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BUSINESS

Big Airline Merger Is Cleared to Fly

AMR, US Airways Agree to Limited Concessions in Settlement With U.S.

By JACK NICAS and BRENT KENDALL

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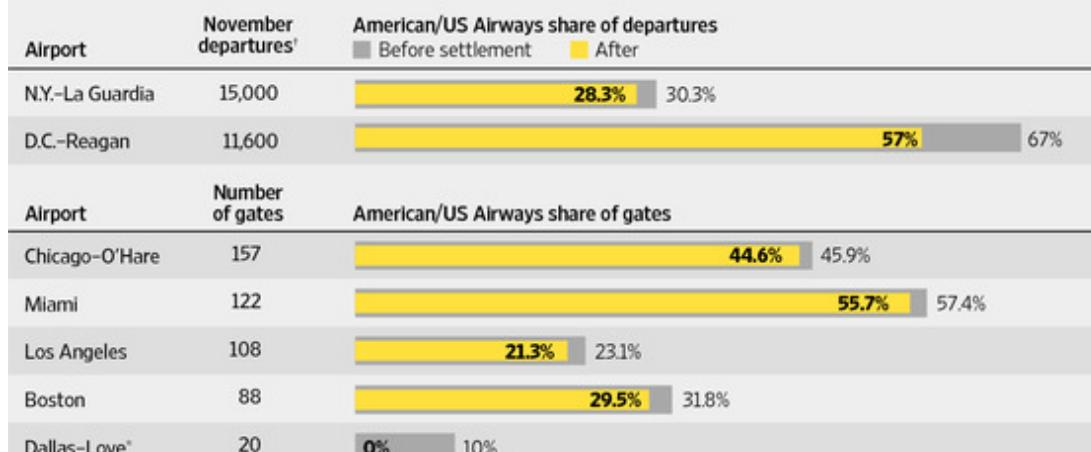
American Airlines and US Airways have reached a deal to merge into the world's largest airline. What does that mean for travelers? The Middle Seat columnist Scott McCartney reports on the News Hub.

AMR Corp. and US Airways Group Inc. reached an antitrust settlement with the U.S. government to allow their \$17 billion merger to proceed with only limited concessions, paving the way for a new global airline colossus.

US Airways and AMR, parent of American Airlines, agreed to give up space at several major airports across the U.S., most notably reducing their combined daily departures at Reagan National Airport near Washington by about 15% and at La Guardia Airport in New York by about 7%.

Changing Runways

To settle the government's antitrust suit, American Airlines and US Airways agreed to give up space at key airports. Here is how the settlement affects their market share.



[†]Approximate [‡]American leases its two gates at Dallas Love Field to another carrier. Neither American nor US Airways serves the airport.

Sources: Innovata; the companies

The Wall Street Journal

They also pledged to retain the big hubs that underlie their combined network and continue service to certain smaller cities.

Many antitrust and airline industry experts deemed the settlement a victory for the carriers, because it left the vast majority of their merger plan intact. They added that the airlines likely would have given up some of the airport slots or gates now slated for divestiture anyway to consolidate operations after their merger.

The settlement would affect just 112 of the new carrier's planned 6,500 daily flights, the airlines said

The pair now aim to close their transaction by December, creating American Airlines Group Inc., the world's largest airline by traffic. The settlement still must be approved by a federal judge.

American Airlines Reborn

See the DOJ settlement, industry mergers over time and more.

PROPOSED FINAL JUDGMENT

WHEREAS, Plaintiffs United States of America ("United States") and the States of Arizona, Florida, Tennessee and Michigan, the Commonwealths of Pennsylvania and Virginia, and the District of Columbia ("Plaintiff States") filed their Complaint against Defendants US Airways Group, Inc. ("US Airways") and AMR Corporation ("American") on August 13, 2013, as amended on September 5, 2013;

AND WHEREAS, the United States and the Plaintiff States and Defendants, by their respective attorneys, have consented to the entry of this Final Judgment without trial or adjudication of any issue of fact or law, and without this Final Judgment constituting any evidence against or admission by any party regarding any issue of fact or law;

AND WHEREAS, Defendants agree to be bound by the provisions of the Final Judgment pending its approval by the Court;

US Airways Chief Executive [Doug Parker](#), who will lead the combined carrier, said in an interview Tuesday that the concessions were "not material enough to offset what we said the day we announced," which was that the merger would create more than \$1 billion in total annual savings and revenue gains.

