactly the right thing this morning," said Dorothy Pirovano, a principal with Public Communications Inc., a Chicago-based firm experienced in crisis public relations.

Chief Executive Glenn Tilton spoke at O'Hare International Airport on Monday, shortly after United filed its ***bankruptcy*** papers in federal court.

"He was at the airport instead of behind his desk, he was talking to his customers, and he was talking to his employees," Pirovano said. "This is exactly what we advise someone to do in this situation."

Bankruptcy was at one time a shameful act. But after years of high-profile Chapter 11 proceedings--Continental Airlines did it twice, TWA did it three times--the public has gotten accustomed to corporate reorganizations, Pirovano said.

And United's ***bankruptcy*** was hardly a surprise.

The company warned for weeks that ***bankruptcy*** was possible. On Friday Tilton made clear in remarks to employees that Chapter 11 was near.

The airline has an in-house public relations department, but in a crisis the crush of media attention, the demands on executives for instant speeches and calls from financial analysts can become overwhelming.

One source familiar with the matter said United last week began requesting bids from Hill & Knowlton and other public relations firms. The source said it appeared the airline mainly was looking for help with its investor relations operations.

Joe Hopkins, a spokesman for United, declined to comment, except to say, "We do have some outside resources that are assisting us."

But he did sound some themes the public can expect to hear in the days ahead.

"United is flying, and we are focused on our customers," Hopkins said. "We can restore profitability.

"The frequent-flier program is important to a lot of people," he added. "That program is intact, and we want people to know that they can continue to redeem miles."

Although it has money problems, United has no plans to scale back on its advertising budget of roughly $75 million per year, said Jerry Dow, director of worldwide marketing communications for the airline.

In fact, United was planning to take out full-page ads in newspapers across the country starting Tuesday to get out its message of a new beginning. The ads take the form of an open letter with a headline that includes "Chapter 11" in it, only the second numeral is scratched out.

The airline also has made its naming-rights payment for next year to the United Center, one of its more prominent advertising venues.

Nor will United try to win the public's confidence by giving away its services.

Dow said that despite the pressure to fill seats, United won't rely on discounts.

"We're not suddenly going to become the fare-sale airline," he said.

United does have some positive and reassuring messages to publicize, like the steady progress in the quality of its service. At one time United ranked at or near the bottom among airlines when it came to on-time departure, flight cancellations and baggage problems.

In October, however, United ranked first in on-time performance and posted the fewest cancellations among major airlines, according to the Federal Aviation Administration. Baggage handling is also improved.

"They need to highlight their recent on-time record," said Leonard Steinhorn, a professor of communications at American University in Washington D.C. "They need to give the impression it's a together airline."

United also must appeal for sympathy, considering it is a victim of Sept. 11, Steinhorn said. He said the airline should ask prominent people to write op-ed pieces for newspapers, because they influence the nation's leadership.
Memo: THE STRUGGLE AT UNITED. `THE RIGHT THING'.

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Illustration: PHOTO

Dispute over O'Hare gates
City seeks control in case flights cut

United Airlines has lost exclusive rights to its aircraft gates at O'Hare International Airport because the troubled air carrier missed a Dec. 1 deadline to pay $4.2 million in gate leases, attorneys for the City of Chicago argued in federal ***Bankruptcy*** Court Monday.

And should United dramatically cut flights at O'Hare, the city would act quickly to reassign those gates to another airline, its attorneys said.

The city, which has had ***bankruptcy*** attorneys working on the United case for months, also obtained a court order preventing United from retaining passenger ticket taxes that it collects at O'Hare.

Court documents made available Monday, the day that United filed for ***bankruptcy*** protection, showed that the advance work by city attorneys may have paid off: O'Hare was not among a handful of airports that United listed as owing millions of dollars for airport fees and botched contract deals.

United said it owed the Indianapolis International Airport Authority and two other Indiana government agencies $162 million in connection with an aircraft maintenance facility that United built at the Indianapolis airport.

