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**UNITED STATES BANKRUPTCY COURT  
SOUTHERN DISTRICT OF NEW YORK**

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<b>In re</b>	:	<b>Chapter 11 Case No.</b>
	:	
<b>AMR CORPORATION, et al.,</b>	:	<b>11-15463 (SHL)</b>
	:	
<b>Debtors.</b>	:	<b>(Jointly Administered)</b>
	:	
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**MEMORANDUM IN SUPPORT OF DEBTORS’  
MOTION TO REJECT COLLECTIVE BARGAINING AGREEMENTS  
PURSUANT TO 11 U.S.C. § 1113**

**PART TWO: APA—PILOTS**

\* admitted *pro hac vice*

\*\* *pro hac vice* admission pending

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**I. INTRODUCTION AND SUMMARY OF ARGUMENT**

American Airlines, Inc.'s (“**American**” or “**the Company**”) main brief, filed simultaneously with this document, addresses the applicable legal standards under Section 1113, the Company’s Business Plan and economic condition, and, in a general way, the labor cost reductions necessary for American’s successful reorganization. This memorandum supplements that brief by addressing subjects relating only to the pilots’ collective bargaining agreement, including American’s bargaining history with the Allied Pilots Association (“**APA**” or the “**Union**”), which represents American’s pilots, and the terms of American’s Section 1113 Proposals to APA.

As explained in the Declaration of Jerold Glass (“**Glass Decl.**”), American Airlines is the last of the major network U.S. air carriers to seek reorganization under Chapter 11 of the Bankruptcy Code. All have come to this pass because all have been buffeted by the same economic forces that have undermined their former business model and all have faced dramatically increased competition as the industry has changed.

Nonetheless, just weeks ago, the president of the Allied Pilots Association complained that “numerous airlines have [previously] used Chapter 11 to force deep reductions in pay and benefits and to degrade the working conditions of unionized employees.”<sup>1</sup> “The net effect of all these ‘pattern bankruptcies,’” he lamented, “has been to decimate [a] decades’ worth of gains that airline [had] employees achieved.” He told his members, however, that APA was “seeking to take a step in reversing this trend” at the bargaining table. *Id.* In a subsequent message, he repeated the same theme: “[I]t is time for American Airlines to **break from the pack of airlines** that have used bankruptcy as a blunt instrument to abrogate fair labor agreements that have stood

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<sup>1</sup> AA Ex. 920.

for decades,” and he promised to take that position at the bargaining table with the Company.  
AA Ex. 921 (emphasis added).

On February 1, 2012, American presented its opening Section 1113 Proposals to APA. These proposed changes to the pilot collective bargaining agreement (“**CBA**” or “**Agreement**”) would permit the Company to compete with its network airline peers<sup>2</sup>—the “numerous airlines” referred to in the quotes above, all of which used their own bankruptcy proceedings to lower their costs—especially their labor costs—dramatically and achieve far greater operational flexibility than currently exist at American. In response, APA has tried to “reverse th[e] trend” established by the market, refusing to abandon restrictions on airline operations that were common in the past but are long since gone from other industry pilot agreements.

Like all of its network peers, American must compete in today’s brutally unforgiving environment. “[G]ains that airline employees achieved” before the explosive growth of the low cost carriers, before September 11 and the industry convulsions that followed, and before American’s network competitors reorganized and merged simply cannot be rationalized with the present market environment. In today’s world, American has been weakened by years of losses and borrowing to pay its bills. Today American is struggling to survive against stronger, larger, more efficient, and profitable competition.

American has the highest pilot labor costs in the industry, and its pilot Agreement imposes on the Company unparalleled restrictions on how and where it can operate. If American is to survive—if American’s pilots are to keep their jobs—this cannot continue. American must

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<sup>2</sup> “Network carriers” refer to American, Delta, Northwest, United, Continental, and US Airways—carriers established prior to the deregulation of the industry in 1978 that operate a traditional “hub and spoke” model. Northwest and Delta have merged, as have United and Continental. Newgren Decl. ¶ 5 n.2.

bring its labor costs—and most particularly, its pilot labor costs—into line with the industry, and it must have the ability to make alliances and operate the aircraft it needs in the markets where it can make a profit. If it cannot do these things, it will fail; fond memories of “decades” gone by will not save it.

American has tried since 2006 to convince APA that fundamental change is the only path open to American. The Company has shared with the Union the same financial data management provides to the Board of Directors. American has included APA in its planning for the future, collaborated on models for valuing prospective changes to their Agreement, and worked hard to show that with change—real, fundamental change—American and its pilots can set a course for growth and prosperity. APA, meanwhile, is still living in the past rather than embracing the future. Until that perspective changes, Agreement is not possible. In Section II below, American briefly describes the years of pre-petition negotiations for a new pilot Agreement, and the post-petition negotiations and information sharing that have occurred since American presented its Section 1113 Proposals. Section III then provides an overview of American’s Section 1113 proposals.<sup>3</sup>

## **II. YEARS OF COLLECTIVE BARGAINING FAILED TO ACHIEVE AGREEMENT**

### **A. Pre-Petition Negotiations: 2006-2011**

American’s current Agreement with APA became effective in May, 2003. The difficult circumstances surrounding that Agreement and the pilot concessions the Agreement represented are described in detail in the Declaration of Jeffrey Brundage (“**Brundage Decl.**”) ¶¶ 7-10. As a

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<sup>3</sup> This brief does not attempt to explain every one of American’s proposals, but merely highlights some of the critical changes American must make to reorganize and highlights some of the more problematic aspects of the existing Agreement. The Declaration of Dennis Newgren (“**Newgren**

result of that Agreement, and simultaneous agreements with its other unions, American narrowly avoided bankruptcy in 2003.

While the 2003 Agreement did not become amendable until May 2008, in 2006, both American and APA served “early reopener” proposals as permitted by the 2003 Agreement. From that time until November 2011, the parties negotiated for a new agreement, sometimes with the assistance of a mediator appointed by the National Mediation Board (“NMB”). Unfortunately, these years of negotiations did not produce an agreement.<sup>4</sup>

American’s sought in those pre-petition negotiations to increase productivity and achieve competitive labor costs and to remove or reduce limits on the Company’s ability to compete with its rivals for revenue and passengers, as described more fully in the Brundage Decl. ¶ 13. APA’s goals were quite different.<sup>5</sup> APA’s proposals included:<sup>6</sup> (a) a pilot wage increase of 54%; (b) an end to American’s codesharing rights; and (c) to increase American’s pension contributions. Newgren Decl. ¶ 24.

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**Decl.”)** accompanying this brief describes American’s Section 1113 Proposals to APA in much greater detail. AA Ex. 900.

<sup>4</sup> The course of pre-petition negotiations is described in greater detail in the accompanying Newgren Decl. ¶¶ 21-32.

<sup>5</sup> APA’s President, Captain David J. Bates, explained APA’s view after nearly a month of post-petition negotiations: “As we all know, numerous airlines have used Chapter 11 to force deep reductions in pay and benefits and to degrade the working conditions of unionized employees. The net effect of all these “pattern bankruptcies” has been to decimate decades’ worth of gains that airline employees achieved. APA is seeking to take a step in reversing this trend.” AA Ex. 921]

<sup>6</sup> Negotiations were delayed by changes within APA’s leadership. Few sessions were held during the first eighteen months because APA held national officer elections and then surveyed members about bargaining priorities. Newgren Decl. ¶ 24. Since 2006, APA has replaced the chair of its negotiation committee six times and the majority of its committee membership on three separate occasions. *Id.*



In 2011, the parties did reach tentative agreements on several provisions, but were unable to reach agreement on work rules to increase productivity. Newgren Decl. ¶ 26. Without agreement in this area, the parties were unable to move on to other issues such as compensation.

In the fall of 2011, as American's restructured competitors got stronger and reported profits, the Company's economic fortunes continued to dim, and the parties held a week-long session of intensive negotiations. *Id.* On November 11, 2011, APA submitted a "final" offer, which amounted to little more than a summary of what it had previously been advocating on each remaining open subject. AA Ex. 907. On November 14, American responded with two alternative comprehensive proposals to APA. Newgren Decl. ¶ 26; *see also* AA Ex. 908. Both of the Company proposals would have: (a) achieved significant long-term improvements in pilot productivity through less restrictive work rules; (b) lowered benefits costs by bringing employee benefits into line with the industry and other American employees; and (c) relaxed existing scope restrictions on codesharing and the Company's ability to use larger regional jets. In return for these changes, American was willing to agree to some increases in pay rates and some benefits to give APA an incentive to reach an agreement. *Id.* APA rejected both alternative proposals. Newgren Decl. ¶ 26. Like its original demands, APA's final proposal included a day-of-signing bonus, additional pay increases, and further restrictions on scope. *Id.*

With the perspective of hindsight, it is now clear that the various proposals American made in an attempt to find a win-win alternative to labor strife from 2006 until the eve of Chapter 11 would have been insufficient to address the immense structural disadvantage it faces in the industry today even if APA had accepted them. Brundage Decl. ¶ 33; Newgren Decl. ¶ 26.

APA rejected pre-petition proposals with which American believed it could survive, but that, it is clear in retrospect, were too generous to permit American to thrive. From the outset,

American's pre-petition proposals had been premised on hopeful assumptions: that the economy would improve (or, after the economic collapse of 2008, recover steadily); that the price of fuel would stabilize; and that American's competitors would, in relatively short order, agree to substantial increases in the wage rates they pay and the benefits they provide to their unionized employees, a process of "convergence" that would reduce American's cost disadvantage.

Brundage Decl. ¶¶ 20, 34.

For the most part, "convergence" never occurred, the economy has remained weak and at risk, and fuel has reached and remained at historically high levels. As described *infra*, the Company's Section 1113 proposals have been based on post-petition realities and thus are more extensive: they seek greater concessions in work rules, scope, and benefits. These changes have become critical to the Company's successful reorganization.

**B. Pre-Petition Information Sharing**

Because the parties were working from such fundamentally incompatible perspectives during the pre-petition period, American made every effort to educate APA leaders about the scale of the economic challenges facing the Company. As described more fully in the Declaration of Denise Lynn ("**Lynn Decl.**"), since the 2003 agreements, American has provided to APA and its financial advisors the same monthly financial information and presentations that American's management gave to the AMR Board of Directors. These presentations include detailed and highly confidential assessments of the Company's economic circumstances, its financial and market challenges, and its short- and long-term plans for addressing its economic challenges. *See* Newgren Decl. ¶ 27.

