Continental losing Houston home in United merger

Combined Chicago-based airline would be industry’s largest

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For more than a quarter-century through bankruptcies, skyrocketing fuel prices and mounting threats from low-cost competitors, Continental Airlines called Houston its home.

Now the airline plans to merge with United Airlines, taking United's name and its home base of Chicago.

After less than three weeks of courtship, the two announced they will merge after each board approved the deal Sunday.

“Continental is strong where United is weak and United is strong where Continental is weak,” said Continental CEO, Chairman and President during a Monday morning conference call with investors and reporters. “It's a match made in heaven.”

For passengers, the marriage will likely lead to higher fares on some routes. For the new airline, the consolidation is intended to cut costs, boost revenue and increase market share.

“Since these companies are losing so much money, they realize now is the time to do it because it's getting more difficult to survive in this industry and the only way they can see a light at the end of the tunnel is by combining operations,” said Gustavo Grullon, finance professor at Rice University.

Airlines have struggled financially for years, and Houston-based Continental is no exception with two bankruptcies in its history, government help after Sept. 11 and $1 billion lost since those terrorist attacks. Two years ago, it discussed merging with United, but instead formed an operational pact through the Star Alliance, which includes United.

In April, Smisek learned from news reports that United's on-again, off-again talks with Tempe, Ariz.-based US Airways had resumed. He called United CEO Glenn Tilton on April 9, Tilton's birthday, to restart talks.

Two weeks ago, US Airways withdrew.

The deal, which earlier bogged down over price, is a stock-swap. Continental shareholders get 1.05 United shares for each Continental share they own.
That values the deal at about $3.2 billion, based on Friday's closing share prices and the latest publicly available outstanding shares. United's shareholders will own a 55 percent stake in the merged company, and Continental's the remaining 45 percent in the holding company named United Continental Holdings.

**Big savings by 2013**

The combined company's 2009 revenues were $29 billion. The merger is planned to result in savings and additional revenue of $1 billion to $1.2 billion annually by 2013.

Smisek will be CEO of the merged carrier, with offices in Houston and Chicago. Tilton will become non-executive chairman until Dec. 31, 2012, or on the second anniversary of the closing of the deal, whichever is later. Then, Smisek takes the helm as chairman.

Other management executives have yet to be named but are expected to come from both airlines. The combined airline's board of directors will have 16 members, including Smisek, Tilton, two union members and six directors from each of the company's boards. United has 13 board members now, including Tilton and two union members. Continental has 10 board members including Smisek and no union members.

Houston is expected to be the largest hub of the combined carrier and continue to be its gateway to Latin America.

Jobs at the combined carrier will be cut by attrition, retirement and voluntary programs, but Houston employment may grow in the long term since Houston will likely add destinations.

“The employees at the Houston hub, they are going to stay there. It's the most profitable of the Continental hubs,” said Pete Garcia, president of aviation consulting firm Pete Garcia International. Garcia isn't involved in the transaction, but he's familiar with both airlines' operations.

Officials did not give a figure of the number of jobs that would be cut but said administrative, corporate and advertising positions would be consolidated.

“There will be people who will lose their jobs at 1600 Smith (Continental's downtown Houston headquarters) just as their will be people who will lose their jobs in Chicago,” Smisek said. “You eliminate duplicate functions that's part of the savings of a merger.”

Politicians tried to remain optimistic about the move from Houston.

Mayor Annise Parker said in a written statement Sunday city leaders will work to “aid in the long-term success of the stronger airline expected from this merger.” She was encouraged that Houston would remain an operational hub.
“Our message has been clear and consistent that Continental should add jobs in Texas and we stand ready to work with the company and the city of Houston to help make that happen,” said Rick Perry's spokeswoman, Allison Castle.

Airline employees and passengers are worried.

Leaders of the Continental Airlines and United Airlines chapters of the Air Line Pilots Association said they would work with the new management team.

