

American Airlines Wins Court Approval to Exit Bankruptcy

by Joel R. Glucksman on September 26, 2013

A federal bankruptcy judge has approved American Airlines' reorganization plan, as well as its merger with US Airways, the latter contingent upon the outcome of the U.S. Department of Justice's antitrust lawsuit.

U.S. Bankruptcy Judge Sean Lane said that American Airlines' arguments were persuasive and that the broad support the plan had garnered from AMR Corp, its unsecured creditors committee, and American's labor unions "could be put at risk if the confirmation is delayed," the Philadelphia Inquirer reports. Lane, who had previously expressed concerns about permitting the company to exit proceedings following the Justice Department's antitrust challenge, said that his job was to determine whether the bankruptcy plan meets the standards of feasibility set forth under the bankruptcy law, regardless of separate lawsuits such as that by the Justice Department..

"The question is whether [the plan] will succeed once consummated, not whether it will be consummated," said Lane. "Here, there can be no dispute that the plan is feasible, if allowed to proceed."

While Lane's ruling will allow the company to formally exit bankruptcy proceedings, the judge did strike down a provision that would pay AMR's outgoing chief executive Tom Horton a \$19.9 million severance package. The Justice Department has argued that the severance deal violates bankruptcy law. However, a severance deal may still be approved by AMR's board of directors after the merger takes place.

The antitrust case brought by the Justice Department will go to trial November 25, and the outcome of the case will affect whether American Airlines is permitted to move forward with a merger that has the support of creditors and the European Commission. If that court rules against the merger, or any material changes take place in a settlement with the Justice Department, American's plan to exit Chapter 11 bankruptcy law protection would go back to Judge Lane, who has said that no merger can take place in the absence of regulatory approval.