**C. Post-Petition Negotiations**

From February 1, 2012, to the date of this Motion, American has tried to reach a new agreement with APA. American's negotiating team has met with APA in 65 negotiating

sessions, Newgren Decl. ¶ 37, and has communicated with at least some of APA's officials and advisors regarding negotiations on every other day. *Id.* In addition to the information sharing sessions described at length in the Lynn Declaration, during which American explained the projections, assumptions and models used to generate its proposals, the parties have had 65 separate negotiating sessions, at which they have discussed the entire range of topics at issue including proposal valuation, benefits, retirement, work rules, scope, and compensation. As American has explained to APA's leaders, the Company has been available to negotiate around the clock, seven days a week. *Id.*

Although no agreement has yet been reached, the negotiating process has not been an empty exercise. American has listened to APA's criticisms and counterproposals, and the Company has modified its positions in fundamental ways in response. For example, American's initial proposals anticipated that American would seek to terminate the pilots' defined benefit pension plan. Indeed, defined benefit plan termination was a core aspect of American's reorganization plan for all employees. APA, however, pressed the Company to revise this proposal, asking that the Company freeze the plan rather than terminating it. Working with the Pension Benefit Guaranty Corporation and the Unsecured Creditors Committee, American has agreed in principle to APA's counterproposal, although much work remains to be done by both APA and American to make this tentative arrangement final.<sup>7</sup> *See* Brundage Decl. ¶ 43.

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<sup>7</sup> As described in the Brundage Declaration, the "lump sum" option available to pilots under the defined benefit plan presents a looming operational nightmare for the Company—one that could bring the carrier's operations to a halt and even lead to its demise. If pilots are allowed to take a lump sum retirement from a frozen plan on exit from Chapter 11, the very real possibility exists that so many pilots will leave that the Company would not be able to staff its flights. APA and American are working on a solution to this problem.

Similarly, American had proposed a uniform range of medical benefit coverage for all of its employees. In response to union concerns, the Company modified its position, reducing the monthly premium amounts for most employees and making employee-requested changes to deductibles and co-pays. Wright Decl. ¶ 27. American has withdrawn or modified a variety of other proposals in order to account for APA comments or criticisms include:

- modified proposal on the elimination of international rates of pay;
- withdrew proposal to change the way Check Airmen are paid;
- withdrew proposal that would have prohibited pilots from accruing additional vacation while on long-term sick leave;
- modified proposal regarding job protections for St. Louis-based pilots to reflect tentative agreement on dispute resolution;
- withdrew a proposal concerning a provision in the CBA relating to a pilot's failure to qualify; and
- Increased first year pay to \$40.00 per hour (currently \$35.37).

Newgren Decl. ¶ 40.

Although American has fundamentally altered its proposals in multiple respects, the parties have remained far from any agreement. APA remains wedded to noncompetitive restrictions on regional flying and codesharing and to a long list of other costly aspects of the current CBA. While these negotiations have continued, American has continued to lose money and to fall further and further behind its network peers. This Motion thus became inevitable. Nonetheless, American remains committed to a consensual agreement, and, as stated above, has told APA's leaders repeatedly that it is prepared to bargain nonstop while the Section 1113 process continues. Newgren Decl. ¶ 41.

**D. Post-Petition Information Sharing: American Has Provided To APA All Of The Information Necessary To Evaluate Its Proposals**

Dennis Newgren, the chief negotiator for the Company with its pilots, was instructed to, and did, "open the Company's books" to APA and answer any reasonable APA request for

information as promptly and as completely as possible. Although much of the information American was asked to provide is proprietary and extremely sensitive, Newgren was told that the information should be made broadly available to APA personnel, subject to a non-disclosure agreement. Brundage Decl. ¶ 37.

Since February 1, 2012, American has fielded a virtually unending series of questions and data requests from APA. These data requests have touched upon every corner of American's operations, its reorganization Business Plan, and its cost-cutting efforts with other employee groups and from non-labor sources. In response to each request, American has promptly provided complete and reliable information. The Company has answered at least 570 inquiries, and produced more than 5,000 documents, including more than 125,000 pages of information. Lynn Decl. ¶¶ 38-39. American has also made its internal subject matter experts available for individualized consultation with APA's negotiating committee or with APA counterparts on subjects such as fleet planning, scope, pensions, and costing methodologies. *Id.* ¶¶ 22-37.

The full story of American's herculean information sharing efforts is described in the Declaration of Denise Lynn and will not be repeated here. A chart logging each of APA's formal data requests<sup>8</sup> and American's responses, by date and subject, can be found at AA Ex. 1503.

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<sup>8</sup> In addition to these formal requests, there were innumerable informal requests made across the bargaining table. All of them were answered but only some of them were ultimately placed on the log.

**III. AMERICAN'S SECTION 1113 PROPOSALS ARE NECESSARY FOR REORGANIZATION**

**A. American's Proposals Were Designed To Save The Company And Protect Pilot Jobs And Take-Home Pay**

Along with cost reductions made in every other aspect of its operations, American's reorganization Business Plan requires total cost reductions of \$1.25 billion per year from all employee constituencies. Brundage Decl. ¶ 26. American's proposals allocate these reductions fairly across the different employee groups and CBAs. *Id.* American has asked that each employee group—management, non-union, and unionized—bear an equal share of the necessary reductions: an approximate 20% reduction in their current total labor costs. *Id.* Based on this calculation, American seeks an annual average of \$370 million in total labor cost reductions from APA. The Business Plan also depends upon increased revenues from aggressive pursuit of new business opportunities across American's network. *Id.* American has determined that it can achieve the required savings and make the revenue-enhancing changes it needs through the proposals described in detail in the Newgren Declaration and more generally below.<sup>9</sup> The vast majority of those proposals fall into one of four categories: scope, work rules, benefits, and compensation. Seven additional proposals to eliminate additional inefficiencies defy categorization and are addressed separately. These modifications to the current Agreement will eliminate scores of restrictions that cripple American's ability to compete with its network peers.

American formulated its Section 1113 proposals with six priorities in mind:

- First, American has learned from the lessons of prior bankruptcies, where US Airways, United and Delta settled for too little the first time and had to return to their employees repeatedly for ever greater concessions (or US Airways had to

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<sup>9</sup> While American presented certain proposals—sick leave, active and retire medical benefits, and retirement—as single line items on the term sheet, these proposals reference comprehensive appendices attached to the term sheet.

file bankruptcy more than once in quick succession to address issues left unaddressed the first time.) American intends to do this once and do it right.

- Second, American has worked to preserve pilot base-pay rates and take-home pay to the greatest extent possible. This is a unique approach in that when American's competitors filed for bankruptcy, they implemented substantial pay cuts to achieve their desired cost reductions.
- Third, American believes it is essential to redesign its health and retirement benefits to be comparable to those of its major competitors who have advantageously restructured these obligations under Chapter 11. American seeks to make its benefits offerings uniform, or as nearly so as possible, in all employee groups.
- Fourth, American seeks to achieve as much cost savings as possible through improved productivity; American's pilots are currently the least productive in the industry, and changes here can go a long way towards making up ground on American's competitors.
- Fifth, American realized that the changes it intended to make had to have staying power; a temporary "holiday" from the costs and restrictions contained in the current Agreement would not permit the long-term growth the Business Plan contemplates. Thus, American sought a six-year Agreement, consistent with the term of agreements sought by other airlines during their Chapter 11 proceedings.
- Finally, American is committed to sharing the rewards of a successful restructuring with its pilots through annual pay increases and a new "first-dollar" profit-sharing plan that matches the best such plans in the industry.<sup>10</sup> American intends to grow and prosper, and it wants—it needs—its employees to be part of that growth and to share in the results.

Brundage Decl. ¶¶ 24-25.

American could have proposed to meet its cost reduction targets with deep cuts in pay rates. Pay cuts would have been much easier to explain. Once it committed to avoiding cuts in base-pay rates and minimizing the impact of its changes on take-home pay, however, the Company had to draw its proposed cost reduction measures from a greater number of different

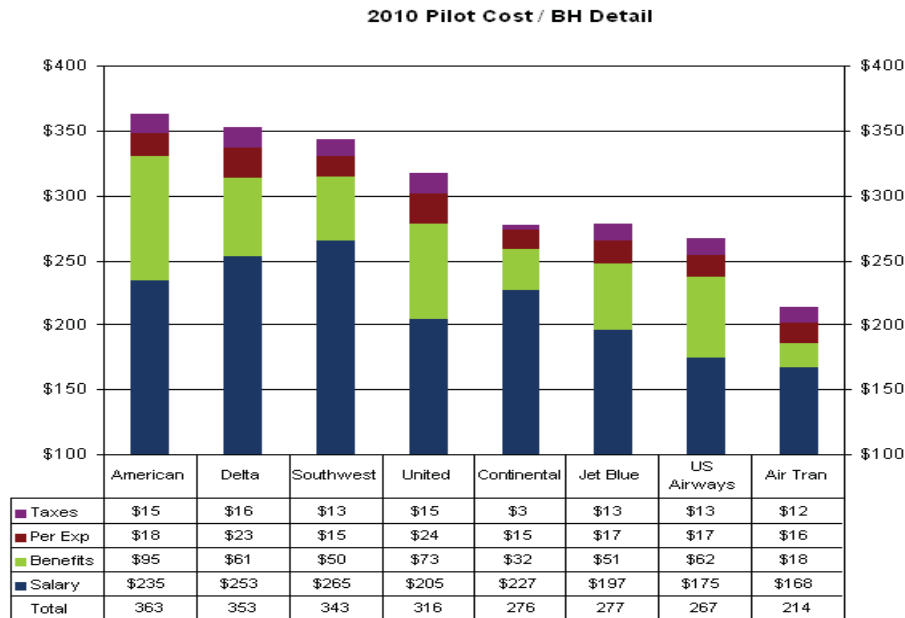
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<sup>10</sup> It is worth noting that last month, General Motors—once on the brink of extinction but strengthened in reorganization—was able to make profit sharing payments to its employees of \$7,000 a piece. <http://www.usatoday.com/money/companies/earnings/story/2012-02-16/general-motors/53113520/1>.

inefficiencies in the Agreement. For that reason, the following description and, to an even greater extent, the explanations in the accompanying Newgren Declaration are lengthy. But in a business as complicated as American’s, and with a CBA that runs to many hundreds of pages, this sort of complexity is unavoidable.

