

## **American, US Airways start race to combine after settlement last week**

**By KYLE ARNOLD World Business Writer | Posted: Sunday, November 17, 2013 12:00 am**

American Airlines and US Airways could be the same company in just a month, culminating more than a year of courtship and a worrisome three-month delay after the U.S. Department of Justice filed a lawsuit to block the merger.

The announced settlement last week was a relief to American Airlines and US Airways employees, union officials and industry insiders.

More than 6,000 of those employees are in Tulsa at American Airlines' primary maintenance and overhaul facility.

In exchange for selling off valuable takeoff and landing positions at Reagan National Airport in Washington, D.C., and LaGuardia Airport in New York City, US Airways and American Airlines will be allowed to merge and form the world's largest airline, with some 100,000 employees and 6,700 daily flights to 336 worldwide destinations.

But with a settlement in place, there is now a race to get the two companies put together.

The bankruptcy reorganization case that American Airlines has worked on for nearly two years can now end. Plans to merge operations can now go forward. And hard-fought raises and equity payouts for maintenance workers, flight attendants and pilots are now within reach.

Now company officials are in a race to pick up where they left off in August, when the Justice Department filed its lawsuit, and sort out the details needed to create the world's largest airline.

The next two months and even two years will be busy for leaders and employees at the new airline.

Not all will be easy.

## **An end to court cases**

The airlines won't have much time to celebrate their court victory. On Nov. 25 American Airlines and parent company AMR Corp. will head back into a courtroom in New York City to wrap up their bankruptcy case that will mark its two-year anniversary at the end of November.

"We will have that hearing, and assuming all goes according to plan, we would expect to be able to close the merger in the first half of December," AMR CEO Tom Horton said Tuesday in a call with reporters.

U.S. Bankruptcy Court Judge Sean Lane has to officially approve the companies' settlement with the Justice Department, which he is expected to do at the Nov. 25 hearing.

The court has already given approval to AMR's bankruptcy reorganization plan, which would pay back creditors entirely with stock created from the newly formed company. AMR parties will get about 72 percent of the new company, which US Airways CEO Doug Parker said is valued at more than \$17 billion based on this week's stock values.

The bankruptcy case won't officially end after that hearing. There are still court dates scheduled through Jan. 28 to resolve minor issues and claims in the bankruptcy cases.

## **Pick up where they left off**

Between February and early August of this year, future American Airlines CEO Parker was busy naming dozens of executives to lead the company, picking the best from American Airlines and US Airways and trying to meld them into one team.

"A few weeks prior to the Justice Department interruption we had named the officers for the company, and we named a lot of great people going forward," said Andrew Nocella, a US Airways executive who will be senior vice president and chief marketing officer at the combined American Airlines Group Inc.

"After the Department of Justice situation, we took a pause on naming employees. We didn't think it was appropriate with everything that was happening."

Nocella said that process is about to restart.

Until the merger officially closes, American Airlines and US Airways are officially competitors. The companies can't trade any type of information that might give a competitive edge.

"We've started at a high level with conversations, but we haven't been able to look under the hood of the car," Nocella said. "So at this point we've had a lot of high level conversations. But now is actually the time to put the pencil to paper to implement those changes."

One major initiative put on hold because of the antitrust lawsuit was a working code-sharing system between the two companies, which would allow each airline to sell each other's flights from their respective websites, ticket counters, etc.

Nocella said the companies finished their work on the code-sharing program and should be ready to roll it out in early January.

Even after the merger closes, US Airways President Scott Kirby said it will be a few weeks until the public starts to notice the merger.

"Jan. 7 will be a big day when we in many ways will become a single airline to customers," Kirby said in the call with reporters.

Kirby also said that US Airways would soon be withdrawing from Star Alliance, the company's airline partnership that connects it with foreign airlines to deliver passengers to destinations worldwide without booking fares with separate airlines.

US Airways will be moving to American's OneWorld Alliance, and Kirby expects that to happen in the first quarter of 2014.

Tulsa asset manager Fred Russell said American Airlines stands to gain big from US Airways' international destinations because international travel is the most lucrative section of the airline industry.

"I think the real opportunity is international," Russell said. "There will be a lot of opportunity with consolidation through the alliances."

US Airways has a larger presence in Europe in destinations such as Amsterdam, Athens and Munich, adding to American's dominant positions in Central and South America.

However, it will take about two years before the companies are able to fully merge and the US Airways name disappears. That's how long it will likely take to get a single-

operating certificate from the Federal Aviation Administration, which means all employee procedures are fully merged.

## **Employees look ahead**

At American Airlines' primary maintenance and engineering base in Tulsa, the past three months have been anything but quiet.

And as many celebrate the merger settlement news, there is some trepidation over the future at the plant.

In September the company said it may not have enough work for all of the employees at the plant next year, resulting in up to 400 fewer positions there as soon as early 2014.

"They are phasing out these older planes, and some of these newer ones don't need as much maintenance early in their life," said Jay Potter, an American Airlines employee and the recording secretary with the Local 514 of the Transport Workers Union.

"There's an opportunity for us here with US Airways to get more work, but we know they have a record of outsourcing."

American Airlines workers will look forward to a 4.3 percent raise when the merger goes through and an equity sharing agreement from the merger that will give many senior employees more than \$10,000 in stock in the new company.

US Airways has also has yet to forge a new labor contract with International Association of Machinist members at the airline. The two have been working without a contract for two years, and negotiations have been at a standstill since the merger was announced.

American Airlines maintenance workers with the Transport Workers Union locally and nationally are also working with new leaders. TWU officials have had few opportunities to meet with US Airways leadership since they were voted in this summer.

Potter also said the union is waiting to see how the new American Airlines approaches the future of its fleet. American Airlines has already placed orders for \$38 billion worth of aircraft from Boeing and Airbus, but US Airways also has a large fleet of Airbus aircraft.

It's yet to be seen if the new company plans to go to a more uniform fleet and what that means for employees in Tulsa.

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## **American Airlines' bankruptcy and merger**

**Nov. 29, 2011:** AMR Corp. files for bankruptcy, names Tom Horton CEO

**Aug. 7, 2012:** AMR maintenance workers approve new contracts with frozen pensions

**Feb. 14, 2013:** US Airways and AMR announce merger

**Aug. 13:** Justice Department sues to block airline merger

**Sept. 12:** Bankruptcy judge approves AMR reorganization plan

**Nov. 12:** US Airways and AMR Corp. reach settlement with Justice Department

**Mid-December:** US Airways and American Airlines officials say merger should close

**Jan. 7:** US Airways President Scott Kirby said many public operations should be joined

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## **What's next for American, US Airways?**

**Courts:** AMR Corp. has Nov. 25 trial date to go back for a bankruptcy judge and end its two-year-old reorganization case. Judge Sean Lane has to approve any settlement offer with the Justice Department.

**Integration:** US Airways and AMR spent months selecting new executives and working on corporate structure but put that on hold when the Justice Department sued. With one month until the merger, employees will try to integrate a 100,000 employee airline.

**Maintenance workers:** The 6,000-plus American employees in Tulsa are waiting to see how new CEO Doug Parker approaches maintenance, particularly with a new fleet of aircraft that will require less work.

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