

A few final hurdles

BY D.R. STEWART World Staff Writer
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American Airlines, whose parent, AMR Corp., filed its bankruptcy reorganization petition a year ago Thursday, is nearing its goal of emerging from Chapter 11 with significantly reduced debt, labor and pension costs, company executives and industry officials said.

One major hurdle remains for the nation's third-largest airline in the form of a contract ratification vote with its 8,000-member Allied Pilots Association.

Results of the balloting will be released by the APA on Dec. 7.

If the pilots ratify the tentative contract agreement, American will have restructured contracts with all of its unionized labor groups: the APA, the Association of Professional Flight Attendants and the Transport Workers Union, which represents 6,000 mechanics and related work groups at American's Tulsa maintenance base.

The new labor agreements alone are a worthy accomplishment, said Jeffrey R. Erler, a partner and lead bankruptcy attorney for Bell Nunnally & Martin LLP in Dallas, and who has served as counsel to creditors in the AMR case.

"If they are successful in restructuring their pilots contract, it would be, by far, their biggest accomplishment," Erler said. "Without the new agreements, there's no way this company reorganizes and emerges from Chapter 11. And, without the labor agreements, I'm not sure anyone wants to step in and do a (merger) deal. Most merger partners want to know that they have certainty before they do the deal."

Another view is offered by John Hewitt, chairman of maintenance at TWU Local 514 in Tulsa.

"We can start talking about accomplishments when American begins to formulate innovative business strategies and services and to improve employee relations in ways that add value to customers and employees," Hewitt said.

The consensus opinion among bankruptcy experts and airline industry analysts is that if the pilots ratify their contract and AMR successfully restructures its remaining aircraft and real estate leases, the company could emerge from bankruptcy by the end of 2013's first quarter and compete successfully as a standalone carrier — despite the appeal of a merger with US Airways, the nation's fifth-largest airline.

"Either way, they can survive," said Mike Boyd, president of Boyd Group International, an airline

consultant in Evergreen, Colo. "It's a matter of how well they will survive. US Air could bring a strong presence in the East, and it would strengthen DFW (Dallas/ Fort Worth International Airport) and Charlotte," US Airways' hub at Charlotte/ Douglas International Airport in North Carolina, he said.

When AMR entered bankruptcy a year ago, its goals included reducing overall costs by \$2 billion annually, cutting 13,000 jobs from its 66,550-person work force and increasing revenue by \$1 billion a year.

On Feb. 1, AMR told its employees it needed \$1.25 billion a year in labor cost reductions — \$390 million from its TWU mechanics, \$370 million from the APA, \$230 million from the flight attendants, \$165 million from management and support staff and \$95 million from non-union employees.

The company's demands weren't well received by union workers, eight and a half years after they had given up \$1.6 billion a year in wages and benefits to help the company avert a bankruptcy filing.

But AMR said it needed new labor agreements to compete against its major airline competitors, all of which slashed costs in bankruptcy over the previous decade while it lost more than \$10 billion.

American said its labor costs were 24 percent higher than the average of the other network carriers and 79 percent higher than the low-cost carriers in 2011's third quarter, AMR said in court documents.

"American has financed these persistent losses by borrowing money —accumulating a total of \$16.8 billion in debt as of 2011," AMR said in court filings.

Although AMR has not achieved its goal of reducing labor costs by \$1.25 billion, it has won more than \$500 million in concessions from the TWU and the APFA, industry analysts said.

"With the pilots looking at a tentative contract agreement, American will have competitive labor contracts," said Ray Neidl, an analyst with Maxim Group in New York. "They've done a nice job of trimming costs, reorganizing their system, getting RASM (revenue per available seat mile) up. It appears they have been making good progress toward emerging in a standalone plan."

Boyd said even more important than the restructured labor contracts were the reworking of AMR's debt and pension costs.

"If you take out their debt and pension costs, they would have been making money," Boyd said. "The real challenge was to get rid of those costs and move on."

In bankruptcy, AMR has reduced its debt and, after negotiations with the Pension Benefit Guarantee Corp., agreed to freeze as of Nov. 1, rather than terminate, its defined-benefit pension plans.

The company's generous health care benefits have been altered to require employees to pay a bigger share of their medical insurance premiums and the company has asked the bankruptcy court for authority to stop paying premiums for retirees, court documents show.

As a result, AMR will save hundreds of millions of dollars a year in reduced pension and health care costs, analysts said.

Additionally, AMR has renegotiated hundreds of aircraft and real estate leases, parked older planes

and has begun receiving the first three dozen of 400 new fuel-efficient Boeing and Airbus aircraft on order.

The new aircraft use 35 percent less fuel than the 25-year-old MD-80s that form the backbone of American's 597-plane fleet, company executives said.

"Since the (bankruptcy) commencement date, American has taken possession of 22 new 737-800 aircraft and put those aircraft into service," AMR said in court documents. "In addition, American is scheduled to take delivery of 14 new 737-800 aircraft during the next six months."

Fred Russell, who follows American as CEO of Fredric E. Russell Investment Management Co. in Tulsa, said the new aircraft will not only save the company millions of dollars in fuel but also generate additional passenger revenue.

"They have ordered a huge number of planes and when they are in operation they will transform the experience and satisfaction rating with American Airlines among business and leisure travelers," Russell said. "It's a freshness that's a huge intangible for American and will have a powerful effect on the brand."

The company also has some problems it must face, including toxic labor relations and a lack of leadership at the top, analysts say.