**B. The Section 1113 Proposals Address Fundamental Inefficiencies That Are Unique To American**

American’s pilots are the least productive in the industry. The work rules in the Agreement that determine how, where, and when American’s pilots work force the Company to pay more per “block hour” of pilot work than any other carrier, and vastly more than some of its most important competitors:

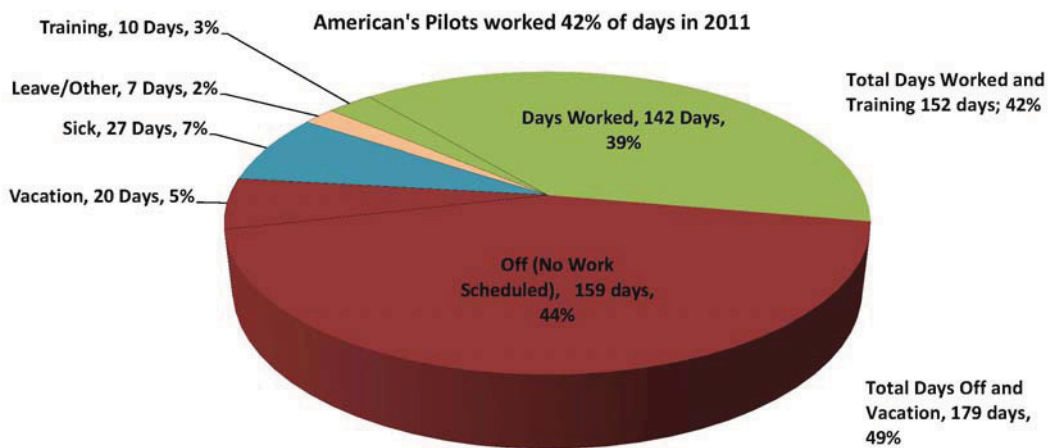


AA Ex. 905



Although American’s base-pay rates are at or near the top of the industry, they play only a small part in this cost disadvantage. Rather, the bulk of the problem stems from industry-worst productivity. The Agreement, for example, allows American to schedule pilots to fly only 78 credit hours per month, and prohibits pilots from voluntarily adding more than an additional five hours to their schedule each month, even if they would like to earn more and even if the Company desperately needs more pilot time. Newgren Decl. ¶¶ 121-23. The comparable schedule maximums at American’s competitors are significantly greater. At United, the scheduling cap is 95 hours for narrow-body aircraft and 89 hours for wide-body planes. At US Airways and Alaska Airlines, the lowest cap is 85 hours and can rise as high as 95 hours. At Delta, the maximum is a variable number that allows the company to build schedules that average up to 82 hours. The Continental unit of United can schedule up to 91 hours in four months of the year and 87½ hours in any other month of the year. *Id.* ¶ 122; AA Ex. 812.

When these restrictions are combined with sick leave usage that is vastly worse than at any of American’s competitors and exceptionally generous vacation benefits, it is undeniable that American gets less productive work from its pilots than does any other network carrier. This graphic presents the average year for American’s pilots:



AA Ex. 906.

**C. American's Proposals Address Critical Needs**

To address these and other drags on the Company's financial performance, American made proposals to APA that fall into four broad categories: (a) work rules that routinely force American, *inter alia*, to pay two people to do one job; (b) compensation—the various add-ons and premiums that exist at American but have largely been eliminated by its competitors; (c) benefits, which are far more generous for American's employees and retirees than comparable programs are for any of its competitors; and (d) "Scope" (including restrictions on the ability to use regional jets and enter into codeshare and other alliances with partner airlines). The bottom line for each proposal was business need. The changes American has proposed are necessary to the Company's reorganization because, without them, it cannot hope to compete against a transformed airline industry that in recent years, and in fundamental ways has, left American behind.

**1. Eliminate Scope Restrictions On The Ability To Earn Revenue**

The pilot agreement has a lengthy provision referred to as a "Scope Clause." Scope clauses are found in the pilot collective bargaining agreements at most carriers. Newgren Decl. ¶ 52. Their avowed purpose is to protect pilot jobs but in reality, the Scope provision in the American-APA CBA imposes complex restrictions that hamper American's ability to generate revenue, stifle American's growth and, as a consequence, actually adversely impact long-term pilot employment. Newgren Decl. ¶ 17. Most of these restrictions can be placed into one of two major categories: (a) codesharing restrictions; and (b) restrictions on the use of large regional jets.

**a. Domestic Codesharing Is Critical To American's Survival**

No airline can fly everywhere. Finite resources, restrictions on access (slots and gates), and entrenched competition represent only a few of the obstacles. Codesharing is one way to

overcome some of these limitations by allowing an airline effectively to increase the size and/or depth of its network by reaching locations served by other airlines. *See* Newgren Decl. ¶¶ 17-18, 67-71. A codeshare relationship provides customers with an increased menu of destinations and feeds more passengers into an airline's network, thereby increasing demand for, traffic in, and revenue derived from the airline's main line operations. Codesharing works by allowing one air carrier to place its schedule identifier<sup>11</sup> on flights offered by another carrier. Each carrier can then "sell" the flight as its own in the computer reservations systems of the airline industry, while only one of the carriers actually operates the flight. Codesharing is both common and essential in today's airline industry as a way for an airline to increase the scale and reach of its network. This expanded scale permits the passenger to do "one-stop shopping," increasing the likelihood that the passenger will travel the entire itinerary on the two codesharing carriers, rather than pursuing other options. By using codeshare relationships, airlines can retain passenger loyalty and generate revenues without taking the financial risk of opening new stations or operating aircraft on routes where the carrier could not generate sufficient traffic on a stand-alone basis to justify operating those routes, or where slot and/or facility constraints make stand-alone operations impossible. *Id.*; Glass Decl. ¶¶ 61-70.

The existing CBA pilot agreement dramatically limits American's codesharing options. None of American's network peers face similar restrictions. These constraints, originally established in the name of protecting pilot jobs, have had the opposite effect as the industry has changed in recent years. *See* Kasper Decl. ¶¶ 108-17. Codesharing is particularly critical for an airline like American, which has a smaller network than its competition; American needs these

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<sup>11</sup> Generally, the schedule identifier is a unique two-letter IATA designation for each airline (for American it is "AA"). Each codesharing agreement determines the flights upon which code is shared.

“synthetic” extensions to its network to replicate the breadth its peers can offer organically.

Using codesharing agreements of the sort American cannot enter, Delta, Northwest, United, US Airways, and Continental radically expanded the breadth and depth of their networks, especially in comparison with American’s.<sup>12</sup> Newgren Decl. ¶¶ 67-71.

The most recent spate of mergers (Delta with Northwest, United with Continental, and US Airways with America West) effectively cemented the resulting advantages. These newly configured competitors operate vast networks that independently satisfy passengers’ travel needs in a way American cannot replicate. American cannot afford to retain labor provisions that prohibit it from seizing opportunities to win revenue, passenger traffic, and market share from its competitors, or even competing for that business.<sup>13</sup> Newgren Decl. ¶ 19.

Thus, American proposes to free itself to enter into and maintain codeshare agreements with domestic air carriers. With the ability to codeshare domestically, the Company will have the opportunity to expand its network with carriers that will most effectively feed its current and future main line operations. Specifically, [REDACTED]

[REDACTED]

[REDACTED] Newgren

Decl. ¶¶ 73-77.

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<sup>12</sup> Before Delta completed its 2008 merger with Northwest, it had a codeshare agreement with Continental that extended its network by more than 950 daily flights to 100 destinations. Similarly, Delta’s pre-merger codesharing agreement with Northwest extended the former’s network by 930 daily flights to 145 destinations. Before it merged with Delta, Northwest maintained a system-wide arrangement with Continental that extended the network of each carrier by 2,000 flights per day. US Airways’ passengers were allowed to book seats on more than 2,400 daily United flights serving over 130 destinations. In return, United saw its network expand by approximately 1,500 flights per day to more than 90 destinations. Kasper Decl. ¶ 116 n.137.

Under the current agreement, for example, American is prohibited from [REDACTED]  
[REDACTED] and its  
network is at a profound disadvantage as a result. [REDACTED]

[REDACTED]  
[REDACTED]  
Newgren Decl. ¶¶ 73-74. American's proposal would allow it, for example, to [REDACTED]  
[REDACTED] *Id.* This  
would [REDACTED]

[REDACTED]  
*Id.* Such an agreement also would produce an immediate, direct impact on revenue,  
strengthening the Company's position and ability to [REDACTED]

[REDACTED] Newgren Decl. ¶ 73.

American's proposal also would facilitate [REDACTED]  
[REDACTED]

[REDACTED] These rivals have grown their operations through broad codeshare  
agreements, subsequent mergers, and slot trades. Additionally, after restructuring in bankruptcy,  
these network carriers eliminated labor restrictions similar to those that bind American. These  
carriers have successfully leveraged their expanded networks to surpass American in the  
northeast. Newgren Decl. ¶¶ 75-77.

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<sup>13</sup> In contrast to these broad alliances enjoyed by network competitors, American is allowed only  
modest arrangements with other carriers without APA's approval. Newgren Decl. ¶18 n.14.

<sup>14</sup> Gate restrictions are different from slot restrictions. The former is a physical constraint of  
space at an airport, while a slot represents the right to schedule a landing or departure at a  
specific airport. Newgren Decl. ¶ 75 n.49. These may be traded or purchased, usually in pairs.  
*Id.*

To expand its network and recover ground lost to rival carriers, American could [REDACTED]

[REDACTED]

[REDACTED]

[REDACTED] Precisely because it has been barred from codesharing, [REDACTED]

[REDACTED] *Id.* ¶ 77, n.50. The Company's decreasing market strength has severely handicapped its ability to win and maintain corporate contracts and other high-yield East Coast traffic, particularly for [REDACTED]

[REDACTED] *Id.* ¶ 78. Without [REDACTED]  
[REDACTED]

[REDACTED] This will cripple the Company's ability to regain both its position and the customers it lost—and is losing—to network competitors over the last decade. *Id.* ¶ 79.

American would also benefit from [REDACTED]

[REDACTED] Newgren Decl. ¶ 80. [REDACTED]

[REDACTED] Newgren Decl. ¶ 82.

