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## DEAL JOURNAL BLOG

### **American Airlines — Learning From Its Rivals' Mistakes**

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Bankruptcy advisers have a perennial complaint about troubled companies: They wait until they have run out of money to seek Chapter 11 protection, putting them at the mercy of lenders and harming their chances of a successful reorganization.

American Airlines parent AMR Corp., which sought creditor protection Tuesday with more than \$4 billion in cash in its coffers, is setting itself up to be a model client.

The move, while not without its risks, could smooth the path facing the troubled Fort Worth, Texas, airline as it seeks to restructure its nearly \$30 billion debt load and cut its operating costs. It may also help preserve value for creditors, which are often left holding the bag when cash balances dwindle.

“Distressed entities must not wait too long to seek assistance and save value,” AMR’s bankruptcy attorney, Weil, Gotshal & Manges partner Harvey Miller, said in an email Tuesday.

AMR finds itself in a unique position. It sat on the sidelines while most of its rivals went through bankruptcy restructurings several years ago, and it has learned from their mistakes. It has also taken to heart the lessons of the global financial crisis, seeking court protection while it still has ample liquidity and isn’t forced to seek out expensive, onerous financing.

J.P. Morgan said a research note that it appears that AMR’s cash is “more than sufficient to assure that its vendors, suppliers and other business partners will be paid timely and in full.” The company said it doesn’t plan to obtain a debtor-in-possession, or DIP, loan to fund its restructuring.

DIP financing “comes at a hefty price, if you can find it available,” said Lloyd Palans, a partner in the bankruptcy practice at Bryan Cave. It also usually comes with restrictive terms that give lenders a looming presence in the restructuring process.

One potential downside to AMR’s decision to file ahead of protracted negotiations with creditors and labor unions is that it can keep a lock on the restructuring process for no more than 18 months, after which it will lose its exclusive right to file a reorganization plan.

Many companies in recent years have come to court after having already negotiated restructuring plans, spurred in part by market conditions but also by changes to the U.S. Bankruptcy Code that took effect in 2005 limiting the exclusive hold companies have over their Chapter 11 cases. Companies start out the bankruptcy process with a 120-day exclusive period, which can be extended to no more than 18 months.

AMR, a massive corporation with nearly 90,000 employees, debts of more than \$29 billion, far-flung bondholders and countless vendors and business partners, faces a daunting task in pulling together a restructuring plan in just a year and a half. Two key issues, however, are likely to be the airline’s more than \$7.8 billion in retiree obligations and negotiations with its labor unions, which already accepted steep cuts to help the carrier avoid Chapter 11 protection in 2003.

Union negotiations could push the airline into the 18-month danger zone, where it would risk rival restructuring plans from creditors, said Larry Perkins, a senior managing director in Conway MacKenzie Inc.’s turnaround and crisis-management business.