The airline estimated it owed Denver International Airport $12.7 million for unpaid airport rents and fees, and that it is in debt for $7.5 million to San Francisco International Airport and $2.7 million to Dulles International and Washington Reagan National Airports near the nation's capital.

United has since paid what it owed on the O'Hare gate leases, but the missed deadline triggered a technical default under the terms of United's use and lease agreement, said Chicago Corporation Counsel Mara Georges. United disputes the city's contention, Georges said.

The default permits the Chicago Department of Aviation to take control and reallocate some of the 61 gates operated by United and United Express at O'Hare, city attorneys argued before Judge Eugene Wedoff, the chief of the U.S. ***Bankruptcy*** Court in Chicago.

No ruling was issued on the city's motion, which Georges said was made to "protect and preserve the city's interests."

Georges said the city has no plans to redistribute any of United's gates so long as the airline continues to use them. "It's not an issue if United keeps the gates full," Georges said. But if the airline significantly draws down its schedule at O'Hare next year as part of its Chapter 11 restructuring, "the city will do what it needs to do," Georges said.

United says in compliance

United officials said the airline retains exclusive rights to its gates.

"We have made full payment of all rental and landing fee obligations, and we consider United to be in full compliance with our O'Hare lease," United spokesman Joe Hopkins said.

Also Monday, the ***Bankruptcy*** Court issued an order, at Chicago's request, requiring United to turn over to the city the passenger facility charges it collects at O'Hare, which are used for airport improvements. The charges amount to a $4.50 ticket tax for each flight segment.

The ruling, which attorneys representing United did not oppose, effectively would prevent United from holding on to the money or using it as collateral.

"The order protecting the PFCs was the most important thing coming out of court for us today," Georges said. "I don't see United's ***bankruptcy*** filing as having any negative impact on the city at this point."

City officials said they took the action to ensure the continuation of cash flow from United.

"There's always somewhat of a delay in the airlines processing the PFCs and submitting them to the airport," one official said. "The city wanted to make sure the delay isn't extended for other reasons."

United is up to date on its payments to the Department of Aviation, but the airline is late paying motor fuel taxes to the city Department of Revenue, Georges said.

Indianapolis owed most

Among the other cities where United operates, Indianapolis and the State of Indiana are owed $162 million, by far the largest sum. That amount includes penalties levied against United.
United started work on the Indianapolis aircraft maintenance facility, its second-largest, in 1991. In return for $294.5 million in city and state incentives, United agreed to spend $800 million on the facility and employ 7,500 workers, said Charles Martindale, regional operations manager at the Indiana Department of Commerce.
United failed to meet a deadline last year in connection with the maintenance facility and incurred a $33 million penalty, said Melina Kennedy, the city's economic development director.
And it appears unlikely that the Elk Grove Township-based airline will meet a 2004 employment deadline at the center. Its current workforce is about 2,000.
"We're concerned about the jobs that United has here currently, as well as the jobs they are committed to bring here," she said.
Martindale said the ***bankruptcy*** filing would not have far-reaching effects on the local economy because of recent economic growth.
United owes Denver about $13 million in landing fees, rentals and some passenger charges, said Bruce Baumgartner, manager of aviation at Denver International Airport.
"We do expect to get the money back, but we will have to go through ***Bankruptcy*** Court to get it," Baumgartner said.
Memo: THE STRUGGLE AT UNITED. CHICAGO GOES TO COURT.
Captions: PHOTO: Attorneys for the City of Chicago argued in court Monday that because United missed a Dec. 1 deadline for payment of $4.2 million for gate leases, the carrier lost its exclusive-use rights. Tribune photo by Jose More.

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Source: By Jon Van and Thomas A. Corfman, Tribune staff reporters.
Illustration: GRAPHIC

Multiple parties have stakes in case

The ***bankruptcy*** filing by ***United Airlines***' parent, UAL Corp., will reorder the usual corporate relationships among management, labor and vendors, as well as introduce some new players.