[REDACTED]

[REDACTED]

[REDACTED] *Id.* ¶¶ 81-82.

If American can codeshare [REDACTED]

[REDACTED]

[REDACTED] These agreements will broaden and deepen American's network, feeding it with more passengers, especially business travelers, and make increased international flying—by APA pilots—possible. These and other codeshare arrangements can make American once again the

airline of choice in these markets for domestic and international passengers, and provide long term, significant revenue benefits. Newgren Decl. ¶¶ 67-87.

**b. American Must Remove Restrictions On International  
Codesharing To Expand Its Global Reach**

The CBA also restricts American's ability to enter into international codesharing relationships. It establishes a "baseline" for international flying that American must perform with its own pilots as a pre-condition to any international codesharing. Newgren Decl. ¶ 87. The baseline is measured by the number of block hours that American flies outside the continental United States, Mexico and Canada. *Id.* As the Company adds international flights, the number of international block hours rises, automatically creating a new baseline that bars codesharing unless American maintains or exceeds that level of international flying.

The baseline is a one-way ratchet; it never decreases, but only grows. *Id.* As a result, whenever American might be forced to reduce its international schedule because, for example, of adverse economic conditions, those reductions could jeopardize American's existing international codesharing relationships. *Id.* Given these limitations, American has little incentive to inaugurate new international routes (to the benefit of American's pilots) that would increase the baseline, because any future retreat from the new service would place at risk its international codesharing agreements. This, of course, is contrary to the purpose of the restriction, which was supposedly intended to encourage American to increase the international flying done by American's own pilots. *Id.* Therefore, American proposes to eliminate the baseline.

**c. American Needs Relief From Codesharing Limits In Hawaii**

Current restrictions on American's Hawaiian operations provide a vivid example of how the pilot agreement prevents the Company from accomplishing the most essential aspect of

network planning, namely, matching resources to customer demand in order to generate profits. The agreement provides that American cannot codeshare with Hawaiian Airlines on that airline's inter-island flying unless the Company operates 10 daily flights of its own between the U.S. mainland and Hawaii. The agreement does not allow American to fly, for example, an average of 10 flights a day throughout a year or over a span of months; it must operate ten daily flights, every day of the year, regardless of season or passenger demand. Newgren Decl. ¶ 85. If the Company dropped to nine flights when demand decreased and then increased its schedule to 11 flights when there were passengers to justify it, the Company would lose the right to codeshare with Hawaiian. *Id.*

Delta, United, and US Airways are not similarly restricted. They tailor their operations between Hawaii and the mainland based on customer demand. *Id.* If American did the same thing it would be forced to end the profitable codeshare relationship it has with Hawaiian Airlines. By codesharing on Hawaiian inter-island flights, American is able to increase demand for its mainline operations and, as a result, increase both flying opportunities for American pilots and revenue for the Company. It does not serve the interests of American or American's pilots to prohibit the Company from codesharing with other carriers for Hawaiian inter-island flying. *Id.* ¶ 86.

**D. American Cannot Reorganize If It Remains Limited In The Use Of Regional Jets**

**1. Restrictions On The Size Of Regional Aircraft Must Be Relaxed**

Among the most critical aspects of "network planning" for any airline is matching the aircraft serving a community with the opportunity the community presents. Widebody 777s and 70-seat regional jets are not fungible; an airline must have the appropriate "gauge" of aircraft to operate in a market or it cannot operate profitably. Newgren Decl. ¶¶ 53-54. American's

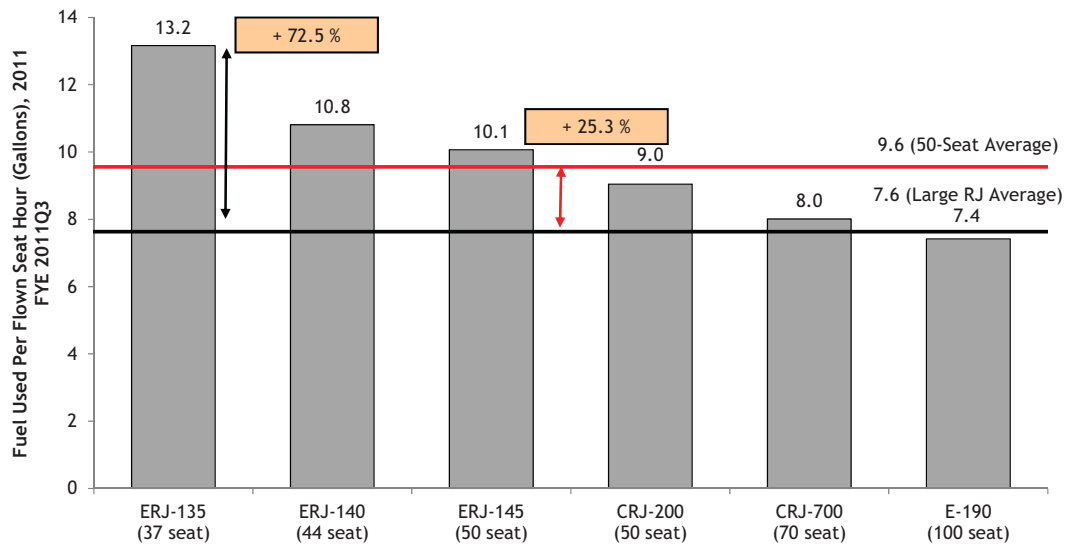


existing CBA agreement sharply limits the kinds of aircraft its commuter partners can operate. With limited exceptions, American's partners (and thus American's regional passenger feed) is confined to regional carriers flying planes with 50 seats or fewer.<sup>15</sup> Manufacturers are no longer making these small planes because they are so fuel-inefficient that they are no longer commercially viable. Newgren Decl. ¶¶ 56-59.

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<sup>15</sup> In negotiations, APA has suggested that American should bring this partner flying in-house and give that work to APA-represented pilots. This is not a workable substitute. Even setting aside the problem of pilot pay rates (which APA says that it can solve), third-party operators commonly have lower cost structures than mainline operators in most areas: flight attendant expenses, maintenance expenses, and ground handling expenses. Moreover, carriers like American rely on competition among third-party operators to obtain excellent service at favorable rates, and to lock those rates in under long-term contracts. For these reasons, no network airline does this work in-house; they all use partner airlines. Vahidi Decl. ¶ 18.

**FUEL CONSUMPTION PER SEAT HOUR OF REGIONAL JETS**



Source: U.S. DOT Form 41 schedule P-5.2 and schedule T-2.  
Notes: Calculated as Air Fuels Used / Total Air Hours / Seats, where Seats are the based on the configuration shown in the exhibit.

Moreover, aircraft in the 50-seat and smaller range cannot be operated in the two-class configuration that generates revenue premiums and is favored by business travelers. Newgren Decl. ¶ 58.

Thus, the trend in the industry—everywhere but at American—has for years been towards regional jets (“RJs”) with more than 50 seats—most often with 70 or more seats. Currently, American has APA’s permission to contract for regional flying from partners using precisely 47 specific jets with more than 50 seats,<sup>16</sup> and when those jets have to be retired, American is not allowed to replace them. Newgren Decl. ¶ 20. These restrictions are unique in the industry. United is not restricted at all in the number of 51-plus-seat RJs it can fly, Delta can fly 255 of them, and US Airways can fly more than 300.<sup>17</sup> *Id.* ¶ 55.

<sup>16</sup> American also may operate 43 ATR 72-seat turboprop planes. Newgren Decl. ¶ 55 n.38.

<sup>17</sup> Glass Decl. ¶ 81. The relevant provisions of the US Airways pilot agreement are complex, made even more so by the merger with America West, which had its own pilot agreement with its own scope clause, and those provisions make it difficult for an outsider to determine the

To remedy this competitive disadvantage, American proposes that the Agreement be revised to allow American to operate—either directly through owned commuter carriers or indirectly through its non-owned commuter partners—up to 255 aircraft<sup>18</sup> with as many as 88 seats and with a “maximum take-off weight” of 114,500 pounds.<sup>19</sup> Newgren Decl. ¶ 60. The Company proposes to deploy larger regional jets on scores of routes where the Company either cannot make money with the smaller planes currently in use by its partners or where it can materially improve its returns. American would be allowed to fly through its regional partners 255 RJs with as many as 88 seats, or a number equal to 50% of the total number of mainline aircraft in its fleet, whichever is greater. American intends to put these resources to immediate use and maximize revenue and passenger feed for its current and future mainline operations. Where it can continue to do so economically, American will continue to fly 50-seat aircraft through American Eagle. These changes will allow American to compete more effectively with LCCs for this critical passenger “feed” into its own network. Newgren Decl. ¶¶ 53-67.<sup>20</sup>

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precise number of large RJs US Airways can or does use. Nonetheless, as the Glass Declaration makes clear, the number is vastly in excess of the number American can *or* now seeks to be able to use.

<sup>18</sup> More precisely, the proposed limit would be the greater of 255 aircraft of this size or a number equal to 50% of the number of mainline aircraft in use at American at the time.

<sup>19</sup> Today, restrictions upon commuter operations vary depending upon whether American owns the commuter carrier. If it does not own the commuter carrier, further limits apply to where the carrier can fly. *See* CBA § 1.D.5. Under American’s proposals, any provisions in the Agreement applicable to commuter carriers owned by American would govern all commuter carriers.

<sup>20</sup> American proposes to modify the restriction on the total number of regional aircraft that can operate on its behalf so that it applies only to aircraft with 50 or fewer seats. American and its regional partners can only operate 1.1 times the number of single-aisle (i.e. “narrow-body”) aircraft in American’s fleet. Delta-Northwest and United Continental have no such limitations. Newgren Decl. ¶ 61. If American obtains the freedom to use regional jets in the manner described above, the ratio may prove to be an impediment.

