



AMR hearings to begin this week

BY KYLE ARNOLD World Staff Writer

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This week will mark a ceremonial beginning of the end for the long and expensive journey of bankruptcy for AMR Corp. and American Airlines.

It's been 485 days since American Airlines' parent company, AMR Corp., filed for bankruptcy, hoping for some relief from \$29.6 billion in debt and labor contracts that leaders said crippled the carrier's ability to compete in a changing industry.

In those 485 days there have been 7,178 documents filed in the U.S. Bankruptcy Court of the Southern District of New York, not including 13 adversary cases and 20 other related cases.

Hearings begin at 10 a.m. Wednesday in a New York courtroom.

No doubt it has been a long road for CEO Tom Horton and company, not to mention more than \$200 million in legal fees accumulated by lawyers so far.

But with Judge Sean Lane ready to consider the motion for AMR Corp. to merge with US Airways and American Airlines getting its last extension to file a reorganization plan, the 16-month case is reaching a conclusion.

Court filings show the case is clearly coming to a close. Fewer new claims are being filed and most of the new filings are simple transfers of debt from the original debt holders to companies that specialize in bankruptcy cases.

"I don't see anything where American Airlines would have any harder of a time exiting from bankruptcy than Delta, in as much as they have gone through the same things," said Seth Kaplan, editor of Airline Weekly.

"They are the same kind of objections. Whether or not they would modify that, it's really a legal question. And it's not a terribly important one to anybody except Tom Horton."

The painful process has exacted more than \$500 million in savings for AMR and paved the way for a merger with US Airways that analysts say should be a profitable and industry-leading company.

Deadline, merger at stake

During Wednesday's hearing, lawyers will state the case before Lane as to why AMR Corp. should be allowed to merge with US Airways in an estimated \$11 billion deal that would lead American Airlines out of bankruptcy.

Also at stake during the hearing is a motion by AMR to push back the deadline to file its official bankruptcy plan, a motion the company says is necessary because of the recent deal to merge with US Airways.

The extension will give AMR until May 29 to file its plan and the company can't ask for any more delays under bankruptcy law. Analysts expect the extension to be granted with little argument.

Generally, analysts said Lane will give his approval to the merger plan.

But two aspects of the deal have drawn some criticism, namely the \$20 million payout to outgoing CEO Tom Horton and a provision of the agreement that gives a 3.5 percent cut of the new company to shareholders of the bankrupt American Airlines.

'It's really nothing'

A week ago, U.S. Trustee Tracy Hope Davis filed a motion to object to the merger on grounds that Horton's severance from the company didn't comply with bankruptcy law.

Horton will receive nearly \$10 million in cash and \$10 million in stock to move aside as CEO to make way for US Airways CEO Doug Parker to take over the company, according to the merger agreement. Horton will take the position of chairman for American Airlines Group Inc. for one year before stepping aside again to give the position to Parker.

But Davis contended in a filing last week that bankruptcy law prohibits exorbitant retention bonuses and severance payments during these types of cases "greater than an amount equal to 10 times the amount ... given to nonmanagement employees."

An American Airlines spokesman said the objection is without merit because Horton's severance will come from the new company, American Airlines Group Inc., and not from AMR Corp., the company now in bankruptcy.

Kaplan believes Horton eventually will get his payout, the same way that Northwest CEO Douglas Steenland walked away with \$18.3 million when his company was absorbed by Delta Air Lines in 2008 or the \$16.8 million-plus that Glenn Tilton was given when Continental Airlines was taken over by United last year.

"It's a lot of money and you can imagine people saying, 'Hey, why does he get more?' " Kaplan said. "But when you look at other companies of this size, it's really nothing."

And since Davis' objection doesn't question the merger itself, it's only expected to affect the Horton severance if anything at all.

'Unusual circumstance'

The other objection to the case comes from U.S. Bank, the owner of about \$37 million in bonds taken out by AMR Corp. Lawyers for the bank take issue with a provision of the merger that gives a 3.5 percent cut of the company to shareholders of the bankrupt AMR stock.

It's unusual during bankruptcy proceedings for shareholders to walk away with anything, especially a cut that could be valued at as much as \$385 million, said Fred Russell, CEO of Fredric E. Russell Investment Management Co. in Tulsa.

"Usually bankruptcy doesn't produce anything that's favorable to the shareholder," Russell said. "But this is an unusual circumstance to go from bankruptcy to merger."

The bank isn't asking to turn down the merger, just to make sure that creditors are paid first. Lawyers for the bank did not return phone calls seeking comment on their objection.

"These conditions are necessary given, among other things, public indications that the Plan may include distributions to equity holders - circumstances that must be evaluated against whether creditors will be paid in full," the U.S. Bank filing states.

Road to final hearing

It's unclear how quickly Lane will rule on the merger request or the deadline extension, but the judge's approval will set the stage for the rest of the case.

AMR and American Airlines will work until May 29 to put together a plan to take the company out of bankruptcy with the US Airways merger as the centerpiece of that plan.

AMR will then have 60 days to find support for its plan among the creditors, which include banks, airports and labor unions among others.

But American and US Airways already gained much of the support they needed before the merger announcement in February and even went as far as signing agreements with mechanics, flight attendants and pilots to give raises and equity shares when the deal commences.

A handful of omnibus hearings are also scheduled over the next four months to take care of final matters in the case.

The court is expected to hold its final hearings in early August, when AMR and creditors will hold a final hearing to close the case and AMR is allowed to officially emerge from bankruptcy and turn its attention toward merging with US Airways and becoming the new American Airlines.

