

**Statement of Gary F. Kennedy  
Senior Vice President, General Counsel and Chief Compliance Officer  
American Airlines, Inc.**

**Before the  
Subcommittee on Aviation Operations, Safety, and Security  
Committee on Commerce, Science, and Transportation  
United States Senate**

**Hearing on  
Airline Industry Consolidation**

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Chairman Cantwell, Ranking Member Ayotte and Members of the Subcommittee, thank you for the opportunity to testify today about the proposed merger of American Airlines and US Airways.

As General Counsel of American Airlines, I have been intimately involved in both the Chapter 11 restructuring of American and the proposed merger between our company and US Airways. I am pleased to announce that we are quickly approaching the end to the most successful restructuring in the history of the airline industry. Our plan of reorganization, which is based on the announced merger with US Airways, promises to be a tremendous victory for all constituencies. Our unsecured creditors will receive equity in the New American with the potential to receive a full recovery on their claims. Our current shareholders will also receive a valuable equity stake in the new company, a result that is highly unusual in any restructuring, but one that reflects the enormous value the proposed merger has created.

Our unionized employees will also receive a significant percentage of the equity in the new company, and they have negotiated post-merger pay, benefits, and work rules that are far superior to those imposed by other airlines exiting bankruptcy. The enthusiasm among our work groups for this merger will be a powerful driving force behind the New American for years to come. Finally, but certainly not least,

our customers stand to benefit greatly. The New American expects to win more business from passengers here at home and across the globe, and winning that business will allow the company to invest in its people and its products, all with the goal of restoring American's position as one of the world's great airlines.

The path over the last decade and a half that brought American to this point has not been easy. The airline industry as a whole has seemingly lurched from crisis to crisis, beginning with the horrific events of September 11. Those events were followed the SARs epidemic, along with an unprecedented run up in the cost of fuel, and the worst financial crisis since the Great Depression. The toll taken on the airline industry was amply reflected in a string of bankruptcy filings by our competitors.

For most of the past decade, American charted a different path. In 2003, we came close to filing for bankruptcy protection, but we were able to negotiate new agreements with our labor unions which reduced our costs and bought us more time to find a path to financial stability. However, the competitive landscape and the macro-economic environment continued to change around us in ways that further eroded our competitive position and our financial strength. In 2001, American was the largest airline in the world. However, the mergers of Delta and Northwest, United and Continental, and Southwest and AirTran, moved American from the largest to the fourth largest airline in terms of U.S. domestic passengers. And, despite our best efforts, our losses continued to mount, reaching \$12 billion over the previous 10 years.

In November 2011, our Board came to the painful, but inevitable, conclusion that we needed to restructure our business under Chapter 11 of the Bankruptcy Code. Through this process, we streamlined our management structure, renegotiated our financial obligations, leases, and contracts, and reached new agreements with our unions, including long-term agreements that will become effective once American has successfully merged. One of the most important objectives we achieved was to freeze, rather than terminate, our employee pension plans. As a result, American expects to fulfill those obligations, rather than unload them on the PBGC, as other airlines have done.

Of course, the exit door from Chapter 11 is a Plan of Reorganization, and our plan – which is nothing short of historic in what it accomplishes – is built around a merger with US Airways. We have conservatively estimated that by 2015 revenue and cost synergies will outweigh cost dis-synergies by over \$1 billion. The combination puts together two highly complementary networks, with minimal loss of competition, and creates a network that consumers, of all types, will find substantially more attractive than the network American, standing alone, could produce. The combined network will be comparable in size to the networks of United and Delta, which have both used bankruptcies and mergers of their own to leapfrog American.

American and US Airways are under no illusions that mergers are easy or seamless. Both companies are keenly focused on using the lessons from prior mergers to maximize value and minimize disruptions. This merger is good news for everyone except our competitors. The New American will lift the competitive bar in an already highly competitive U.S. airline industry, and this merger will position the company to accomplish great things for its employees, customers and shareholders.

Thank you again for the opportunity to testify today.