## 2. American Needs Fewer Restrictions On Regional Partner Flying

Although most of the Agreement's restrictions on commuter operations apply whether American owns the commuter operation or operates through a partner airline, one restriction applies differently to AMR-owned commuter carriers. Specifically, American-owned commuter carriers (i.e. American Eagle) can operate only a limited number of nonstop flights between specific cities where the Company maintains a larger presence—Dallas/Ft. Worth (“**DFW**”), Chicago-O’Hare (“**ORD**”), Miami (“**MIA**”), San Francisco (“**SFO**”), New York-LaGuardia (“**LGA**”), St. Louis (“**STL**”), San Juan (“**SJU**”), JFK and LAX. Other regional carriers providing feed to American are barred entirely from any nonstop service between those cities. Newgren Decl. ¶ 64. Network carriers often use smaller RJs to supplement their service between larger hub cities at non-peak hours when there would be too few passengers for a large mainline jet to operate profitably. The pilot agreement, however, prohibits the Company from using regional aircraft in hub-to-hub operations. Moreover, owned commuter carriers must operate 85% of their flights into or out of these facilities, whereas all flights of non-owned commuter carriers on behalf of American must be into or out of one of these cities. *Id.* ¶ 65.<sup>21</sup>

American's Business Plan calls for diversification of regional feed among American Eagle and other regional carriers. The Company proposes that all commuters operating on behalf of American should be governed by the slightly less restrictive rules currently applicable to Company-owned commuter carriers, as modified by other proposals. Additionally, the Company's proposal narrows the list of hubs and major airports where it cannot fly smaller regional jets to include only its cornerstone cities: DFW, ORD, MIA, JFK, and LAX. Newgren

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<sup>21</sup> The cities are: Dallas/Ft. Worth (“**DFW**”), Chicago-O’Hare (“**ORD**”), Miami (“**MIA**”), Kennedy Airport (“**JFK**”), Los Angeles (“**LAX**”), San Francisco (“**SFO**”), New York-LaGuardia (“**LGA**”), St. Louis (“**STL**”), and San Juan (“**SJU**”). Newgren Decl. ¶ 64.

Decl. ¶ 66. As a result, the “no commuters between hubs” restriction would then only apply to these five cornerstone markets. *Id.*

**E. Inefficient Work Rules Must Be Altered**

American’s competitive disadvantage and industry-leading pilot costs per block hour are due at least as much to inefficient work rules as to pilot wages. Work rules include the bidding system through which pilots bid on the routes they want to fly each month, the monthly limit on pilot hours, the reserve system, and a variety of additional measures, all described in detail in the Newgren Declaration. As work rules are the source of many excess costs and waste, more than 40% of the Company’s Section 1113(c) proposals are directed at revising work rules—more than any other category. *See generally* Newgren Decl. ¶¶ 115-48.

As noted above, American’s pilots receive more in pay and benefits than their peers but work far fewer hours. As a result of this low productivity and inefficiencies in the current bidding system and work rules, the Company is compelled to keep up to twice as many reserve pilots on the payroll as other network carriers. To reverse these and many other competitive disadvantages, American’s proposals institute dramatic increases in pilot productivity and streamline inefficient operations.

**1. Implement Preferential Bidding**

Under the existing Agreement, American’s pilots bid in seniority order for a monthly schedule. Most pilots bid on a fixed schedule of trips for each work assignment called “trip sequences” (these pilots are called “line” or “lineholder” pilots). Thus, a pilot may bid to fly from New York to Los Angeles and back several times during the month, or on a mix of different city pairs. “Reserves,” on the other hand, bid for specific days on which they will make themselves available to be assigned to flights that for a variety of reasons are not otherwise covered by line pilots, rather than on a fixed schedule of city pairs. On the designated days, the

reserve pilot must be available to take flights for which he or she is qualified but that are otherwise unstaffed because, for example, the scheduled line pilot has called in sick. Newgren Decl. ¶¶ 116-20.

Although this system sounds simple enough, it is profoundly complex, inefficient, and costly. It must match the pilot's qualifications (the aircraft he or she is trained to fly), division (international or domestic), and "seat" (Captain or First Officer) to the published schedule and a dizzying array of contractual limitations on the times pilots are allowed to fly. The Federal Aviation Regulations ("FARs") also impose limits on the duties of commercial airline pilots, but currently, the Agreement uniformly imposes more stringent restrictions on American than do the regulations. *Id.* ¶ 117.

As a result, the current bidding process results in numerous scheduling conflicts—some accidental, some deliberately created by the bidding pilots. For example, the system currently permits a pilot to "bid into a conflict" and create a situation in which he will be awarded a flight that he knows he will not be able to fly. Suppose a pilot who holds a sequence at the end of May that continues into June then bids on and is awarded a sequence at the beginning of June. The two sequences conflict—the pilot cannot fly both flights either because the sequences conflict directly or indirectly due to rest limitations. American is obliged to relieve the pilot of the awarded trip and pay him his guaranteed rate under the Agreement. In addition, the Company must also pay another pilot to take the original pilot's place on the conflicting flight. Essentially, the Company is forced to pay two pilots to man a single seat on a single flight when only one of them is on board the aircraft. Newgren Decl. ¶ 118.

Even if the Company did not have to pay more than one pilot to do a single job, this system makes it difficult to utilize reserves efficiently because of the significant number of open

trips (i.e., trips that are not assigned to a specific pilot for a variety of reasons, such as the assigned pilot being sick, weather cancellations, military assignments, etc.) that exist at the beginning of a month due to month-to-month conflicts and conflicts created throughout the month. This results in the Company requiring a greater number of reserves than would otherwise be the case; most of American's reserve pilots actually fly less than their pay guarantee each month, some by a significant amount. *Id.* ¶ 119.

To remedy this and other inefficiencies, American proposes to implement a preferential bidding system (“**PBS**”) similar to systems used at other network carriers, and to delete all of the provisions of the current Agreement that are inconsistent with such a program.<sup>22</sup> Instead of bidding on lines of time created by the Company before the bidding starts, pilots start by submitting (and revising as often as they like) their preferences for an “ideal” schedule, limited only by their seniority and qualifications—the amount of flying they want to do, the days on which they do and do not want to fly, the kinds of flights they want to fly, the city pairs they want to fly, and a variety of other factors. Using these established, pre-set preferences (and, of course, pilot seniority), the Company's software then will automatically build lines that fit the schedule and, as nearly as possible, the desires of the pilots and yet permit the airline to operate efficiently. Because the system would know in advance about the pilots' other scheduling obligations, it would automatically avoid creating conflicts with overlapping trips, vacations, military duty, training, and other similar events. American would pay less for trips dropped

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<sup>22</sup> APA agrees in principle that American should be able to implement a PBS, but assumes that it will save a much larger sum than American estimates, in part because APA makes the unsubstantiated assumption that the system will all but eliminate American's industry-worst sick usage. Newgren Decl. ¶ 120.

because of scheduling conflicts and the Company would require fewer reserve pilots. Newgren Decl. ¶ 120.

## 2. Revise Cap On Pilot Flying

Pilots are paid for time they actually spend flying aircraft (block hours or “hard” time), and for “soft” time—time spent on a variety of activities that involve duty-related time but not flying (traveling to be in position to take a flight assignment, waiting for arriving aircraft, etc.). Newgren Decl. ¶ 121. As noted above, the Company cannot currently schedule its pilots for more than 78 such hours per month and the practical limitations of the scheduling system mean that the monthly average maximum is closer to 75 hours. *Id.* at ¶¶ 14, 121-23. The Agreement also prohibits pilots from voluntarily flying beyond 83 hours per month, even if they are willing to fly and the Company is in needs of additional pilot time. *Id.* ¶ 121. At United, the scheduling cap is 95 hours for narrowbody aircraft and 89 hours for wide-body planes. At US Airways and Alaska Airlines, the lowest cap is 85 hours and can rise as high as 95 hours. At Delta, the maximum is a variable number that allows the company to build schedules that average up to 82 hours. The Continental unit of United can schedule up to 91 hours in four months of the year and 87½ hours in any other month of the year.<sup>23</sup> *Id.* ¶ 122.

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<sup>23</sup> Lines will be built with a value no less than three and no greater than seven hours above or below that monthly average. The Company, based largely on anticipated passenger demand would set the actual average in a given month. Pilots could also voluntarily add time to the maximum allowed by FARs, limited to the monthly average line value for their bid status plus the monthly line construction window (approximately 7 hours) —should the Company need that flying. Newgren Decl. ¶ 123.



### 3. Increased Maximum On-Duty And “Duty-Aloft” Hours; Revise Rest Requirements

Currently, pilots in two-pilot domestic and international operations can be on-duty for a maximum of 12½ hours per day with a flight time limitation of up to 8 hours.<sup>24</sup> A different series of limitations applies to flights with crews of three or four pilots; they are scheduled generally on longer trans-oceanic routes.<sup>25</sup> “On-duty” hours include not only time flying airplanes, but also encompass all other working time—for example, the time after a pilot is required to report to the airport for a flight but before the departure time, the period at the conclusion of the flight, and time spent waiting for arriving aircraft or between flights during a single duty period.<sup>26</sup> Newgren Decl. ¶ 131.

Additional contractual and regulatory limits apply to the amount of time in any 24-hour period that a pilot may be “aloft” in relation to a specific amount of rest. For duty aloft of 8 hours or less, for example, pilots are contractually entitled to 10 hours of scheduled rest.<sup>27</sup>

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<sup>24</sup> The maximum specific on-duty limitations in the Agreement vary with the flight departure time. *See* CBA § 15.C.1. For flights departing between 0600 and 1759, the maximum scheduled on-duty time is 12½ hours with an actual maximum duty time of 14 hours. However, for departures between 1800-2059 and 2100-0559, the maximum duty time is generally—*i.e.*, without breaks—13 and 12 hours, respectively. Pilots’ schedule maximum for the various time periods is 12½, 11, and 10 hours, respectively.

<sup>25</sup> When a third crewmember is assigned, pilots may be scheduled on duty for as many as 14 hours and actually be on duty as long as 15 hours. CBA Supp. ¶ I.C. In such situations, the crew may be aloft for over 8 and up to 10 hours, with as many as four en route landings, or between 10 and 12 hours, with as many as 3 en route landings. A fourth crewmember increases the scheduled limit to 16 hours and up to 14½ hours flight time. *Id.* Different rest periods also apply. *Id.* § I.D. A separate letter agreement with APA provides for a scheduled duty period of 18 hours (*i.e.*, up to 16½ hours flight time) on the Company’s ORD-DEL route.

<sup>26</sup> *See* CBA § 15.C.3.a.1.

<sup>27</sup> *Id.* § 15.C.3.a.2.

Different limits apply to longer flights.<sup>28</sup> Still other rules govern rest requirements for reserve pilots.<sup>29</sup> Current federal regulations impose less stringent flight, duty, and rest requirements than the current CBA. However, the FAA has revised those regulations prospectively with new limits that are more science-based with respect to rest and fatigue. The new regulations are scheduled to take effect on January 4, 2014.<sup>30</sup> Newgren Decl. ¶ 132.