Here's a who's who of United's reorganization:

The judge

Eugene R. Wedoff, the chief U.S. ***Bankruptcy*** Court judge in Chicago, was already handling the ***bankruptcy*** of a controversial gaming company when he won the judicial jackpot Monday: the once-in-a-career UAL Corp. case.

When Wedoff, who is already handling the high-profile ***bankruptcy*** of Emerald Casino Inc., was appointed to the ***bankruptcy*** bench 15 years ago, the former partner at Jenner & Block was better known as a civil litigator than a ***bankruptcy*** expert. But in recent years, he has emerged as a national expert on various proposals to change the ***bankruptcy*** statutes.

And he has earned that reputation by active participation in various legal and judicial organizations rather than by writing dry scholarly articles.

"He has probably lectured more than anybody else on the ***bankruptcy*** reform legislation," said August Pilati, a partner in Chicago-based ***bankruptcy*** boutique Gesas, Pilati, Gesas & Golin Ltd.

Wedoff also isn't afraid of using a firm hand, said David Kurtz, a top ***bankruptcy*** lawyer who is now a managing director in the restructuring group of investment bank Lazard LLC.

"This is a case that could eat a weak ***bankruptcy*** judge alive, and he won't let that happen," Kurtz said.

The employees

Because United's workers also own a majority of the firm's stock, they may seek a larger voice in the company's future than would normally be accorded employees.

The pilots, led by Capt. Paul Whiteford, and flight attendants, led by Greg Davidowitch, as well as United's meteorologists and baggage handlers, had already agreed to major wage reductions in an effort to avoid ***bankruptcy***.

The mechanics, led by Scotty Ford, had rejected proposed reductions, but had agreed to vote on a new proposal before United's bid for a federal loan guarantee was rejected.

Workers have three representatives on United's board--Stephen Canale, Douglas Ford and Whiteford--and may seek their own spot in the proceeding.

A key early decision to watch will be whether the judge appoints an equity committee to be part of the proceedings, said Douglas Baird, a University of Chicago professor of law.

"In recent years, equity gets wiped out and has no role in ***bankruptcy***," said Baird. "In cases where an equity committee is appointed, shareholders fare better. Not well, but better."

The creditors

While thousands of vendors will line up to collect debts owed by United, at the head of the line will be those whose debts are secured by the company's airplanes. These include Boeing Capital Corp.; GE Capital Corp.; a German bank, Kreditanstalt fur Wiederaufbau; and others.

Under the right set of circumstances, these creditors could take their planes back after 60 days, but that's unlikely to happen, said Todd Pulvino, assistant professor of finance at Northwestern University's Kellogg School of Management.

"The creditors want to see United keep flying and make a profit--if it can make a profit," said Pulvino. "They don't want to go in and grab Boeing 777s and then try to lease them to someone else because there's not a good market for that."

The management

Management, led by Glenn Tilton, will hold great power in defining United's initial reorganization plan to emerge from ***bankruptcy***, said Pulvino.

Tilton, who became United's chief executive and chairman in September when the specter of insolvency already darkened the airline's executive suites, headed Texaco Inc. last year when it merged to become ChevronTexaco Corp., for whom he became vice chairman.

Although he had no airline experience before taking over United, Tilton is no stranger to troubled enterprises, having served as acting chairman of the energy company Dynegy Inc. before taking the UAL posts.

The lawyers

United's lead ***bankruptcy*** attorney, James Sprayregen, keeps up such a furious pace that his trademark--the cellphone earpiece--is rarely out of his ear.

"Jamie works more hours than anybody else in this area, and that's saying a lot because we've got some crazy people," said Steven Towbin, of Chicago-based D'Ancona & Pflaum LLC.

Sprayregen, 43, has emerged as one of the top specialists in corporate restructuring.

A partner at Kirkland & Ellis, United's longtime outside counsel, Sprayregen's clients include Chiquita Brands Inc., which emerged from Chapter 11 in March; privately held Totes-Isotoner Corp., which is restructuring; Zenith Electronics Corp., which restructured in 1999; and Trans World Airlines, which filed for ***bankruptcy*** last year.

