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# AMR's Pilots Prep for Talks

By JACK NICAS And MIKE SPECTOR

Pilots at American Airlines are recruiting a Wall Street restructuring heavyweight to negotiate on their behalf as the No. 3 U.S. airline starts to map out its future in bankruptcy proceedings.

Fort Worth, Texas-based [AMR Corp.](#), the airline's parent, filed for Chapter 11 protection in New York on Tuesday, citing high fuel, fleet and labor costs. It has been in protracted contract talks with the union representing its about 10,000 pilots. The pilots could be forced to make significant concessions and face the loss of about \$1 billion in pension obligations should AMR terminate those liabilities in bankruptcy. AMR hasn't yet decided how it will handle the pension obligations.



Reuters

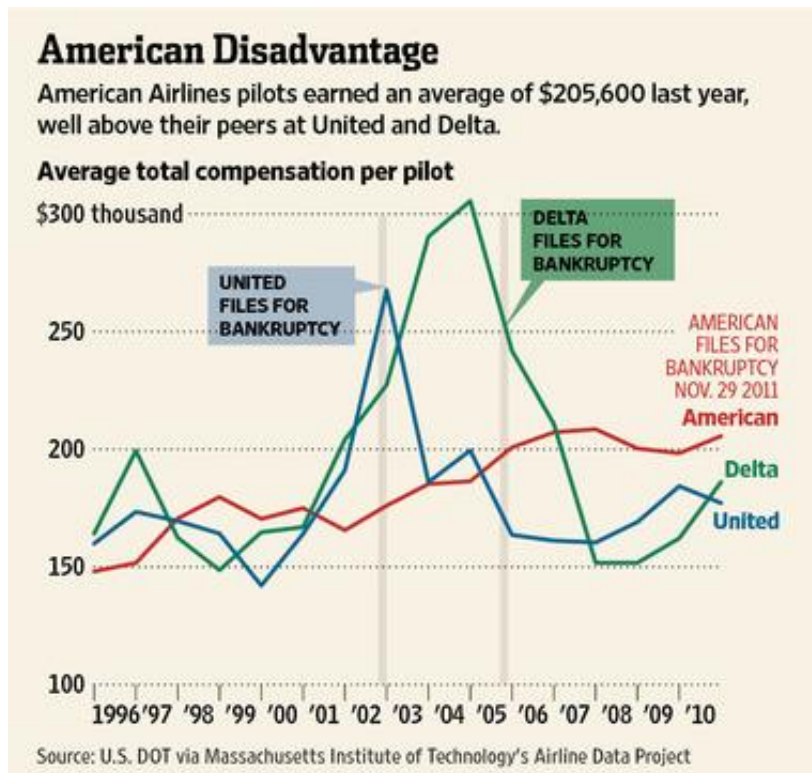
American's pilots may face the loss of \$1 billion in pension benefits.

The Allied Pilots Association is close to hiring [Lazard](#) Ltd. to negotiate a new labor agreement and steer the pilots through the bankruptcy process. The association is likely to seek a seat on the creditors committee, an influential panel that will negotiate with company executives and sometimes undertakes investigations, people familiar with the process said. It could look for a future ownership stake in AMR in return for concessions, although the bankruptcy is new and significant negotiations haven't begun.

Ultimately, the pilots and management will negotiate over pay, pensions and work rules—topics that the two sides have been unable to agree on for five years. The discussions with Lazard signal the pilots are readying for a battle and attempting to assemble a roster of experienced negotiators to look out for their interests.

Of course, the union now has far less leverage than two weeks ago, when it rejected proposals involving 7% and 9% salary increases in return for longer working hours and fewer contributions to their pensions. That rejection helped trigger AMR's filing on Tuesday, people familiar with the situation have said.

Dave Bates, the union's president and an American Airlines pilot for 28 years, said pilots were unwilling to budge on how many flights AMR could



outsource to smaller airlines and wouldn't accept a partial pension freeze. But now with roughly a quarter of their pensions on the chopping block, they will likely have to swallow much more.