From the date of signing of a proposed new Agreement through the effective date of the new regulations, American proposes to recalibrate its system to align its flight, duty, and rest restrictions with the new regulations, but also to reserve the right in the interim to implement elements of the more generous current regulations. Revising American's computer systems that calculate and track flight and duty time is no simple matter. Rather, new programs must be written and others modified—a process that is expensive as well as time- and labor-intensive. Depending upon when a new agreement is reached, American is likely to need until January 2014 to implement the new regulations. However, if the new rules are revised or delayed by court action, American proposes to implement as many of the current regulations as it can in a cost-effective manner. Even if the new regulations are not delayed, American seeks the flexibility to implement elements of the current regulations if it can identify a quick, cost-effective way to integrate elements of the current FARs.<sup>31</sup> Existing provisions of the Agreement that are inconsistent with these revisions will be eliminated. *See* Newgren Decl. ¶ 133.

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<sup>28</sup> For flights lasting at least 8, but less than 9, hours aloft, pilots are entitled to 10 hours of rest. *Id.* For flights lasting 9 or more hours, pilots must be scheduled for 11 hours of rest. *Id.*

<sup>29</sup> These are found in Supplement AA to the CBA.

<sup>30</sup> *See* Flightcrew Member Duty and Rest Requirements, 77 Fed. Reg. 330 (Jan. 4, 2012).

<sup>31</sup> At this time American has not determined which, if any, aspects of the current FARs could be implemented in such a manner.

Specifically, American proposes to modify the international schedule on-duty maximum to 18 hours in a 24-hour period for a crew comprised of one captain and three first officers. American also proposes to remove the current contractual limitations on the periods in which the reserve pilots will be available for assignment (“**Reserve Availability Periods**” or “**RAPs**”) following scheduled days off and the requirement that RAPs must begin on the hour. Newgren Decl. ¶ 134.

#### **4. Increase Flying By Check Airmen**

American’s pilots are trained by other American pilots. The trainers are called “Check Airmen.” Some Check Airmen train pilots in simulators while others accompany pilots who have just completed training on actual flights to receive their initial operating experience (“**IOE**”) and evaluate their performance. Newgren Decl. ¶ 125. American employs approximately 200 Check Airmen, some dedicated to every fleet type the Company operates. Just as American must increase productivity and efficiency in main line pilots, it has offered proposals to obtain similar improvements from its Check Airmen. *Id.*

First, in order to increase productivity from this work group, American proposes that Check Airmen could be assigned to work a maximum of 17 days each month instead of the current 16. The Company would retain the option to increase a Check Airman’s schedule to 18 days, and the Check Airmen will have the option to work three additional days, if needed, up to a maximum of 20 days per month. *Id.*

Second, for ten months each year, American’s Check Airmen focus on their simulator and IOE work. For the remaining two months each year, however, these pilots “return to ‘fly the line,’” to handle regular flights to keep their own skills sharp. Newgren Decl. ¶ 126. There are no minimum hour requirements for Check Airmen during these months and while many take advantage of the month to maintain and further hone their skills, others bid “reserve” and do very

little, if any, actual line flying. To ensure that Check Airmen maintain their skills and that the Company receives the flying for which it pays, American proposes to reduce line flying to one month per year and allow each Check Airman to choose between two options how they perform this flying. *Id.* ¶ 128. They can: (a) return to the line for a month, where they will be required to fly a minimum of 73 block hours; or (b) fly on assigned various flight sequences designated by management totaling 73 hours. American's proposed change to provisions related to Check Airmen will save an average of \$5 million per year. *Id.*

Also, American currently lacks a mechanism to satisfy training needs if its system becomes overwhelmed due to unforeseen events. This would create a training backlog, increasing both costs and frustration on the part of American and its pilots. As a result, American proposes the freedom to devote personnel other than Check Airmen to perform simulator pilot training at the Flight Academy to handle unanticipated training volume. *Id.* ¶ 130. In addition, the Company would add additional personnel to assist in the training of pilots at the Academy or other locations on a new aircraft type for up to one year after it is introduced to the fleet. *Id.*

#### **5. Allow Efficient Assignment Of Pilots When Others Are Displaced**

When a newly trained pilot completes his IOE, the Check Airman evaluating the pilot's performance sits in the cockpit with the pilot being evaluated. Under the CBA, IOEs are scheduled after pilots around the system have already bid on and been awarded flights for the coming month. As a result, the IOE pilot and the Check Airman displace the pilots who had been scheduled to fly the aircraft and American pays both the IOE crew and the displaced pilots for the flight, even though the latter do not fly. *Id.* ¶ 129. The Company has made several proposals to eliminate these wasteful costs.

American proposes that its Flight Standards department be allowed to pull sequences for training purposes out of the schedule before pilots are allowed to bid on them, or, if it chooses, to pull “open” or unassigned time from the schedule at any point during the month to be used for IOE flights. By pulling sequences for IOE assignments before they are bid or using already-unassigned flights, American will avoid the need to displace flight crews and pay twice for the same flight. Newgren Decl. ¶ 139.

American faces similar waste on long-haul IOE flights when it is forced to displace first officers.<sup>32</sup> The vast majority of American’s flights require only one captain and one first officer, designated as “CA” and “FO” in the Company’s computerized bidding and tracking system. On longer flights, however, regulations require either one or two additional First Officers, depending upon the length of the flight. Because the bidding system cannot be programmed to have more than one FO on a single sequence, these additional pilots are designated in the system as “FB” and “FC” and are bid for separately. *Id.* ¶ 140. Currently, the Check Airman will displace the First Officer who was awarded the “FO” position. If either the FB or FC seat is in open time (that is, not currently assigned to any pilot), the displaced FO cannot be assigned to either the FB or FC position. Instead, a reserve FO is assigned to the open seat and the original FO is sent home with full pay. American proposes that if there is an open FB or FC position on that flight, it be permitted to move the displaced FO into either the FB or FC position, instead of filling the position with a reserve FO. These changes will save the Company an average of \$1 million per year. *Id.*

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<sup>32</sup> These flights involve pilots who are being certified to operate some of the largest aircraft owned by American.

## 6. Modify The Reserve System

Like its competitors, American employs reserve pilots qualified and ready to fly each of its aircraft to fill in when its main line pilots cannot fly a particular sequence or flight. Unlike its competitors, however, several inefficiencies in American's pilot CBA agreement force it to employ a far greater number of reserves than its rivals. Newgren Decl. ¶ 142. Although the number of reserves varies each month, on average 25-30% of American's pilots are reserves, far more than network competitors such as Continental, where only 13% are reserves. The costs of maintaining such a large reserve force is enormous. Each month, American must guarantee pilots flight pay equaling a minimum of 73 hours. *Id.* ¶ 143. But, 80% or more of these reserves do not fly the minimum hours reflected in that guarantee. *Id.* American thus pays the vast majority of its reserves every month for flights they never fly. This cannot continue if American is to emerge from bankruptcy and grow in today's airline industry.

To remedy these inefficiencies and fix this broken reserve system, American has made several proposals. It would, first and foremost, replace the current reserve assignment system, which tries to utilize guarantee reserve hours on an *ad hoc* basis and almost invariably leaves paid-for reserve flight time unused. *Id.* ¶ 144. Thus, for example, today a reserve with five days of availability must be assigned the next trip, even if it is only two days long, and even if there is an open five-day trip awaiting assignment. *Id.* ¶ 145. Under the proposed system, the scheduling computer will process seniority, future schedule, conflicts, legal and contractual limits, and other factors to make assignments that optimize available reserve resources, matching trips with availability. *Id.* American proposes to revise the reserve monthly maximum to equal the bid line maximum of the bid status or 85 hours, whichever is greater. The new reserve system will require more productivity from reserves and eliminate much of the waste and inefficiency of the current system.

American also seeks to combine its two current reserve divisions (domestic and international) so that available and otherwise qualified pilots can be assigned to either international or domestic flights. Newgren Decl. ¶ 141. This will further streamline scheduling and increase efficiency. The Company also proposes to afford reserve pilots the option to volunteer for flying on their days off for additional compensation, whenever the Company needs their services. *Id.* ¶ 147. Together, these changes will save American \$4 million per year on average. *Id.* ¶ 141.

Finally, American proposes to eliminate pay premiums for RAPs. Currently, reserve pilots must make themselves available for flight assignments within a particular window of time or RAP. Newgren Decl. ¶ 106. During that window of time, the pilot must be ready and able to take a flight assignment on short notice. Reserve availability periods are usually 15-16 hours in length. Today, for each RAP in excess of seven hours during a given month, the reserve pilot is entitled to a premium of two hour's pay.

#### **7. Revise Contractual Months Of April And June**

In the pilot world, the calendar month is not the same as the contractual month. The fact that a calendar month can have from 28 to 31 days can make pilot scheduling particularly vexing. The contractual months July and August, for example, are 30 days long. As these summer months are some of the Company's busiest, American benefits from the shorter number of days as all of the agreement's monthly limits reset more quickly, thus saving the Company money. Newgren Decl. ¶ 148. American proposes that for bidding purposes, the CBA treats June as a 30-day month and April a 31-day contractual month.

#### **F. Bring American's Employee Benefits Into Line With The Industry**

American provides its pilots with some of the richest benefits packages in the industry—benefits that its network rivals have long since abandoned. Newgren Decl. ¶ 15. The

Company's retirement and medical plans are generous by any standard, both in terms of the benefits provided and the low cost to the employee of enjoying it. The ongoing costs of these benefits are a staggering limitation on the Company, one only aggravated by the fact that American's competitors have escaped similar financial burdens. Here American briefly describes the changes it proposes to its various benefit plans. A more comprehensive discussion of the proposal is contained in the Declaration of Carol Wright. AA. Ex. 600.

### **1. Retirement**

American maintains a defined benefit plan. It is the only network carrier obligated to do so. Over the last decade, the Company's competitors have terminated (Delta, United and US Airways) or frozen (Continental and Northwest) their benefit plans. American and Alaska are the only United States carriers to maintain such a plan. Glass Decl. ¶ 273.

