



Tuesday, March 30, 2004

Dear All,

I was asked yesterday by one of our line pilots if I would put together an article on the real world effects of bankruptcy on any company. I said I would. Within hours of agreeing to write an article, I received a copy of a letter sent to all American pilots last week on March 25, 2004 from Captain John Darrah - American Airline's President of their pilot's union, APA.

It has been a year since American was at the brink on the courthouse steps. After reading Captain Darrah's letter I felt it was more illuminating to send you something from one who went right to the edge of the abyss before making the wisest choice available.

His points are well stated and hard to argue with since they have already been there. It is also clear who is in better shape a year later - American versus United and USAir.

These articles may not convince anyone of anything, but they are coming from me and others who have done alot of homework and have your best interests at heart. All I can do to help the situation at Delta is to be a leader by sticking my neck out there with these articles, and try to keep you informed.

Why spend the time on these articles? Because we have many retired clients whose monthly pension benefits are tied to Delta and many still working whose future benefits all ride on the fate of Delta Air Lines. And to be perfectly honest -- I have the energy, resources, and discipline it takes to do it -- and I care. My agenda (everyone has one) isn't any more complicated than that. I sincerely respect and appreciate what Delta has done for my family and friends and am giving something back when it's needed.

Ultimately any decisions made will come from a pilot group that has the most knowledge to make rational decisions which will impact your own families, our company, job security, and retirement benefits for the rest of your life.

Respectfully, Mike Stark

Here is Captain Darrah's letter:

Thursday, March 25, 2004

Fellow Pilots,

In early January, I sent a mailer to all pilots about the state of American Airlines as of last spring. This mailer detailed American's financial condition at that time and whether American would need to file for Chapter 11 bankruptcy if the labor unions did not agree to restructure their agreements.

The leadership of all three unions, myself included, was convinced that the airline would indeed be left with no alternative but to file for bankruptcy in the absence of lower costs. While some may still believe that bankruptcy was avoidable without concessions, American's financial condition a year ago and our quarterly results since the restructuring agreement indicate otherwise.

In the fourth quarter of 2003, even after the full \$500 million impact of labor and supplier concessions was realized, American lost \$95 million excluding special items. Without the 2003 agreements in place, the losses would have been significantly greater and unsustainable.

While most acknowledge bankruptcy was inevitable without restructuring our agreements, some believe that we would have fared better through the bankruptcy process. I cannot find any foundation to support that premise. Many of those making such claims single out pay rates as their evidence. As you are aware, pay rates are just one of the many aspects of our contractual provisions that determine your annual W2 and your quality of life. No question, we took significant pay cuts with the ratification of our agreements.

However, the APA leadership purposely structured our concessions in this manner, and I will detail why we chose to do so in a separate e-mail. In the meantime, you cannot assess the effects of bankruptcy by judging a singular item of our contract. You must look at the overall impact on the contract and your futures.

I have followed airline bankruptcies with great interest for more than 20 years, beginning with Braniff in May 1982. In September 1983, as part of a college project, I visited the Continental pilots in Houston during their battle with Frank Lorenzo. I have continued to closely follow the airline industry and the ultimate fate of carriers that filed for bankruptcy reorganization ever since.

An amazing fact is that since airline industry deregulation in 1978, there have been more than 130 different airlines that have filed for bankruptcy. Many of them you are familiar with, such as Braniff, Continental, Eastern, Pan Am, TWA, America West, United, US Airways, Hawaiian, Frontier and Midway, but there were many more you may not recall. For a complete listing of airline bankruptcies since 1978, see the table we have posted under "Headliners" on the Member's Home Page of the APA Web Site.

Of the top 10 airlines based on passenger revenues in 1978, seven of them have filed for bankruptcy. Of those seven, four ultimately ceased operations. Western Airlines, another of the top 10 airlines in 1978, was struggling at the time of their acquisition by Delta in the 1980s. Today, only American and Delta can claim the distinction of retaining their top 10 status while avoiding bankruptcy or extinction.

Four of today's top 10 airlines -- United, US Airways, Continental and America West -- have filed for bankruptcy protection at some point. Of the remaining top 10 airlines -- American, Delta, Northwest, Southwest, Alaska and ATA -- American and ATA came close to filing for bankruptcy in 2003. In Northwest's case, they were able to avoid the likelihood of filing for bankruptcy only after securing employee concessions from employees in the summer of 1994.