“It is important to remember that history has demonstrated that the integration of two airlines is always a difficult challenge. The support of the pilots is pivotal in determining whether a merger is successful or not, as will be the case with this merger of Continental and United,” said a pilots union statement released Monday. “While there is potential for this transaction to create a truly great airline, there are also risks involved. We have sacrificed too much through years of concessions, furloughs, pension freezes and terminations to accept unwarranted risk, and any risk requires reward.”

Susan Arensman, an engineer for an energy company, said she's afraid prices will go up. She flies to many destinations served by both Continental and United and she's worried that with less competition, her company will pay more for tickets.

The merger is planned to close by year's end, pending shareholder and regulatory approval. Shareholder approval will be sought in September, Smisek said.

Government antitrust enforcers must review “whether or not the merger tends to lessen competition,” said Darren Bush, an associate professor at the University of Houston Law and airline expert. “The big focus is going to be on nonstop markets.”

The merger results in 13 nonstop overlapping flights, including flights from Houston to Denver, Chicago, San Francisco and Washington, D.C., according to a JP Morgan report released Friday. Those will likely be closely examined by the Department of Justice.

“From an antitrust perspective, the merger should readily pass muster,” Smisek said Monday.

JP Morgan airline analysts, in a report last week, gave the merger a 75 percent chance of getting regulatory approval.

“This deal is built to close, there's no question about it,” Tilton said Monday.

**Good reputation**

If it merges, the new United faces the challenge of combining two distinct corporate cultures and customer service reputations.

“I think Continental has a better reputation and I don't know why we have to be called United,” said a Continental gate agent who didn't want to be identified.
United emerged from a three-year bankruptcy in 2006 but the ordeal created morale problems because unions had to agree to wage and benefit cuts. By comparison, Continental is known for fostering good employee relations.

“Let's just hope that they adopt Continental's corporate culture. It's dramatically better than United's,” said Dean Headley, associate professor of marketing at the W. Frank Barton School of Business at Wichita State University, which released its annual airline quality report in April.

Continental climbed to sixth place in the ranking from eighth last year while United dropped to 13th from 11th.

“Continental is a great airline,” said Headley. “United — they've always been somewhat problematic.”


Houston passengers mull impact of Continental-United merger

by GABE GUTIERREZ

KHOU-TV

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HOUSTON— Continental’s customers in Houston were wondering what will become of their hometown airline Sunday in the wake of a multi-billion-dollar deal that will combine the carrier with United Airlines.

"I hope they don’t make Chicago the hub," said Amy Johnson, a loyal Continental customer for 25 years. "I don’t think they’d be dumb enough to do that, but you never know."

She’s a platinum frequent flier. While experts believe those programs won’t change, Johnson is worried about service.

"(The merger) doesn’t bother me as long as they bring United up to Continental’s standards," Johnson said.

Continental outranked United in a recent customer satisfaction survey by Consumer Reports. Continental ranked 7th; United ranked 16th. JetBlue Airways topped the list.

Still, experts are warning passengers of major changes within a few months.

"They can expect higher fares," said Prof. Darren Bush with the University of Houston. "They can expect fewer choices in terms of flights. They can expect that the service will get progressively worse."

The merger’s supporters argue consolidation will make each airline more efficient.

Critics aren’t so sure. They believe some non-stop fares could double.

"This is like having two teenagers with high credit card debt thinking that somehow when they get married that somehow that’ll change things," Bush said.

It’s unclear how many layoffs – if any – the merger will bring.
In a statement released Sunday evening, Houston Mayor Annise Parker expressed optimism about the move:

"Although we await more specifics, the early reports, if accurate, are very encouraging, indicating the Houston Airport System will remain an operational hub. This makes sense from a business standpoint, given our increasing international presence and our position as the gateway to Latin America and all points south of the border. We also believe, and the early reports appear to concur, that Houston will continue to play a major role in the corporate operations of the merged airline. We are proud of our hometown airline, the way it conducts business and it’s involvement in the community. We will actively work to continue this partnership and aid in the long-term success of the stronger airline expected from this merger."

Parker, representatives from the Greater Houston Partnership and other elected officials plan to hold a news conference on the merger Monday.