And among ***bankruptcy*** lawyers, Sprayregen has distinguished himself in another way, said Keith Shapiro, a partner in the Chicago office of law firm Greenberg Traurig.

"Unlike the lawyers that you love to hate, nobody has a bad word to say about Jamie," said Shapiro.

Memo: THE STRUGGLE AT UNITED. THE COURTROOM PLAYERS.

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Source: and ***Janet Kidd Stewart***, Tribune staff reporters.

UAL case called exception to rule

UAL Corp.'s bankruptcy filing signals an end to perhaps the nation's greatest employee ownership experiment.
Although the Elk Grove Township-based airline stopped making contributions to its vaunted employee stock ownership plan two years ago and the shares were reduced long ago to a tiny fraction of their peak value, the bankruptcy filing has symbolic value that resonates through the world of ESOPs.
ESOP proponents say the downfall of UAL--the nation's second-largest ESOP, after Publix Supermarkets--does not represent a fatal flaw in the system. Nor, they say, will it serve as a catalyst to dramatically change that system.
Not only can ESOPs work, they insist, but research suggests companies with ESOPs tend to perform better than their peers--although it's not necessarily the ESOP itself that matters most, but the circumstances under which it began and how it is implemented.
"Employees do a lot better, typically, in ESOPs, and companies perform better," said Corey Rosen, executive director of the non-profit National Center for Employee Ownership, which researches ESOPs and other employee ownership issues.
Indeed, experts said UAL illustrates the risks of ESOPs created under duress, but it is the exception, and likely to have little effect on the future of ESOPs.
But it's not alone.
Years before UAL Corp. workers were faced with a similar situation, union workers at Northwestern Steel & Wire Co. agreed to pay cuts in 1987 to try to resurrect the Sterling, Ill., company. In exchange, they received a majority stake in the company through an employee stock ownership plan.
Like the UAL plan, the Northwestern Steel & Wire ESOP fared well for a time, and some union members retired with tidy sums when they were allowed to cash in their holdings. But, also like UAL, things turned sour: The steelmaker needed more capital, reducing the employees' stake, and then filed for bankruptcy in 2000--ultimately going out of business--leaving workers' holdings worthless.
"I've just never seen an ESOP work," said local United Steelworkers official Russ Lovell, who opposed it from the start. "I didn't believe in it then--I told folks we weren't going to have anything at the end of the day."
Other big-name companies that had ESOPs, including Polaroid and Weirton Steel, have gone to bankruptcy court before UAL and created little more than a ripple. And the explosive growth of ESOPs in the 1980s--often launched, like Polaroid's, to deter takeovers--leveled off a decade ago at roughly 10,000 companies, only about 10 percent of them publicly traded.
An estimated 11.5 million U.S. workers are ESOP participants. Under the typical public ESOP, a company purchases a block of its stock, often by borrowing money, and distributes the shares over time to workers. In some ESOPs, including UAL's, workers are guaranteed spots on the board of directors.
Plans offer advantages
For companies, ESOPs offer tax advantages, and recent tax law changes will encourage even more ESOPs, experts said.
For workers, the shares can be a bonanza if the company thrives. But, because ESOP laws allow firms to prevent workers from diversifying their holdings until age 55, the shares come with added risk, as UAL workers learned so painfully.
Rosen said companies with ESOPs are more likely to have separate defined-benefit pension programs--as UAL did--which cushions the blow if the company fails.
Proponents say ESOPs can improve productivity and company performance, but experts quickly add that is more likely to occur with organizational improvements, a culture in which workers feel a sense of ownership and shared values and goals between employees and management.
And that may have been the downfall of UAL's ESOP.
"When firms are struggling and then decide to do an ESOP, there is usually trouble," said Hamid Mehran, a former Northwestern University professor who has studied ESOPs.
Rosen noted that UAL's ESOP was unusual to start with, because most don't require worker concessions and it was set up to halt contributions after five years, which signaled a lack of commitment from the start.