Just this month the Northwest pilot leadership has publicly stated they are prepared to give concessions once again to avoid bankruptcy. At this point, only Delta, Southwest and Alaska have been able to completely avoid the threat of bankruptcy over their entire history, though there is much speculation recently about Delta's future prospects. I will discuss Delta's situation in another e-mail.

I continue to see individuals profess that we would have been better off contractually if we had filed for bankruptcy and let the judge impose a contract on us. First off, this is a serious misnomer. In most airline bankruptcies, the unions negotiated agreements with their management without having the judge actually impose a contract. Both United and US Airways pilots did just that. In neither case did the judge impose contractual conditions, except in the case of the US Airways' pilot pension termination.

Of the 130 or so airlines that have filed for bankruptcy since 1978, only about a dozen remain, with tens of thousands of professional pilots just like us left with nothing. Many of you have experienced this firsthand at one of those approximately 120 carriers that have gone out of business.

In several instances, major airlines that survived one bankruptcy filing ultimately filed a second time. Moreover, only two major airlines -- Continental Airlines and America West -- can be said to have successfully reorganized.

Now that we have avoided bankruptcy, some have been trying to convince the rank-and-file that carriers that filed for bankruptcy have better contracts than we do. I can find no instance where that is valid.

The number one item that our pilots told us they wanted their leadership to protect was the pension. Unlike bankrupt carriers, we were able to fully protect our pension provisions. In bankruptcy, I am convinced that would not have been possible. Remember, the number one contractual provision management wanted was your pension.

Of some of the larger carriers that are still flying Continental, America West, Hawaiian, US Airways and United -- each one either had their pension plans terminated or reduced. In Continental's case, it took more than a decade before they were able to restore any pension benefits. America West still does not have a pension plan, and Hawaiian just had their pension plan frozen. US Airways had their plan terminated, while United, which is having trouble emerging from bankruptcy, is facing the prospect of even more pension reductions if Congress does not soon pass pension legislation.

As I look through the list of carriers that have filed for bankruptcy, I cannot find one carrier whose pilot contract I would rather have. Those that profess otherwise do not cite the entire contract, but instead selectively choose certain provisions or pay rates alone. They don't describe other provisions that this pilot group would never accept, but instead cherry-pick items from several different carriers and then lump them together in a kind of fantasy contract. Or, they may choose to compare our pay rates to select rates of other pilot groups -- the pay rates that support their position -- without including all the scales.

Any comparison to Continental is particularly suspect unless it includes their contractual history since their first bankruptcy filing more than two decades ago, with the most recent bankruptcy occurring more than 13 years ago back in 1990. You must not only consider how their contract looks today, but also the day they came out of bankruptcy. Until our agreement last spring, our pay rates were considerably higher than Continental's ever since they first filed for bankruptcy in the 1980s. Not until their 1998 agreement have their pay rates even approached ours.

I continue to see these carriers' contracts highlighted as proof that bankruptcy produces a better contract because of their pay rates. In reality, one has some aircraft pay rates better and some worse, one is less on every aircraft, one is only marginally better, and another that last filed for bankruptcy more than a decade ago has rates that are definitely higher than ours. Yet when it emerged from bankruptcy, its pay rates were considerably less than our own and those of our peers. What I never see highlighted are the onerous things that have occurred.

The following highlights the four major contractual areas of Pension, Work Rules, Pay and Scope at United, US Airways, Continental and America West -- the current top 10 carriers that have previously filed for bankruptcy -- and includes a comparison between the pay rates that will soon take effect at American at the end of next month on May 1, 2004, as well as the rates that will be in effect at the other carriers at that time.