"Given the historic acrimony between management and the unions, it's not surprising they want a new face," said Erler, the Dallas bankruptcy attorney.

"My view is that labor is pretty much of the opinion they made concessions in 2003 to keep the company out of bankruptcy, but then they were taken advantage of by management."

Boyd said the company needs aggressive management and a strong leader who is willing to be the public face of American Airlines.

Reflections on American Airlines' year in bankruptcy:

"The vast majority of the work needed on the financial restructuring of the company is complete, including restructuring debt and leases, grounding older planes, improving our vendor and supplier relationships; we have ratified labor agreements with nearly all of our work groups. ... Our future is bright. ... We are well on our way to building a new American Airlines.

— American Airlines spokesman Mike Trevino

"When you're closing down maintenance bases, when you're telling retirees their benefits may be cut, when employees are worried about outsourcing of their jobs, what mental evasion are you going through to justify spending \$50,000 to \$100,000 to repaint an airplane? They've had the same livery for 45 years, and it's priceless — it's brilliant, clean, and why are they paying somebody to change their livery?"

— Mike Boyd, president of Boyd Group International, airline consultant, Evergreen, Colo.

“I call the years in bankruptcy ‘dog years’ because each one takes years off your life. The longer they’re in, the longer their reputation, their performance (suffers) ... and American is not well positioned to wait out a storm. It puts a premium on getting out. ... They’re at risk of somebody else filing a (restructuring) plan — the pilots union, US Airways.

— **Max Newman, bankruptcy lawyer, Butzel Long, Bloomfield Hills, Mich.**

“Working with US Airways, APA was able to achieve in just over a week far more than we had been able to achieve in more than five years of trying to bargain with AMR management. Our interaction with US Airways was in stark contrast to what we have been experiencing with AMR. We dealt directly with the people whose jobs are to run an airline. ... Completely absent from the discussion were the posturing and game-playing that characterizes the approach AMR management takes when dealing with us.

— **Dave Bates, former president, Allied Pilots Association**

“Now AA and the media ... have continually pointed the finger at the unions for the obvious morale issues that are prevalent throughout the company, but one must ask, how does the management team at the most heavily unionized airline in the United States (Southwest Airlines) keep their employees so engaged in making their company, keeping the airline so strong? It’s easy: at Southwest they, the executive team, recognizes the importance of treating all their employees with dignity and respect, along with good pay and benefits. Most importantly, Southwest never forgets that it is the passengers and the front-line employees who make the airline successful and profitable.

— **Gary Peterson, president, Transport Workers Union Local 565, Dallas**

“But they have had tenuous labor relations. In my experience as a flier, it has permeated the customer experience. They have a huge obstacle in front of them trying to repair those relationships.

— **Jeffrey Erler, partner, lead bankruptcy attorney, Bell Nunnally & Martin LLP, Dallas**

“I think their brand has been tarnished. ... But time heals all wounds, and AMR, whether they emerge as a standalone carrier or with a merger partner, will have a chance to shine again.

— **Jake Dollarhide, CEO, Longbow Asset Management, Tulsa**

TIMELINE OF AMERICAN AIRLINES’ YEAR IN BANKRUPTCY

Nov. 29, 2011: AMR Corp. files Chapter 11 bankruptcy petition, listing assets of \$24.7 billion and debts of \$29.6 billion

Dec. 5, 2011: Transport Workers Union appointed seat on Official Committee of Unsecured Creditors

Feb. 1, 2012: 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

Feb. 27: American workers stage protests at the nation’s airports over job cuts and terminated pensions

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 10: TWU members begin voting on company's "last best offer" covering seven work groups

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

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

June 12: Mediated TWU negotiations end without an agreement

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

July 19: US Bankruptcy Judge Sean Lane grants AMR's request to extend its exclusivity periods to Dec. 28 and Feb. 28, 2013, respectively, to present a reorganization plan and solicit support for the plan

July 23: TWU maintenance & related and stock clerks, and Allied Pilots Association begin voting on tentative contract agreements

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

Aug. 9: Allied Pilots Association rejects tentative contract agreement

Aug. 15: U.S. Bankruptcy Judge Sean Lane rejects AMR's motion to reject pilots' collective bargaining agreement, saying company has not shown necessity of unrestricted furloughs and code-sharing

Aug. 17: AMR drops its proposal for unrestricted furloughs and code-sharing at APA

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. 17: American notifies 11,159 members of the Transport Workers Union, including nearly 3,000 workers in Tulsa, that their jobs could be affected by layoffs or a plant closing in 60 to 90 days

Sept. 20: American cuts up to 2 percent of its remaining scheduled flights in September and October, accusing the APA of inflated mechanical write-ups and high rates of sick time taken by pilots; APA leaders say there is no organized job actions, that increase in flight delays and cancellations are due to American's mismanagement of aircraft maintenance and crew resources

Sept. 25: Kate Hanni, executive director of FlyersRights.org, warns 25,000 members of the organization to consider booking with an airline other than American, given its spate of flight cancellations and bankruptcy issues

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

Sept. 29-Oct. 1: Flight crews on two American flights make emergency landing and return to originating airport after seats come loose just after takeoff; maintenance crews from American's Tulsa maintenance base are dispatched to New York to examine the planes

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

Nov. 16: APA board of directors votes 12 to 4 to submit the tentative contract to APA members for a ratification vote

Nov. 23: Voting begins at noon CST on APA's tentative contract

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