"Decisions get made ... which might benefit the interest of employees but might not be in the best interest of the company," said Mehran, an economist at the New York Federal Reserve Bank.
"ESOPs, in my view, are a good thing, but if a company is in distress, it's not a solution to poor management."
Because United's ESOP was unlike any of its brethren, it is unlikely to drive much change at other companies, said Jared Kaplan, a national ESOP expert and partner with McDermott, Will & Emery in Chicago. "United's ESOP emerged out of a desire by the pilots to get control of the company, and it didn't really even do that," he said.
For a time, when shares were above $100, the ESOP looked brilliant, Kaplan noted.
"It was a great experiment that over the short term looked like a great success," he said. "Of course, it would have been nice to predict Sept. 11 and the economic downturn. In hindsight, it didn't turn out well, but I don't think you can draw lessons in general from an ESOP so unusual as United's."
That's why, experts said, many workers concerned about the lack of diversification in ESOPs shouldn't look to Congress for relief.
Enron spurs calls for reform
The saga over Enron Corp. employees losing their retirement savings has inspired calls to allow workers to diversify.
Although many initial proposals in Congress would have included all ESOPs, a bill passed by the House this year covered only those public company ESOPs linked to a 401(k) plan. That measure died in the Senate, but President Bush and Republican leaders are expected to quickly push a version similar to the House bill when the new Congress convenes next month.
The UAL situation, several experts said, is unlikely to lead to any substantial revisions.
ESOP proponents launched an aggressive lobbying campaign to limit changes to ESOP laws, and said they are comfortable with the House bill. They received a boost from this fall's stock market drop, which illustrated that all retirement plans, not just those at the Enrons of the world, are at risk.
But others are less enamored with the current climate, and say Congress should step in.
J. Mark Iwry, former Treasury department benefits counsel, said ESOPs can play a constructive role in boosting employee morale and productivity, but an overly concentrated retirement plan is unduly risky.
"Up to a point, employee ownership is a good thing, but too much of a good thing can be unhealthy, specifically when workers' retirement security depends on the stock of a single company," Iwry said.
Memo: THE STRUGGLE AT UNITED. EMPLOYEE STOCK OWNERSHIP PLAN.

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Illustration: PHOTO GRAPHIC

UAL files for *bankruptcy*

Chicago airline will try to stanch losses that have reached $22 million a day

After 76 years as a Chicago business icon, ***United Airlines*** on Monday began mapping plans for a fresh start.

United became the biggest airline to go bankrupt, revealing that it is losing as much as $22 million a day--triple the losses it had earlier disclosed.

To survive, United must reinvent itself with the help of its unionized employees, company Chairman and CEO Glenn Tilton said. He emphasized that message in appearances outside U.S. ***Bankruptcy*** Court in the Loop and at O'Hare International Airport.

Tilton also offered the first glimpse at his strategy for saving United. He said the carrier must cut operating costs by at least 20 percent to compete with other full-service airlines.

And he said he wants to consider creating a point-to-point "airline within an airline" at United that can compete with low-cost carriers Southwest Airlines and JetBlue Airways. United competes against discount carriers in 70 percent of its markets.

But the company's first mission must be to stanch the flood of money that it is losing. Industry experts reacted with shock to the airline's revelation that it was losing far more than the $7 million per day it had been claiming.

United took the first step toward reeling in its industry-leading costs by announcing immediate pay cuts of up to 11 percent for its 11,000 white-collar and management employees. And it said it would begin talks with its unions as early as Tuesday on wage concessions for their 72,000 members.

At least for the day, United's unions were willing to let Tilton make his case. The heads of the carrier's five major unions, whose cooperation is critical to a successful reorganization, issued statements of support for the airline. But they stopped short of endorsing any specific cost reductions.

The focus is the "preservation of the company," said Capt. Paul Whiteford, chairman of the United pilots union and one of two union leaders who sit on the board of its parent company, UAL Corp. "As soon as this company gets back on its feet is when I have job preservation."

Employee morale, however, quickly could become the biggest issue for United.