US Airways

- Filed bankruptcy on August 11, 2002.
- Pension plan was terminated.
- Furloughed pilots back to 1988. US Airways reduced the size of their airline by nearly one third and furloughed about the same percentage of pilots. The most junior pilot on the property could have flown as Captain at one time and was hired in the summer of 1988.
- Less restrictive Scope Clause.
- Work rules are mixed.
- Contract is for six years.
- Pay Scales:

MD80/737-300
737-800/A320
757
767
777/A330
AA
\$151.91
\$156.07
\$163.85
\$169.02
\$192.59
US
\$154.04
\$154.04
\$177.39
\$177.39
\$196.34
Difference
-1.40%
1.30%
-8.26%
-4.95%
-1.95%

On a recent trip to Capitol Hill, I met two US Airways pilots who were lobbying in an effort to have their pension plan restored. One of the pilots who had more than 30 years of service and was about to retire told me that prior to the bankruptcy, he was anticipating receiving an approximately \$1.4 million lump sum. Now that his pension plan was terminated and the Pension Benefit

Guaranty Corporation had taken it over, he was only going to receive a \$48,000 annual annuity. They have no B-Plan.

Pilots are currently holding new contract concession discussions. Management is requesting another 25% reduction in total labor costs. Absent further concessions, management has publicly stated they may begin selling key assets. This week CEO David Siegel told his employees that he needed more concessions, -- "We're going to have to pay our people differently. We're going to have to improve our productivity. And we're going to have to look at what benefits we offer."

United Airlines

- Filed Bankruptcy on December 9, 2002.
- Eliminated domestic duty rigs. Pilots on the 737 and A320 only have monthly average duty rigs. No duty rigs based on each sequence.
- Bid sheets built to 19 duty periods a month with a 95-hour bid sheet maximum.
- Due to significant changes in work rules, they furloughed almost the same number of pilots as we did, even though they were a 20% smaller airline.
- Reduced Pension benefits in bankruptcy, but current plan is still one of the best in the industry.
- Pay Scales:

MD80/737-300 737-800/A320

757

767

777

AA

\$151.91

\$156.07

\$163.85

\$169.02

\$192.59

UAL

\$146.50

\$146.50

\$169.79

\$169.79

\$202.85

Difference

3.69%

6.53%

-3.50%

-0.45%

-5.06%

- UAL pilots do not receive another pay raise until 2006.
- UAL pilots do not receive night pay for international flying. AA pilots receive \$5.00 an hour. South American flying and European flying contain night flying, which narrows the difference between 767 and 777 total pay rates for international pilots. UAL does pay \$15.00 an hour for night pay for domestic flying, but only for all-nighters.
- Less restrictive Scope clause.
- Six-year contract.
- Having trouble acquiring exit bankruptcy financing without the passage of Congressional pension relief and loan approval by ATSB. If Congress doesn't approve pension relief, the airline must take other steps.

I recently spoke with a United pilot who described a trip that he had flown. The trip left Dulles late on the first day and flew one leg to Orlando. The flight time was two hours. He then had an 18-hour layover and flew one leg back to Dulles. The second leg was worth approximately two hours also. He was gone two days. Flew two duty periods, but was only paid for four hours of flight time.

The same trip at American pays 10 hours because of our five-hour average for each duty period worked. At United they do a monthly look back at pay five hours per duty period. So if the pilot were to subsequently fly several high time duty periods during the month, he would never be credited for any time above the four hours of flight time he received for flying that trip.

This has a tremendous impact on pilots' W2s. A pilot at United will fly several more days to get paid the same amount of hours that we get paid at American. Around 70% of our pilots fly domestically and would be impacted by this.

Continental

- Filed bankruptcy on September 24, 1983 and a second time on December 3, 1990.
- Pension plan was terminated. Took more than a decade before they were able to get another pension plan in place. New plan does not give credit for service prior to first bankruptcy. A-Plan formula is less generous than APA's. No B-Plan.
- After bankruptcy, all work rules were eliminated. Current work rules are FARs except duty day limitations and rest periods, which are both less favorable than ours. There are no Minimum Pay and Credit, Time Away From Base or Duty Period Averages or Minimums (E, F, and G). They are scheduled to FARs.
- Regional jets limited to 59 seats. No limitations on number of regional jets or restrictions on how or where they can be flown. Scope Clause less restrictive.
- Pay Scales:

MD80
737-800/A320
757
767
777
AA
\$151.91
\$156.07
\$163.85
\$169.02
\$192.59
CAL
\$178.66
\$178.66
\$178.66
\$203.79
\$203.79
Difference
-17.61%
-14.47%
-9.04%
-20.57%
-5.82%

* Aircraft are grouped by Categories for pay purposes.

