

US Airways Files for Chapter 11

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US Airways Group Inc. filed for bankruptcy-court protection after talks with its labor unions to cut costs fell through, marking its second Chapter 11 filing since 2002.

The carrier and several of its units made the filing Sunday afternoon in the U.S. Bankruptcy Court for the Eastern District of Virginia in Alexandria.

In a news release Sunday, US Airways said the filing will let the carrier reorganize itself with lower costs, a simplified fare structure and expanded service in the eastern U.S., the Caribbean, Latin America and Europe.

The nation's seventh-largest airline has continued to struggle despite cutting costs under bankruptcy-court protection last year. A new filing for bankruptcy protection was seen as giving the Arlington, Va., carrier more time to implement a turnaround plan and to gain the increased clout over employee pay and benefits that the U.S. Bankruptcy Code allows.

US Airways said customers shouldn't see any changes to flight operations or customer service programs because of the filing. The airline said employees will be paid and their benefits will continue.

In August 2002, US Airways became the first large carrier to file for Chapter 11 in the travel downturn that followed the terrorist attacks the year before. UAL Corp.'s United followed in December 2002, Hawaiian Airlines in March 2003 and now Delta Air Lines and ATA Airlines are warning they may be forced to follow suit. AMR Corp.'s American Airlines, the world's largest carrier, narrowly averted the same fate last year by restructuring out of court.

In a statement, US Airways President and Chief Executive Officer Bruce R. Lakefield said Sunday that the company has made great strides since its emergence from Chapter 11 in March 2003, including reducing its annual operating expenses by nearly \$2 billion. However, the "dramatic growth of low-cost carriers, unabated fuel price increases and the public's demand for lower, simpler fares," required the company to implement an even more competitive cost structure, Mr. Lakefield said.

Discount airlines with low costs have been expanding rapidly, grabbing market share from traditional carriers and hindering their ability to raise prices. In recent months, soaring crude-oil prices have sparked big increases in aviation fuel costs. The country's big network carriers, including US Airways, continue to lose buckets of money.

By early this year, facing an invasion by low-fare king Southwest Airlines at its Philadelphia hub, it became apparent that US Airways needed more work. The carrier asked its employees for additional concessions. Rebuffed, US Airways hired investment bankers to help it sell assets, a course it never pursued. Then in March, fearing it would default by summer on the terms of the \$1 billion loan that funded its exit from Chapter 11, US Airways reached agreement with its lenders to prepay a quarter of the federally guaranteed loan. US Airways disclosed in May it might have to return to Chapter 11 if its workers didn't make further concessions by summer.