THE AMERICAN AIRLINES BANKRUPTCY SO FAR

2011

Nov. 29: AMR Corp. files Chapter 11 bankruptcy petition, listing assets of \$24.7 billion and debts of \$29.6 billion

Dec. 5: Transport Workers Union appointed seat on Official Committee of Unsecured Creditors

2012

Feb. 1: AMR says it needs to cut 13,000 jobs, including 9,000 TWU positions, and reduce labor costs by \$1.25 billion annually, to compete in the airline industry

March 8: AMR asks U.S. Bankruptcy Judge Sean Lane for six-month extension, to Sept. 28, to file its restructuring plan

March 27: AMR files motion to reject its three union collective bargaining agreements

April 19: AMR reports first quarter net loss of \$1.66 billion

April 20: American's unionized pilots, flight attendants and mechanics reach labor agreements with US Airways that would be effective in a merger of the two companies

May 15: Tentative contract ratification vote results announced, with five of seven TWU work groups accepting company's last offer; maintenance and related, and stock clerks reject the offer

June 11: TWU negotiators for mechanics and related, and stock clerks begin mediated contract negotiations

June 14: US Airways CEO Doug Parker says at company's annual shareholders meeting in New York that the airline has received "tremendous" support from AMR bondholders and analysts for a merger with American Airlines

July 18: AMR reports second quarter net loss of \$241 million

Aug. 8: Mechanics and related, and stock clerks narrowly approve new six-year contracts

Aug. 9: Allied Pilots Association rejects tentative contract agreement

Aug. 22: Leaders of the APA meet with US Airways pilots and CEO Doug Parker about a transitional labor agreement in a merger of American and the Tempe, Ariz.-based carrier

Aug. 31: American and US Airways sign non-disclosure agreement under which the carriers exchange proprietary financial information

Sept. 4: Lane approves AMR's motion to reject the APA's collective bargaining agreement

Sept. 10: American announces it will close its Fort Worth Alliance Airport maintenance base by the end of the year, lay off 839 Tulsa mechanics and consolidate major aircraft maintenance operations in Tulsa and Dallas/ Fort Worth International Airport; more than 1,700 mechanics & related workers at American's three aircraft overhaul bases will be laid off in December and February, the company said

Mid-September: American begins cancelling dozens of flights a day as pilots report increased numbers of mechanical and equipment failures

Sept. 26: 1,595 American mechanics and stock clerks, including 743 in Tulsa, accept the company's early-retirement incentive plan that includes \$39,000 in severance pay; the early retirements could reduce layoffs needed to cut costs, the company says

Oct. 16: AMR asks bankruptcy judge to extend by 30 days, to Jan. 28 and March 28, respectively, its exclusive right to file a reorganization plan and seek support for the plan

Oct. 17: AMR reports third quarter net loss of \$238 million

Oct. 25: American announces it will lay off 436 mechanics at its Tulsa maintenance base, 66 more than previously reported; the new totals are reported as the company recalculates early retirements and the effects of "bump-and-roll" union seniority moves

Nov. 8: U.S. Bankruptcy Judge Sean Lane grants motion of AMR and Committee of Unsecured Creditors to extend AMR's exclusivity periods to Jan. 28 and March 28

Nov. 9: American and Allied Pilots Association reach agreement- in-principle on a tentative contract

Dec. 7: American Airlines pilots accept contract with 74 percent approval

Dec. 14: American lays off 43 employees in Tulsa, most at maintenance plant

2013

Jan. 15: AA pilots comes to deal with American Airlines and US Airways to support a merger.

Jan. 16: AMR reports \$262 million profit for 4th quarter of 2012

Jan. 28: TWU mechanics and related reach tentative agreement with American Airlines and US Airways to support the merger in deal that gives workers a 4.3 percent raise

Feb. 14: American Airlines and US Airways announce deal to merge companies, creating world's largest airline. Deal expected to close by end of September

March 14: American asks for another six week extension to file reorganization plan, pushing deadline to May 2

March 15: U.S. Trustee objects to near \$20 million severance offered to AMR CEO Tom Horton as part of proposed merger

Sources: U.S. Bankruptcy Court for the Southern District of New York, AMR Corp., Transport Workers Union, Allied Pilots Association, Association of Professional Flight Attendants, news reports

What's ahead for the AMR bankruptcy

Wednesday: Judge Sean Lane will hold a hearing to consider the merger with US Airways and AMR's request for an extension to file an exclusive plan of reorganization.

April 23: The 26th omnibus hearing to hear various minor motions in the case. Seven more of these hearings are scheduled before the end of July.

May 29: The proposed deadline for AMR to file its plan of reorganization. AMR asked for more time to make the merger with US Airways the center of its plan.

July 28: Deadline for AMR to solicit support from stakeholders for its reorganization plan.

Sept. 30: The self-imposed deadline by management at both airlines to finish the merger between American Airlines and US Airways.

Objections to the merger between American Airlines, US Airways



Severance: A U.S. Trustee is questioning Tom Horton's near \$20 million payout to step aside with the merger, saying it violates bankruptcy law. AMR says the pay will come from the new company.

Shareholders: Owners of AMR stock will get a 3.5 percent cut of the new company, an unusual move in bankruptcy. U.S. Bank wants to make sure creditors get first priority.

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Associated Images:



American Airlines' parent company, AMR Corp., filed for bankruptcy 485 days ago, leading to a proposed merger with US Airways. MICHAEL WYKE/Tulsa World file



Don Harbison works on an aircraft engine at the American Airlines Maintenance Base in Tulsa. Hearings begin Wednesday on AMR bankruptcy and AA merger proceedings. STEPHEN PINGRY/Tulsa World



The deal merging American Airlines and US Airways is expected to close in September. MATT YORK/AP file

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