

American Airlines, US Airways Unveil \$11 Billion Merger

American Airlines and US Airways Group said they plan to merge to form the world's biggest airline with a combined equity value of \$11 billion.

The widely expected merger caps a wave of consolidation that has helped put U.S. airlines on more solid financial footing.

The merged airline will be majority owned by creditors, unions and employees of American parent, AMR Corp, which filed for Chapter 11 **bankruptcy** in November 2011.

The airline—to carry the **American Airlines** name—would be 2 percent larger than current No. 1 United Continental Holdings Inc in traffic, as measured by the number of miles flown by paying passengers worldwide.

(For a graphic on how major U.S. carriers would stack up, click on)

“By utilizing American’s connecting network with penetration into smaller markets, and global alliance revenues, the new company could more effectively raise revenues and reduce costs, while addressing labor integration and capital problems,” Sterne Agee & Leach analyst Jeffrey Kauffman said in a note before the deal was announced on Thursday.

The new American will be based in Dallas-Fort Worth and will be headed by **US Airways** Chief Executive Doug Parker, who has long advocated industry consolidation. US Airways began its pursuit of a merger in early 2012.

Tom Horton, who became AMR’s CEO when it filed for bankruptcy, will serve as chairman through its first annual meeting of shareholders, after which Parker will take over.

Horton's role had been one of the last sticking points for a deal, people familiar with the situation have said, with AMR's board pushing for a bigger role on his behalf.

The **merger**, subject to approvals from regulators and the U.S. Bankruptcy Court, could help speed up the recovery of the U.S. **airline industry** as carriers will get more room to boost fares as yet another competitor is eliminated.

Passengers of US Airways and American would gain access to new destinations.

The tie-up is the fourth major merger in the U.S. airline industry since 2008, when Delta Air Lines bought Northwest. United and Continental merged in 2010 and Southwest Airlines bought discount rival AirTran Holdings in 2011.

The new, larger American Airlines would return to the leadership position among U.S. carriers that it ceded in recent years as high labor costs made it difficult to compete with restructured rivals.

The standalone American is currently third in terms of traffic behind United and Delta, both of which used Chapter 11 bankruptcy protection to cut costs and find merger partners.

A combined American-US Airways would have revenue of about \$39 billion based on 2012 figures, ahead of United Continental which had revenue of about \$37 billion.

Deal Drivers

US Airways stockholders will receive one share of common stock of the combined airline for each US Airways share, the companies said in a statement.

US Airways shareholders will get 28 percent of the equity of the combined airline. The remaining 72 percent will be issuable to stakeholders of AMR and its debtor subsidiaries, American's labor unions and current AMR employees.

“American work groups may be taking a little bit of a pay cut ... (while) US Airways work groups on the other hand will probably get a pay raise,” Avondale Partners analyst Fred Lowrance said.

Unions representing the carriers’ pilots, flight attendants, and ground service workers said they support the deal, while the machinists union said its renewed contracts must be completed before it supports the merger.

The transaction is expected by the two companies to generate more than \$1 billion in annual net synergies in 2015.

The companies said they expect \$1.2 billion in one-time transition costs spread over the next three years.

Rothschild is financial adviser to American Airlines. Weil, Gotshal & Manges LLP, Jones Day, Paul Hastings, Debevoise & Plimpton LLP and K&L Gates LLP are providing legal counsel.

Barclays and Millstein & Co are financial advisers to US Airways, while Latham & Watkins LLP, O’Melveny & Myers, Cadwalader, Wickersham & Taft LLP, and Dechert LLP are serving as legal counsel.

Moelis & Co and Mesirow Financial are financial advisers to the unsecured creditors. Skadden, Arps, Slate, Meagher & Flom LLP and Togut, Segal & Segal LLP are the creditors’ legal counsel.

US Airways shares were up 1 percent before the bell on Thursday. The stock, which has gained almost 70 percent in the last 12 months, closed at \$ on the New York Stock Exchange on Wednesday.

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