CEO resigns over secret executive pay deal

American Airlines unions push through concessions after change at top

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American Airlines staved off an imminent bankruptcy filing for the third time in a month on Friday after the union representing the carrier's flight attendants approved a concessions package.

The union givebacks that the company claims are required to stay out of Chapter 11 were nearly derailed when workers responded with outrage to revelations that top management had awarded themselves fat bonus and pension plans while demanding wage and benefit cuts from rank-and-file employees.

Workers' anger forced the unions to temporarily suspend approval of massive concessions that the membership had just ratified—including six-year pay cuts of between 16 and 23 percent, along with 6,900 layoffs—while the company's board of directors continued to threaten an immediate bankruptcy filing.

The flight attendants followed the lead of the airline's two other unions—the Allied Pilots Association and the Transport Workers Union, representing ground crews—in approving the givebacks, after the airline's CEO, Donald Carty, resigned at an emergency board of director's meeting Thursday.

The day after the airline's pilots, flight attendants and ground workers first voted to accept the concessions packages, news reports revealed the company had secretly agreed to pay seven top executives bonuses worth millions of dollars if they stayed with the company until February 2005.

In addition, unbeknownst to workers when they were voting to give up tens of thousands of dollars apiece to "save" the airline, company directors last year had authorized setting aside $41 million for a special executive pension plan in a trust that would be protected from creditors in the event of bankruptcy.

The existence of these perks became public only with the filing of the company's annual 10-K report with the Securities and Exchange Commission (SEC) on April 15, two weeks overdue. While Carty had vowed he would be "fully open" with the unions about the company's dire financial condition during negotiations, it was evident that the company had delayed the SEC filing until after securing ratification of the concessions agreements.

Carty resigned after spending the prior week trying to defend American's executive compensation policies as vital to keeping key managers from jumping ship or retiring early. This alibi only served to further anger the airlines workers.

Unlike the top executives, they confront a situation in which finding another job anywhere at comparable pay is virtually impossible, given the more than 100,000 job cuts in the airline industry over the last 18 months. Nor, in general, can they live on a reduced pension from early retirement, even if eligible.

As for Carty, one compensation consultant estimates he stands to receive an annual pension of $1 million. In addition, public filings show that he has stock options in Dell Computer Corporation, on whose board of directors he serves, worth over $30 million.

This enormous and widening gulf between the executives and those who work for them explains why top management can drive the world's largest airline into bankruptcy—grabbing whatever assets they can for themselves as it goes down—while many workers, desperate to keep their jobs and under enormous pressure exerted by the union leaders, feel they have no choice but to accept whatever terms the company offers.

Carty's resignation, along with inconsequential contract sweeteners offered this week, such as an eight-month reduction in the six-year term of the concessions agreement, were meant as sops to help the union bureaucrats keep the angry workforce in line, sealing the deal to reduce the company's labor costs by $1.8 billion annually. In view of the negative publicity, management also agreed to cancel the "retention" bonus plan, while adamantly insisting on retaining the supplemental executive pensions. It appears that one of the 45 beneficiaries will now be Carty himself.

After initial threats to hold a revote—which almost certainly would have gone against the company—all three unions seized upon the change at the top as justification for confirming their acceptance of the earlier ratification vote.

In a statement issued Friday afternoon, John Ward, president of the Association of Professional Flight Attendants (APFA), said the acceptance of the revised "Restructuring Participation Agreement" would keep the company from filing for bankruptcy. He claimed that a "new leadership in place at AMR" was showing "a renewed willingness from management to begin to repair the damage done to relations with its employees."

In reality, the newly appointed CEO, Gerard Arpey, has worked, as president and chief operations officer, hand in glove with Carty in demanding concessions of the workforce and implementing the executive compensation scheme. He has refused to lift the threat of bankruptcy, saying, "We are not out of the woods yet."

The media portrayed Carty's forced resignation as the result of some mistake—a "misstep" according to the *New York Times*, and a "gaffe" according to the *Wall Street Journal*. Such words are intended to minimize both the premeditation and rapaciousness of the top executives, while suggesting that the self-aggrandizing behavior of the American Airlines bosses is an aberration.

In fact, only last month the revelation of a similar supplemental executive pension plan at Delta Airlines caused a furor among that carrier's workforce. In the case of American, there was nothing accidental about the manner in which Carty and company concealed their benefit plan until after the ratification votes by the unions. A calculated decision was taken to postpone the mandatory SEC filing until after the workers had finished voting.

As it was, the ground workers approved the concessions by only a narrow 53 percent margin. The flight attendants initially rejected it, until the APFA leadership took the extraordinary step of extending voting by an extra day and allowing members to change their vote by phone or over the Internet. This tactic ultimately produced a narrow margin in favor. Even among the more highly paid pilots, there was considerable opposition, with 66 percent in favor and 34 percent opposed.

The grabbing of wealth by corporate executives while workers are forced into multibillion-dollar bailouts is hardly unique to American Airlines, or even to the airline industry. Glenn Tilton, who was appointed chairman and CEO of United Airlines only last September, received a 2002 pay package worth $9.65 million as he oversaw the second largest US air carrier's bankruptcy filing in December. Using the threat of shutting down altogether, he recently won union agreement to $2.56 billion a year in concessions.

David Siegel, CEO of the much smaller US Airways, which has just emerged from bankruptcy, pulled in $1.45 million last year for his work in wrangling hundreds of millions of dollars out of his workforce.

Meanwhile, Northwest Airlines has tabled its own demands for $6.18 billion in labor savings from its unions through 2009, after posting a first quarter loss of $396 million. Citing the example of American and United, Northwest is also threatening to file bankruptcy, while its two top executives received a combined $2.5 million increase in compensation last year.

Top executives siphoning off corporate assets in the period leading up to bankruptcy is now the norm. Most notorious is the case of Enron, where CEO Kenneth Lay and others made millions by selling their shares of company stock just before announcing huge losses due to accounting fraud. Employees lost their life savings when they were prevented from selling shares in Enron stock held in their 401-k retirement plans.

Similarly, Kmart CEO Charles Conaway was paid almost $12 million and had a $5 million personal loan forgiven just before the company filed for bankruptcy in January 2002. Then the company hired "turnaround specialist" James Adamson for $4.5 million plus a $4 million bonus if the retailer emerges from Chapter 11 bankruptcy in 2003. The cost of these payments has been borne by the 22,000 workers who lost their jobs when 284 stores were closed.