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American Airlines Files for Bankruptcy

American Airlines filed for bankruptcy protection after its attempts to win a labour dispute with pilots ended unsuccessfully. Together with its parent company, AMR Corp, the airlines filed for bankruptcy November 29 after spiralling fuel costs had taken its toll.

Over the past decade, AMR Corp was the only major airline company that managed to avoid bankruptcy whereas other airlines used bankruptcy protection to restructure their labour agreements and reduce costs. As a result, American Airlines became the only major airline to still fund worker pensions and pay the highest labour costs in the industry. Many industry observers have been expecting American Airlines to follow suit by filing for Chapter 11 bankruptcy and they were not mistaken.

This year, the airlines industry in the US is set to experience a slowdown as travel demand recedes. Most major airlines have cut down on their services as a result of the weak demand and American Airlines is no different.

In bankruptcy papers, AMR disclosed that its cost cutting measures have not been enough to reduce the company's losses largely due to skyrocketing fuel prices that pushed its cost of operations up by 40% in the third quarter in just one year. The company acknowledged that it must change its "uncompetitive cost structure". "Without addressing the realities of the marketplace, AMR cannot be competitive with its peers," according to the bankruptcy filing.

Shares of American Airlines, the nation's third largest airlines after United Continental and Delta Airlines, plunged 45% since the end of September. Last week, its shares fell to its lowest price since 2003, the year when AMR almost filed for bankruptcy.

In its Chapter 11 bankruptcy papers, AMR listed its assets worth \$24.72 billion against its liabilities of \$29.55 billion. AMR said it has \$4.1 billion in cash. Nevertheless, AMR confirmed that both American Airlines and its regional counterpart, American Eagle will continue flying its normal routes throughout the bankruptcy proceedings. AMR today appointed Thomas Horton as chairman and chief executive to replace Gerard Arpey who retired.

The pilots union greeted the news about American Airline's bankruptcy with solemnity, describing it as a "solemn occasion". While the move did not take the pilots by surprise, the union expressed their disappointment in finding themselves working for "an airline that has lost its way," according to a statement by David Bates, president of the Allied Pilots Association.

AMR's top two rival companies, Delta Airlines and Continental Airlines have used bankruptcy to restructure operations, cut costs and find new merger partners. Delta bought Northwest Airlines and Continental Airlines was bought over by UAL Corp and renamed United Continental Holdings. Delta and Northwest Airlines filed for bankruptcy in 2005. Another airline, United Airlines and US Airways filed for Chapter 11 bankruptcy earlier in 2002.