The Justice Department described the divestitures as the biggest ever in an airline deal. Bill Baer, the department's antitrust chief, said that the settlement was better for competition than if the government had won a court injunction against the merger, because the concessions will allow low-cost carriers to expand at major airports. "It will disrupt today's cozy relationships among the incumbent legacy carriers and provide consumers with more choices and more competitive airfares," he said.

Still, the concessions are far more limited than what the Justice Department called for when it sued to block the

More

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Inconsistencies in Justice Department's**Deal****American Airways Statement**

merger in August, arguing that the deal would harm consumers by reducing air service and increasing fares.

"I think it'd be an overstatement to say the [Justice Department] settled for a mere slap on the wrist," said antitrust attorney Jeffrey Shinder, a partner at Constantine Cannon LLP. "But the settlement certainly...doesn't address the fundamental issues behind the [government's] complaint." Those issues, he said, include the potential for the three biggest remaining carriers—United Continental Holdings Inc., Delta Air Lines Inc. and the new American—to cooperate on pricing, and the loss of "a maverick" US Airways that had helped keep competition strong.

The settlement averted a trial set for later this month that posed risks for both sides. An outright defeat for the Obama administration could have tarred its record of successes in antitrust cases and left it without any remedies against airline consolidation. A court ruling against the airlines would have left US Airways flying solo as a smaller carrier and required American Airlines to find another way to exit bankruptcy proceedings.

The airlines had waged an intense lobbying campaign, touting the support for the merger of eight big-city mayors, 183 members of Congress and 100,000 of their mostly unionized employees. AMR Chief Executive Tom Horton said Tuesday that the carriers' advocacy "was helpful" to getting a deal.

The Justice Department's Mr. Baer said pressure from the deal's supporters didn't affect the Justice Department's stance.

For fliers, the settlement will mean more competition at some of the nation's biggest airports and on some of the most-traveled routes, particularly to and from Washington and New York. But because of the divestments at Reagan, some smaller and midsize cities will likely lose nonstop service to Washington, Messrs. Parker and Horton said.

The airlines agreed that the combined carrier would give up enough slots for 52 daily round-trip flights at Reagan and 17 round trips at La Guardia. That opens up highly sought-after space for rivals. But the new airline will have the flexibility to keep running its most-profitable routes at those airports—including US Airways' popular shuttle from La Guardia to Reagan National and Boston Logan International Airport.

The combined carriers will divest two gates at Boston Logan, Chicago O'Hare International, Los Angeles International and Miami International airports—though these divestments will have a much smaller impact on its operations. AMR said that it already planned to divest the two gates in Miami to consolidate operations, and that it will be able to operate the same number of flights planned in Chicago without the two gates there. The new American will also divest two gates at Dallas Love Field, which it already leases to Delta.

Neither AMR nor US Airways currently serves Love Field, although the airport is expected to become more competitive next year when the government lifts restrictions on where airlines can fly to from it.

The carriers also agreed to retain virtually all of their hubs for at least three years and, for at least five years, to maintain at least one flight daily to cities in six states that joined the Justice Department's lawsuit: Virginia, Michigan, Florida, Arizona, Pennsylvania and Tennessee.

The Justice Department said the low-cost carriers would be able to use the new slots and gates to offer increased competition not only on direct flights, but also on connecting flights nationwide.

Mr. Baer cited as proof Southwest Airlines Co.'s entry into Newark Liberty International Airport after the merger of United and Continental in 2010. He said Southwest acquired 36 divested slots at Newark Liberty

and added direct service to six cities and connections to 60 more. Fares subsequently dropped more than 10% on the nonstop routes alone, while passenger traffic increased 36%, he said.

George Hoffer, a professor of airline economics at the University of Richmond, said the airlines likely would have shed some of the divested slots or gates in a merger anyway to eliminate redundant routes and consolidate operations at a single terminal.

"It looks like the combined carrier is giving up a lot, but in reality, they're not," he said.

—Doug Cameron
and Andy Pasztor
contributed to this article.

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Corrections & Amplifications

As part of the settlement, the airlines agreed to maintain service to cities in six states that also joined the Justice Department's suit: Virginia, Michigan, Florida, Arizona, Pennsylvania and Tennessee. An earlier version of this article incorrectly listed Philadelphia among the states in question, instead of Pennsylvania.

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