America West

- Filed bankruptcy on June 27, 1991.
- Following September 11, 2001, the only way that America West was able to continue to operate and avoid filing for bankruptcy a second time was to receive an ATSB loan. As a condition of their ATSB loan, they are not allowed to increase their overall labor cost. Recently the America West pilots ratified a new agreement, which includes a pay increase of 11%. To offset the higher cost of these pay raises, they gave additional concessions in the area of work rules with productivity improvements. Their next pay raise of 3% will occur in 2007.
- No pension plan since bankruptcy. In 2005 the pilots will begin receiving a 7% contribution into their 401 (k) accounts.
- Work rules are mixed. A couple provisions are better than ours, such as average day of 5:15. Others aren't as good. The biggest difference is they can be scheduled to 99 hours a month.
- Scope Clause less restrictive.

- Pay Scales:

MD80/737-300

737-800/A320

757

767

777

AA

\$151.91

\$156.07

\$163.85

\$169.02

\$192.59

AWA

\$137.72

\$137.72

\$137.72

-

-

Difference

10.30%

13.32%

18.97%

-

I have tried to point out the most important provisions of each of these carriers' contracts. Obviously there are thousands of individual provisions beyond what I discussed here. Some will try to point out errors or omissions in my analysis. I have done this analysis by myself, the majority of it at home late at night. Is it perfect? No. Is it all encompassing? No. Does it provide enough factual information to illustrate that bankruptcy would not have resulted in a better contract and a better future for the pilots of American Airlines? I believe it does.

You will no doubt subconsciously cherry-pick as you read this e-mail, even if you don't mean to. Why do I believe this? Because we all do it, myself included. "Look how much more Continental pilots make" will be a natural reaction. Many will not stop to consider that Continental pilots lost hundreds of thousand of dollars in pension benefits after their pension plan was discontinued, or that they work several more days a month since they fly FARs, or that for nearly 20 years after they filed for bankruptcy and until the latest round of industry concessions they made less than what pilots at the other top 10 carriers made.

The United pilots' contract doesn't look that bad on the surface. That is, if you don't stop to think about how they literally have no domestic work rules while we also make more than they do on our narrow-body aircraft (MD80, 737). Again, around 70% of our pilots fall into this category. Remember how much opposition there was to the length of our contract? Look at United's.

Our senior pilots will note that 777 pilots at United make more per hour than they do. United also pays their 747-400 Captains the same as their 777 pilots. Each day of vacation we get 27 minutes more than a United pilot. For our most senior pilots, that equates to nearly 20 more hours of pay, based on 1,000 hours a year, an equivalent of almost \$4.00 an hour more for our senior pilots -- not to mention the previously noted night pay rates. So what on the surface looks like a big pay disparity for our most senior pilots in fact may not really exist.

US Airways -- what else do you need to know? Their pension plan was terminated and their future is in complete jeopardy.

Those convinced that bankruptcy would have been better will point out provisions in these carriers' contracts that are better than ours. Certainly, there are many provisions that are better than ours, particularly vacation provisions. They will cherry-pick the best items from each of the contracts, once again trying to build that "perfect contract." What I have done is make an effort to touch on the four main categories I described to you last year: Pension, Work Rules, Pay and Scope.

When presented with the counter-argument by those that believe bankruptcy was the path, go back and look at these major points for each of these carriers. Ask yourself whether you are truly willing to accept what happened to their pensions. Are you willing to accept their work rules and their Scope clauses? Are you willing to extend the length of your contract? Above all, are you willing to put our airline in a situation that may result in eventually arriving at the same destination as the more than 120 carriers that have outright failed in bankruptcy? I was not and am not.

I am even more convinced today than I was last year that we chose the correct path. We specifically took pay cuts to save our pension, the majority of our work rules and areas of Scope. In all my research, I have found nothing that gives any factual credence to support the argument that we would have fared better in bankruptcy.

I would not trade our contract with any carrier's contract that has filed for bankruptcy. I challenge anyone who continues to profess we are worse off than those that have filed for bankruptcy to name one carrier whose contract they would choose over ours. I predict they won't do so. Instead, we will likely continue to be provided descriptions of a bankrupt carrier's superior contract -- a contract that doesn't exist.

Sincerely,

Captain John E. Darrah
APA President

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