The Company's defined benefit plan provides the most generous pilot retirement in the industry. Indeed, last year, the average pilot's lump sum payment from the defined benefit plan alone was nearly \$750,000, and when combined with the lump sum payments from the defined contribution plan, the total averaged more than \$1.7 million. The largest combined lump sum payment last year was more than \$3.8 million. Newgren Decl. ¶ 15. American cannot expect to compete—much less prosper and grow against its network carriers—when it is saddled with enormous costs that its rivals are not forced to shoulder.

As described in greater detail in the Wright and Brundage Declarations, American's initial Term Sheet sought to lay the groundwork for a later request to the Court to terminate the defined benefit plan. See, *e.g.*, Brundage Decl. ¶ 43. That proved to be among the most unpopular measures American proposed, and the Company listened. Accordingly, the Company is working with APA, the Pension Benefit Guaranty Corporation and the Unsecured Creditors' Committee on a way to freeze, rather than terminate the pension plan. *Id.*



An obstacle to that change in position exists. The plan currently provides a lump sum option that pays, on average, more than a million dollars to each retiring pilot. If that provision remains in the plan, even if it has been frozen, American expects (and APA does not dispute) that on exit from Chapter 11 there will be a mass exodus of pilots from the Company, making it all but impossible to operate the airline. Newgren Decl. ¶ 179. Quite simply, leaving the plan frozen but otherwise unchanged, with the lump sum option, would almost certainly lead to liquidation. Because of various pension-related restrictions on the ability to remove provisions from existing plans—even if they are frozen—there remains work to do to accomplish the parties’ joint goal. For the time being, and given the catastrophic consequences of a surviving plan with a lump sum option, American has no alternative to continue to lay the groundwork for plan termination, but the parties are working hard to avoid that result. *Id.* Upon reaching an Agreement with APA, American proposes to replace the current defined benefit and defined contribution plans with a benefit through the SuperSaver 401(k) Plan with a 13.5% Company contribution. *Id.*

## **2. Medical Benefits For Active Pilots**

Employee health coverage is one of American’s fastest growing costs. Although all airlines face similar pressures, American nevertheless faces an even greater disadvantage than its peers because its employees pay far less for their benefits than their peers at other carriers and the plans themselves are significantly more generous. Therefore, American has proposed numerous revisions to the existing active medical plan.

The details of this proposed coverage are described in the Declaration of Carolyn E. Wright, American’s vice president of Human Resources. Each employee will have the option to select from three plan designs (Standard, Core, and Value) to create the benefit package that best fits his or her healthcare needs. Newgren Decl. ¶ 181; *see also* AA Ex. 600. These plans

allow employees to select a high-deductible plan with a lower monthly contribution, a low-deductible plan with a higher monthly contribution, or something in between. The proposed medical plan also will provide employees with a four-tier contribution structure that bases monthly contributions on the employee's family enrollment selections. The employee monthly premium cost share for the Standard and Core Plans will be 17% for the employee-only selection and 22% for the employee-plus-family selection. American's proposed medical plan is competitive with plans offered by other large employers, as well as the other large network carriers. The proposals relating to medical benefits for active pilots will save an average of \$29 million per year. *Id.*

### **3. Eliminate Free Medical Benefits For Retired Pilots**

Retired American pilots currently enjoy full medical coverage for life. They pay absolutely nothing for this benefit. Newgren Decl. ¶¶ 16, 184. No other network carrier provides a similar benefit free of charge and American cannot afford to compete and continue to do so. Glass ¶ 283. As a result, American proposes to amend all of the provisions in the Agreement that either directly or by implication require it to maintain, fund, or provide retiree medical or retiree life insurance benefits, including elimination of the retiree medical and retiree life insurance references. Newgren Decl. ¶ 184.

Under American's proposal, early retirees—pilots aged 50-64—will be allowed to participate in a company-sponsored retiree medical plan at their own cost. Wright Decl. ¶ 39. American will terminate existing medical benefits and life insurance for retired pilots aged 65

and over. Wright Decl. ¶ 40. These retiree pilots will have the opportunity to purchase a guaranteed-issue Medical supplement plan through a third party administrator. *Id.*<sup>33</sup>

#### 4. Sick Leave, Long Term Disability, And Injury On Duty

American has a profound problem with pilot sick usage:

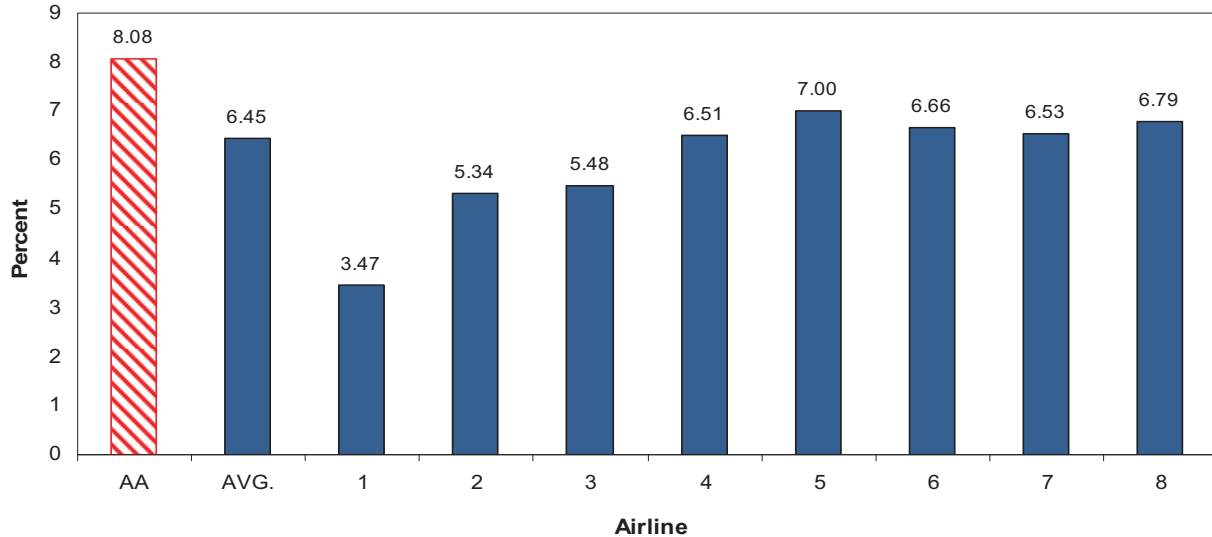
- Sick leave usage at American has increased by 60% since 2000, but there is no reason to believe that the population of pilots is 60% sicker since that date.
- American spent \$88.6 million on pilot sick leave in 2011.
- By the end of February 2012—just two months into the year—more than half of American’s pilots had taken some sick leave.
- Although pilots accrue 60 hours of sick leave each year (more than a month’s worth of flying), the average pilot is paid far more each year—78.4 sick hours in 2011, excluding workers’ compensation sick pay.
- Almost 2,000 (or approximately 20%) of American’s pilots used between 81 and 160 hours of sick leave last year.

Newgren Decl. ¶ 157. This sick leave problem is uniquely American’s. *Id.* ¶ 158. As the chart below shows, American’s pilots use vastly more sick leave than their peers at the other carriers:

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<sup>33</sup> The proposals described in the text affect only benefits that would apply to currently employed pilots when they retire. Benefits for currently retired pilots will be the subject of a subsequent Motion.

**Pilot Lost Time Data American Airlines vs. 8 Passenger Carriers for Calendar Year 2011**<sup>34</sup>



This issue must be addressed if the Company is going to prosper once it has emerged from the protection of the court. American has made extensive proposals to change the rules governing the use of sick leave to cut costs, reduce the many avenues of potential abuse, and align the Company with its network peers. The proposals are discussed at length in the Newgren Declaration.

Briefly, the proposal creates two sets of rules, one applicable to pilots who are sick for seven or fewer days (incidental sick) and the other to illness longer than seven days (managed care sick). Newgren Decl. ¶ 161. For the first two occurrences of sick leave usage each year a

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<sup>34</sup> AA Ex. 1302. This chart is a scrambled display of pilot “lost time” data from Alaska, Continental, Delta, Hawaiian, JetBlue, Southwest, United and US Airways compiled by industry trade association Airlines For America. See Declaration of Robert DeLucia, AA Exs. 1300-02. American is not included in the industry average reflected in the graph. The lost time percentage measures total paid lost time hours/total credited hours. “Total paid lost time is composed of paid sick leave, injury on duty and pregnancy hours. It does not include short or long term disability. Total credited hours is composed of block-to-block hours plus all credited time including duty rigs, vacations, training and deadheading.” *Id.* AA Ex. 1302.

pilot takes—or 36 hours, whichever occurs first—pilots will be paid at 100% of their hourly base rate. *Id.* ¶ 162. Additional sick occurrences lasting fewer than eight days, the pilot will be paid at 60% of his hourly base rate, only if he provides substantiation to an independent third party “Absence Management Vendor” (“AMV”) that it accepts and approves. *Id.* ¶ 163. Different rules apply to sick occurrences greater than seven days. After the first 36 hours (or two occurrences) and through the seventh day, leave is paid at 60% of pay—again, so long as it is medically substantiated and approved by the AMV. *Id.* Beginning on day eight and continuing, the pilot will be paid from his available sick bank at 100%, if and only if he medically substantiates his illness and complies fully with the managed care program administered by the AMV. *Id.* ¶ 165. If a pilot uses all the sick leave he has accrued, he will be placed on unpaid sick leave of absence for up to three years. *Id.* ¶ 166. To remain on leave he must continue to submit medical substantiation and failure to return to work within three years will result in administrative separation, as permitted by law. *Id.* ¶ 166.

American has proposed to reduce the use of sick leave for unintended purposes and eliminate contractual provisions that facilitate it. For example, the Company has noted that sick leave usage increases significantly around holidays, pilot vacation, training, or military engagements, and big cultural events like the Super Bowl. The current CBA lacks a quick, efficient mechanism to investigate or address such abuse. Therefore, American proposes that it may require medical substantiation, case management, and review when it reasonably suspects abuse of sick leave. *Id.* ¶ 167. The Company also proposes to eliminate arcane invitations to inappropriate use of sick leave such as “sick if needed” (which permits pilots to claim sick leave without using any banked sick time), rapid reaccrual of sick leave (which accelerates the rate at which sick leave accrues over the already generous levels), and other provisions that refund sick

time used when the pilot returns to work. *Id.* ¶¶ 169-73. These proposals will provide proper wellness incentives, increase productivity, and discourage sick leave abuse while continuing to provide pilots leave to recover from illness. Together, these proposals will save American an average of \$43 million per year. Newgren Decl. ¶ 161.

