



Business

**ATA attractive to America West; AirTran knocks possible merger**

By Mark Skertic, Tribune staff reporter.

28 October 2004

Chicago Tribune

A day after ATA Airlines filed for bankruptcy protection, rivals began making different cases for what should happen to the troubled airline.

AirTran Holdings Inc. announced an \$87.6 million deal Tuesday to take over much of ATA's assets, including assuming its 14 gates at Midway Airport.

But America West Airlines, which had begun talks with ATA prior to the bankruptcy filing, made clear Wednesday that it remains interested in some--or all--of Indianapolis-based ATA.

"Now that they're in bankruptcy, the situation gets more easy to review," America West Holdings Corp. Chairman and Chief Executive Doug Parker said Wednesday during a conference call.

"To the extent that we decide to bid, we're rather confident that any bid we do have would be better for the employees and creditors than the current proposal," Parker said.

In a letter distributed to America West employees Wednesday, workers were told "interest in ATA stems from our belief that a combined America West/ATA could create a stronger, more formidable low-cost carrier."

But AirTran executives argued that the merger of two low-cost carriers is not what the industry needs.

"One of the advantages of the AirTran offer is that it creates an opportunity for ATA to reconstitute and keep operating," said Robert Fornaro, AirTran president.

Even if ATA makes the deal with Orlando-based AirTran, the future of the airline remains uncertain. ATA founder and Chief Executive George Mikelsons has said he intends to retrench and build the airline.

But ATA faces difficulty, said Lawrence Adelman, managing director of AEG Partners LLC, a restructuring firm based in Highland Park.

"Fuel [costs] remains a lead weight," Adelman said. "That won't change. I just don't see how any marginal airline can survive without a big pile of cash.

"And ATA's balance sheet was very thin for a few years," he said.

The deal struck by ATA and AirTran must receive the approval of the bankruptcy court. The City of Chicago also must approve plans allowing AirTran to assume ATA's Midway gates.

Fornaro said it is too early to know how many of ATA's 3,200 employees at Midway would be kept on. The deal agreement between the two airlines does not address employees, but AirTran will look first at ATA workers when hiring, he said.

"They've got a lot of good people, and they're trained, so they can step right in," Fornaro said. "So from a priority standpoint, ATA gets the priority."

Given the current economics in the airline industry, a merger of ATA and America West could be an unsustainable move, Fornaro said.

"A merger could preserve more things, but it may last for a very short period of time," he said. "The industry is going through a difficult time. We have a relatively weak revenue environment and high commodity prices. To add the risk of mergers to this, you get yourself in a situation where it can all unravel very quickly."

ATA has reported \$745 million in assets and \$940 million in liabilities in court papers. The airline has asked the court for permission to hire Huron Consulting Group LLC as its financial adviser and allow ATA to use the cash it has on hand to continue operations.

The move would give AirTran a major hub in the Midwest. Its deal with ATA also calls for that airline to turn over its landing slots at New York's LaGuardia and Washington's Ronald Reagan National Airports.

AirTran and America West each reported third-quarter losses on Wednesday.

AirTran lost \$9.8 million, or 11 cents a share, in the quarter. During the same period last year the airline showed a profit of \$19.6 million, or 24 cents a share.

America West lost \$47.1 million, or \$1.30 a share. A year ago, it reported a profit of \$32.9 million, or 60 cents a share.

ATA filed for bankruptcy in Indianapolis, and it will be up to a judge there to determine how to carve up the company's assets to ensure creditors receive as much money as possible.

Those owed money include Chicago-based Boeing Co. ATA is current on its payment to the aircraftmaker, said Boeing spokeswoman Donna Mikov. At the end of September, the airline owed Boeing about \$705 million. The amount includes leases for 12 757-300 aircraft.

Tough economic times in the airline industry likely will prevent most airlines from making a play for ATA's assets, said Ray Neidl, an aviation analyst with Calyon Securities.

"Everybody is really constrained at this point," he said. "A lot of them have to think twice."

Midway training center plan unchanged

ATA Airline's bankruptcy has not affected plans the carrier has for a \$100 million development that would include a pilot training center, hotels, shops and office space near Midway Airport.

"So far, nothing has changed," said ATA spokeswoman Erica Keane.

The 26-acre development is set for 71st Street and Cicero Avenue, an area mostly devoted to parking.

ATA has not discussed how its financial troubles might affect the project, said Peter Scales, a Chicago Planning Department spokesman.

"It's possible ATA's partners could decide to go ahead with the plan, even without ATA," he said. But, Scales said, it's likely the airline will try to continue with the development because it could be a revenue producer.

--Mark Skertic