

Brighter days ahead? aa case study

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American seeks future profitability through Chapter 11 bankruptcy reorganization. It has an odd distinction of honor, yet one to which venerable American Airlines and Gerard Rapper, its chairman and CEO from 2003-2011, proudly clung: The Dallas-based carrier was the only US legacy airline that had never declared bankruptcy. The company's roots go all the way back to the pioneering days of the asses, when Charles Lindbergh piloted DO-4 biplane flights carrying mail between Chicago and SST.

Louis for Missouri-based Robertson Aircraft Corp.

. One of a number of early airlines that consolidated in 1930 under the banner of American Airways Inc. , the precursor to American Airlines (AAA), by which name the carrier has been known since 1934. As time went on, the company discovered what other US legacy airlines did, particularly post-1979 deregulation: It is extremely difficult to earn consistent profits operating a major international airline based in the US.

The aircraft are expensive; workers through the years have been represented by unions that have collectively bargained (often during rare periods of industry strength) for muscular benefits; the market is altar-competitive and, until the recent consolidation push, has been fragmented; serving both short-haul domestic markets and long-haul international destinations creates tremendous complexity and can be at cross-purposes; the government is Nary of providing financial assistance to airlines in trouble and, in fact, taxes the industry heavily; and, finally, carriers must contend with numerous factors over Inch they have little-to-no control, such as global economic disruptions, severe “ either events and volatile fuel prices. As a

result, every US legacy airline has gone through periods of financial hardship.

Among these, he said, are hubs in key US markets (Dallas, Chicago O'Hare, Miami, New York JEFF and Los Angeles) and a range of international partnerships, most prominently its membership in the one world alliance and antitrust-minimized joint ventures with British Airways and Iberia on transatlantic flights and with Japan Airlines on transpacific flying. "Most importantly," he made a mint of saying on the day of the filing, is the massive order announced last July (the largest ever for any airline) for 130 Airbus A350 family aircraft (to be split between A350-900 and A350-1000), 130 re-engines A350-900, 100 Boeing 787-9 and 100 re-engines 737 MAX aircraft. "That deal gives us enormous flexibility to grow the company as we get our costs and capital in line," Horton said. Nearly one-third of the carrier's fleet of more than 600 aircraft is comprised of aging MD-80 (even with AA retiring about 100 of the type over the last four years), a serious weak spot in a high fuel cost environment.

Replacing those aircraft with a slew of brand new narrow bodies will greatly boost the carrier's operational efficiency. But how can a bankrupt carrier have so many new planes on order? Horton has called the blockbuster split order the "new of the industry," and the deals financing terms certainly are creating jealousy in airline board rooms. Both Airbus and Boeing, fearful of not being a part of AA's fleet modernization, agreed to finance at least the first 230 of the 460 aircraft to begin delivering in 2013. In essence, the manufacturers will lease those aircraft to AA, aging care of about \$13 billion

in financing that the airline would have been hard-pressed to find independently.

Bernstein Research said in a recent report that AAA was fully aware of its tenuous financial situation when the order was announced, and it likely would not be able to take delivery of the aircraft despite its Chapter 11 status, which could extend into next year. “ We believe that this large order was the perfect approach for American management whether or not the airline was to eventually enter bankruptcy,” it stated.

“ At the time of the order, the company’s financial condition was much as it is today. But this deal meant that the airline would have a ‘ liable asset: a huge number of delivery slots from both Airbus and Boeing at a time when both manufacturers were sold out of narrow body airplanes into 2016. ” Orenstein added, “ We believe that the financing arrangements also minimized cash outflows from American.