

FORT WORTH, Texas - In 2008, American Airlines was the largest airline in the U.S.

Then the Delta Air Lines-Northwest Airlines merger bumped the carrier to No. 2. And if the United Airlines-Continental Airlines merger, announced earlier this month, is approved, American will drop to third.

Is that important?

Wall Street is already speculating that American's parent company, Fort Worth-based AMR Corp., may be looking to team up with another airline to regain its No. 1 status.

But some industry analysts feel that a merger won't help American, because the airlines generally identified as potential partners don't have much to offer in terms of financial benefits or new routes.

And given the headaches that American suffered after its last merger, with bankrupt TWA in 2001, those analysts suggest American would be wise to avoid a hastily conceived union.

As soon as the United-Continental merger, which would create the largest domestic airline, was officially announced, speculation over American began.

"You have an airline that was the biggest forever, and in the last two years, they've gone from first to third," said Rick Seaney, founder of FareCompare.com. "It's not the right directional attitude for investors."

Unfortunately, there aren't that many potential merger partners for American. Analysts say it's unlikely that a legacy carrier like American would merge with a low-cost one like AirTran Airways or Southwest Airlines because their business models are too different.

Instead, JetBlue, Alaska and US Airways have been suggested. Of the three, US Airways is the largest and JetBlue the smallest.

With its routes along the West Coast, some analysts have suggested that Alaska Airlines is complementary with American. And when American announced last month that it would offer tickets for connecting flights on JetBlue

routes where the two don't compete head-to-head, analysts suggested a merger could strengthen American's presence in the Northeast.

But it's US Airways, which will become the fourth-largest airline assuming United and Continental merge, that analysts feel is the most likely partner for American. Before Continental cut in, US Airways was attempting to merge with United, a reasonable match since US Airways is already part of United's Star Alliance.

"US Airways is certainly available and willing, and (American-US Airways) would initially jump to the top of the heap with roughly \$36 billion in revenue," wrote analyst Vicki Bryan in a research note for GimmeCredit, an investment research firm.





The last time .

At the time American acquired TWA for \$4.2 billion in cash and debt, Donald Carty, then CEO of AMR, said it made "tremendous sense" and would allow American to serve a larger share of the valuable business travel market.

American gained a domestic hub in St. Louis and a third maintenance facility in Kansas City, Mo., along with 20,000 employees.

But as the merger was closing, the U.S. economy slowed. Then the Sept. 11, 2001, attacks pushed the airline industry into a tailspin.

As a result, American has laid off many of the TWA workers it gained, has cut daily flights to St. Louis and plans to close the Kansas City base later this year.

"When you look at TWA, there was not any benefit, with the exception of the Heathrow route" between London and New York, said Nathan Smith, industry analyst at Frost & Sullivan.

American executives have said that consolidation in the industry might be good but have not discussed whether American might take a stab at a merger itself. Instead, it has formed alliances with other airlines, coordinating operations when possible but keeping short of an outright merger.

"I'm confident in our cornerstone strategy, because I think our footprint is in the most important business markets in the United States already," American CEO Gerard Arpey said recently. "We're not necessarily threatened by talk of consolidation in the industry."

Several analysts suggest that instead of a merger, Arpey is right to focus on partnerships and its Oneworld alliance, which includes British Airways, Iberia, Japan Airlines and others.

"If American was able to attract a carrier like US Airways to join Oneworld, I think American would get the same enhanced presence in the New York market," said Raphael Bejar, CEO of Airsavings, an industry consulting firm. "That would be the better way to go."

Even as the nation's third-largest airline, American will still have close to 20 percent of the domestic market. Analysts say it does not need any more domestic capacity.

Instead, they suggest, after posting a \$505 million loss in the first quarter, American needs to focus on being profitable.

"American is not an airline that plays well with others," said Henry Harteveltdt a longtime industry analyst at Forrester Research. "They have their own culture, their own way of doing business and, "Frankly, with the AAdvantage program at more than 62 million members and a compelling route network and Oneworld alliance," said Henry Harteveltdt, a longtime industry analyst at Forrester Research, "American no longer needs a merger to grow."

