UAL Seeks Further Expense Reduction
Subtraction of $1.1 Billion
Would Come in Addition
To Plan to Halt Pensions

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United Airlines acknowledged that it needs to excise more than $1.1 billion from its annual expenses -- on top of savings it would glean from terminating its four underfunded pension plans.

UAL Corp., the airline's parent, meanwhile won another month -- to Nov. 1 -- to field a reorganization plan without having to contend with competing plans from creditors.

In an update to the bankruptcy judge overseeing its lengthy stay under court protection, United, Chicago, which already is on track to cut annual expenses by $5 billion when the remaining reductions kick in next year, on Friday blamed the need for added cost savings on sharp increases in fuel prices and weak revenue at the No. 2 U.S. airline.

Separately, US Airways Group, Inc., which entered bankruptcy-court protection a week ago for the second time in 25 months, is expected in the coming days to ask the court to grant emergency relief to allow the carrier to impose temporary concessions on its workers in the event the unions don't voluntarily agree to negotiate savings quickly. The company said last week that its latest Chapter 11 filing was prompted by expected financial defaults and its failure to persuade its unions to agree to $800 million in givebacks that would allow it to transform itself into a discount carrier.

The seventh-largest U.S. airline by traffic, US Airways next goes to bankruptcy court in Alexandria, Va., Oct. 7, when the judge is expected to hear the company's motion essentially to forgo paying pension obligations that accrued before its second Chapter 11 filing. The company skipped a $110 million pension contribution due last week covering 2003 obligations, and said it is considering freezing or terminating two defined-contribution plans covering nearly 25,000 active and retired mechanics and flight attendants.

It is likely that US Airways, in advance of that Oct. 7 hearing, will file court pleadings to impose emergency cuts on worker pay and benefits so it can stay afloat and meet the requirements of a novel financing arrangement that is providing the carrier with cash to cover its day-to-day expenses. "We must stop the drain on cash immediately," Bruce Lakefield, US Airways' chief executive, told workers Friday in a taped telephone message.

A spokesman declined to say whether the carrier, based in Arlington, Va., would ask the court for permission to proceed. Nor would he specify the magnitude of the desired cuts. He would say only that US Airways "will move quickly to demonstrate to all the stakeholders that we'll actively manage this case and make all the tough decisions we need to make."

The financial plights of the two largest U.S. carriers in Chapter 11 have strong parallels, and both are treading new ground -- and arousing the wrath of workers and of a quasigovernmental pension insurer -- by intimating that they may jettison their pension plans. Delta Air Lines, the third-largest U.S. airline, is struggling to avoid a bankruptcy filing and is seeking to trim pension payments and wages for its pilots.

United declined to say what it would save by terminating its pension plans and shifting the assets, $6.9 billion, and liabilities, $12.8 billion, onto the Pension Benefit Guaranty Corp. The company said any decision to ditch the plans, which it has said is likely, is 90 days away. The company this summer skipped $72 million in pension payments and earlier warned that it doesn't intend to make any further contributions while it remains in Chapter 11.

US Airways said the minimum contributions to the two plans it is evaluating for termination total $531 million in the five years from 2005 to 20009. It also said it wants to make changes to its four defined-contribution plans, including one that covers 3,800 active and retired pilots. Those workers' more-generous defined-benefit plan was terminated shortly before US Airways stepped out of bankruptcy in March 2003.

United recently identified $655 million in annual savings it hopes to extract from airport operations, maintenance and distribution in the next six years. Those economies would lead to unspecified job cuts, United has said. But Friday the carrier warned that it is seeking a further $500 million in cuts. A spokesman said it hasn't been determined where those savings would come from, or what the time frame would be for achieving them.

A U.S. Bankruptcy Court judge in Chicago Sept. 24 will hear a motion by the Machinists union and the Association of Flight Attendants seeking that a trustee be appointed to handle the company's reorganization efforts in place of current management.

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