At O'Hare on Monday, flight attendant Amanda Clinton, 41, knew that a ***bankruptcy*** filing was imminent. But she still was crestfallen by the reality of it.

"We spent so long trying to avoid going bankrupt. Now it was all for nothing," said Clinton, who has worked for the airline for 12 years. "***Bankruptcy*** might help the company survive, but I fear it's going to hurt my own livelihood. I'm going to have to tighten my belt."

Erik Yde, 41, a United baggage handler for nearly 17 years, said: "Unemployment does prey on my mind, but it's out of my control now. All I can do is keep working day to day. I'm going to keep showing up until they tell me not to. You can't keep thinking about it."

Passengers upbeat

Most passengers at O'Hare appeared to be giving United the benefit of the doubt.

"Nothing has changed," said Deb Glonik, 29, an information technology consultant from the North Side, as she returned from a business trip in San Francisco.

"The terminal's still crowded. The planes still go out on time. Maybe the ***bankruptcy*** will make for a cheaper ticket. But I have no fear the airline is going to cease to exist."

Passengers aren't likely to see any immediate effect on flights or United's frequent-flier program, according to the airline.

United's ***bankruptcy*** came less than a week after a government bailout board refused to underwrite a $1.8 billion loan for the carrier, pummeled by high costs, failed business decisions and a soft economy. The denial was the last hope for United, which had more than $900 million in debt payments coming due this week.

Shortly after 5 a.m. Monday, the airline's lead ***bankruptcy*** lawyer, James Sprayregen, arrived outside ***Bankruptcy*** Court with a van full of documents. After a brief appearance before Judge Eugene Wedoff, United's ***bankruptcy*** was official. In its filing, United listed $22.8 billion in assets and $21.2 billion in liabilities.

Major creditors included large lenders such as The Bank of New York and GE Capital Corp., aircraft manufacturers Boeing Co. and Airbus Industrie and major hub airports.

Later, at a hearing in which Wedoff allowed United to begin drawing on $1.5 billion in ***bankruptcy*** loans, Sprayregen said the airline faces "profound and agonizing change." He emphasized the need for cost cuts.

"We can't expect to revenue-grow our way out of this," he said. "The fault is not with the management or with its employees, but with a business model that no longer works."

Tilton said he hoped United could emerge from ***bankruptcy*** in 18 months--an estimate that struck some industry observers as optimistic, given the potential battles ahead with workers.

For many industry experts and Wall Street analysts, Tilton's plan to cut costs is long overdue. But some questioned his idea for creating a separate low-cost carrier, saying it had been tried before and would only inflame labor hostilities.

"That's a recipe for failure," said Michael Boyd, president of the Boyd Group, an Evergreen, Colo., airline consulting company. "They already tried that with the United Shuttle, and it didn't work."

But Joseph Schwieterman, an economist with DePaul University, said adding a new low-cost airline could be one way to cut pilot wages while also attracting price-sensitive customers.

"United's success may depend upon reviving the idea of a two-tier pay structure, which has been too explosive to discuss in recent years," he said. "But it can be a win-win situation for everyone. It can be a way to respect pilot seniority while saving the airline."

Bank One a lender

Elk Grove Township-based United has lost $4 billion in the past two years and is on track to lose a record $2.5 billion this year.

Chicago-based Bank One Corp. is leading the financing team providing $1.5 billion in loans to help the airline through ***bankruptcy***. The bank will provide $600 million in so-called debtor-in-possession financing and will write off $45 million in old loans to United in the fourth quarter, after taxes.

Despite analysts' expectations that United's stock would become worthless, investors appeared to be speculating on it Monday. UAL shares closed unchanged at 93 cents Monday on the New York Stock Exchange, after swinging wildly between 79 cents and $1.18 a share. More than 57 million shares traded.

Memo: THE STRUGGLE AT UNITED.

Captions: PHOTO (color): A ***United Airlines*** 747 lands at O'Hare airport Sunday. United officials said Monday that passengers should not notice any immediate impact on flights at O'Hare as a result of the Chapter 11 filing. Tribune photo by Jose More.