"Sometimes in life it's easier to have something imposed upon a person than have them agree to it voluntarily," Mr. Bates said.

An American spokeswoman declined to comment on the pilots move, but said, "American has told the leaders of each of our unions that we plan to notify them when we have new proposals to share with them that reflect our

changed circumstances..."



AMR Corp., the parent company of American Airlines, filed for Chapter 11 bankruptcy protection and named Thomas Horton as chief executive, succeeding Gerard Arpey. Colin Barr has details on the Markets Hub. Photo: Reuters.

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said.

But Larry Perkins, a senior managing director in Conway MacKenzie Inc.'s turnaround and crisis-management business, said lags in negotiations could push the airline into the 18-month danger zone. The company must cut costs by reaching new deals with most of its 88,000 employees, three-quarters of whom are unionized.

AMR Chairman and Chief Executive Thomas Horton said in a letter to employees that the airlines filed for Chapter 11 to align its costs with its competitors, most of whom cut employees' wages and benefits through restructurings years ago. "We have one opportunity to do this right, and that requires a comprehensive overhaul of our costs," said Mr. Horton.

AMR is the first major airline to file for Chapter 11 under bankruptcy rules passed in late 2005 that require the company to submit a plan within 18 months or potentially face rival reorganization plans from other parties. Those plans, if accepted by the court, could lead to different ownership of the company.

Harvey Miller, AMR's bankruptcy attorney, said that situation is unlikely. "We'll hopefully be out of Chapter 11 before the period of 18 months," he

The airline will pursue labor deals "with diligence and dedication," said AMR's Mr. Miller. "If everyone is reasonable and rational, we should come to conclusions. Otherwise, we will have to move in the bankruptcy court to reject the agreements."

Under Chapter 11 law, if employees reject their company's contract offers during bankruptcy protection, management can bring its offer to court, where a judge could terminate AMR's contracts. The company could then set wages and rules under federal labor laws.

That scenario "would be disastrous for morale," said Mr. Bates. "This company needs to aggressively pursue a healing process. You want a highly motivated, happy work force that wants to be competitive."

Mr. Bates said AMR's newly named CEO Mr. Horton "is well aware of the problems of morale and hopefully he'll make the right choice."

Most AMR pilots have two pension plans. One is protected from the bankruptcy; the other, which represents about a quarter of the average pilot's pension, is vulnerable. Union spokesman Tom Hoban said pilots may also lose bases in three cities, uprooting hundreds and forcing them to take connecting flights to works. Mr. Hoban, an AMR pilot for 23 years, said pilots understand they must make sacrifices, and are willing to work more hours, but without leverage, he and his peers hope management negotiates "in good faith" and doesn't push talks to court.

In 2010, according to a study by the Massachusetts Institute of Technology, American Airlines pilots cost \$205,628 on average, or about 10.4% more than [Delta Air Lines](#) Inc. and 15.1% more than pilots at United Airlines, a unit of [United Continental Holdings](#) Inc.

But Delta and United pilots were once paid much more than their AMR peers. Two years after each airline filed for Chapter 11, pilots' compensation dropped 25% at United and 37% at Delta.

Other AMR employees also worry about looming drops in pay and benefits. About 180 flight dispatchers and 10,500 baggage handlers and other fleet-service workers were voting to ratify recently reached deals with AMR after years of negotiations. But Tuesday morning, Jeff Brundage, AMR's senior vice president of human resources, sent a letter to the union's president saying the deals were off. "We will notify you promptly when we are prepared to present new proposals which reflect our changed circumstances," Mr. Brundage said in the letter.

James Little, president of the Transport Workers Union, which represents nearly 20,000 AMR workers, said his members are disillusioned. "We had so many opportunities to sit around a table and work out a new way of doing things," he said. "But in the end it wasn't good enough."

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