**G. Eliminate Wasteful Compensation Practices**

Currently, the hourly pay rate applicable to any individual pilot depends on the type of aircraft he flies, his position (Captain or First Officer), and whether the individual flies domestically or internationally. American proposes to change each aspect of this formulation while maintaining existing pay rates.

**1. Implement Pay “Groups” For Equipment Types**

Under the current CBA, every type of equipment American flies has a separate pay rate; the larger the airplane, the higher the rate of pay for that airplane. Newgren Decl. ¶ 90. In many cases, these hourly wage rates differ by small amounts—sometime by only a few dollars per hour. American proposes to replace this structure with six pay “groups” that collect aircraft by size and function, as described in the chart below:

<b><u>Pay Group</u></b>	<b><u>Aircraft Types</u></b> <sup>35</sup>
I.	Any aircraft configured with more than 88 but fewer than 118 seats, as operated
II.	A319, A319neo, B737-700, B737-7MAX, Bombardier CS300
III.	MD80, B737-800, B737-8MAX, B737-900, B737-9MAX, A320, A320neo, A321, A321neo
IV.	B757 (grandfathered as exception), B767-200, B767-300, A300

<sup>35</sup> Where an aircraft family is listed in a group instead of individual aircraft models, all variants of that family are included within the group.

V.	B767-400, B777-200, B777-200ER, B777-200LR, B777-300, B777-300ER, B787-800, B787-900, B787-10, A332, A333, A340, A350
VI.	A380, B747

Newgren Decl. ¶ 91. Each pay group will have a single wage rate. *Id.* ¶ 92. If American buys a new kind of aircraft, it will be placed in one of the wage groups based upon its seating capacity as operated by American.<sup>36</sup>

American projects that this new structure will reduce costs. In the future, when a pilot moves into a new piece of equipment, the new pay rate for the group will often be somewhat lower (for some equipment types) than it would have been under the current structure. The difference amounts to a cost savings. For example, the Business Plan contemplates that American will retire many of its existing S80 aircraft. The pilots in those aircraft might voluntarily bid into the Company's quickly growing 737 fleet, or they could be displaced and forced to move into the new aircraft. Under the current pay structure, these pilots would have received a raise, because the 737 rate in the current Agreement is higher than the S80's. Under American's proposal, their rate would stay the same because the S80 and the 737 are in the same group. *Id.* ¶ 93.

As noted above, however, American was intent on protecting the take-home pay of pilots in their current positions to the greatest extent possible. Accordingly, the Company proposes that individuals who are in an aircraft type joining a group with a lower rate than the one they currently receive would maintain that current rate (adjusted annually for any raises) for three years or until the pilot bids into different aircraft, whichever occurs first. *Id.* ¶¶ 90, 94.

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<sup>36</sup> Additionally, the proposal provides a mechanism for "slotting" new aircraft with a seat-count greater than the largest aircraft in one group but lower than the smallest aircraft in the next highest group. Newgren Decl. ¶ 92.

Additionally, these pay groups will: (a) eliminate wasteful incentives for pilots to move between similar equipment, as the wage rate applicable to similar aircraft will be the same; and (b) ensure that there will always be an applicable pay rate for any new equipment family or type the Company acquires.<sup>37</sup> *Id.* ¶ 95.

The pay groups described above were constructed based on the Company's Business Plan, which contemplates American becoming much more competitive, in part, by acquiring a new fleet of aircraft with more than 88 seats. If the Company is to enter into long-term leases on these aircraft—10 to 15 years—it is critical that the rate structure it proposes for these aircraft be sustained over a significant period of time. Thus, American proposes that the relationship between pay Groups I and II-VI be maintained for two contract cycles, or ten years, whichever is longer. American does not seek to freeze the pay rates themselves; indeed, American contemplates that at the end of the six-year duration of the CBA, the parties would negotiate new pay rates. But American does need to sustain the ratio between the rates paid to those in Group I and those in Group II for a longer period to justify the expansion of flying in this category. Newgren Decl. ¶ 96.

Finally, to ensure that the incentives fostered by the new wage bands result in their anticipated savings, American proposes that newly-hired pilots be prevented from bidding to move to another piece of equipment for 12 months after training, so that American can obtain the value of the training costs it invested into that pilot. *Id.* ¶¶ 92, 95. Taken together with the pay groups above, these changes would simplify and streamline the determination of hours paid.

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<sup>37</sup> The Company also anticipates that at some point in the future, it will realize savings because the new structure provides a disincentive for pilots to bid on ever-larger pieces of equipment, and thus the considerable cost of training will be avoided.



## **2. Small Increases In Wage Rates**

As demonstrated above, American's pilot compensation—wages and benefits—is well above average compensation in the industry—21% higher than the “low cost carrier” average and 7% higher than the average of other large network carriers. Newgren Decl. ¶ 97. Although several compensation provisions such as night pay and international overrides are slated for elimination, American calculates that it can restructure without pilot base wage rate reductions—a feat accomplished by no other network carrier in bankruptcy—due to the significant cost reductions in its proposals for revised work rules, sick leave, retirement, and benefits. *Id.* ¶ 98. Indeed, to save costs without reduction in wage rates has been an ongoing goal of American extending throughout Section 6 bargaining. Indeed, as part of a consensual agreement, the Company proposes to raise pilot wages by 1.5% in years two through six of the proposed Agreement. *Id.*

## **3. Add Sequence Protection And Eliminate Minimum Guarantees For Lineholders**

American proposes to implement “sequence protection,” a pay benefit for pilots that the Company's competitors currently have but American does not. American would pay a pilot if his or her trip sequence is canceled for any reason outside of the pilot's control (such as bad weather or a change in equipment) for the value of the canceled sequence. Under the proposal, American would have the right to reassign the pilot to alternative duty within the time period originally occupied by the original trip sequence. Newgren Decl. ¶ 101. Under the current system, pilot pay is not protected and the pilot cannot be redeployed, but rather must be deadheaded to the next trip in his sequence or to his home base. *Id.* ¶ 103. Protecting pilot pay in this manner would increase pilot compensation; and allowing reassignment will enhance

American's ability to recover from disruptions like major weather events without having to rely on reserves to the extent it does today. *Id.* ¶ 102.

Under the current CBA, American's main line pilots are guaranteed pay for 64 hours per month, even if they fly less. American can ill afford to continue to pay thousands of pilots for many more thousands of hours that they do not fly. *Id.* ¶¶ 104-05. Instead, as part of a new preferential bidding system described above, American will ensure that all pilots enter each month with line value that has a minimum pay value of 64 hours, even if the credit value of the line (i.e. its number of actual hours) is lower. Unlike today, if a pilot purposefully makes adjustments to lower the number of hours he intends to fly, the pay will be reduced accordingly.

#### **4. Modify Premium Pay Provisions**

The current CBA contains several premium pay provisions that add expense in ways that have been limited at the Company's network competitors or abandoned altogether. American proposes to use a premium multiplier of 1.5 times base pay, but it will only apply to certain difficult-to-staff sequences as designated by American and based upon the total number of hours flown by the volunteering pilot that month. Newgren Decl. ¶ 107. This change will give pilots greater incentive to fly more hours and receive extra pay when American has a specific, heightened need to fill a particular sequence.

Additionally, American proposes to eliminate premiums for night and international flying. Once common throughout the industry, night pay—currently paid at the rate of \$5 per hour for all hours flown between 11:00pm and 5:59am—has been all but eliminated over the past decade. *Id.* ¶ 108. American would join its network peers that no longer pay this premium.

American proposes to modify one of its current premiums for “international” flights (international override pay) and abolish a second (international officer override). The international override premium pay adds \$6 per hour for captains and a percentage of that rate

for first officers for flights that are denominated as “international,”<sup>38</sup> for an annual total of approximately \$19 million. Newgren Decl. ¶ 109. The term “international” as used in the CBA is misleading, however. It encompasses any flight conducted by American “in which any segment takes off or lands outside the contiguous 48 states, Mexico and Canada”—including domestic locations like Hawaii.<sup>39</sup> American proposes to pay the premium only for true international flights and to exclude those between the contiguous 48 states and Canada, Mexico, Alaska, Hawaii, and the Caribbean. American originally proposed to eliminate this premium entirely, but, in response to feedback from APA and as a result of post-petition bargaining, the Company has agreed to seek only this modification. *Id.*

Additionally, American proposes to eliminate first officer or international officer “override” pay, applicable to two-pilot flights scheduled for duty aloft in excess of 12 hours.<sup>40</sup> It requires the Company to pay a premium on top of all other pay and regardless of the number of hours actually flown. These proposals will help place American on a competitive footing with its network peers and will achieve annual average cost savings in the amount of \$13 million over the term of the proposed agreement. *Id.* ¶¶ 108-09.

##### **5. Pay Pilot Hours According To Actual Or Scheduled Trip Time, Whichever Is Greater**

Currently, American’s flight operations system calculates pilot hours for pay purposes on a leg-by-leg basis; a flight from New York to Dallas to Los Angeles has two legs (JFK-DFW and DFW-LAX). Pilots are paid for the actual flight time of each leg unless that flight time is less than scheduled (*i.e.*, if the flight is early), in which case the pilot is paid for the scheduled flight

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<sup>38</sup> CBA Supp. § I.2.A-C.

<sup>39</sup> *Id.* § 1.B

<sup>40</sup> *Id.* § 2.D.

time. Newgren Decl. ¶100. Under American's proposal, pilots would be paid for a given sequence (*i.e.*, a collection of flight legs scheduled together for a single work assignment), rather than by each leg, according to the amount of time the combined legs were scheduled to take, or actual time it took to fly them, whichever is greater. Thus, if in total, a flight sequence takes more time than was scheduled (because of weather, air traffic control delays, or mechanical problems along the way), the pilot would be paid the actual time it took rather than the scheduled time. Taken together with the implementation of the pay groups described above, these changes would simplify and streamline the determination of hours to be paid, saving an average of \$9 million per year. *Id.*

#### **6. Reduce The Impact of Pay Guarantees.**

American proposes to change aspects of the CBA that provide minimum levels of payment to pilots for certain periods of time when they are not flying. First, the Duty Period Average and the minimum rig guarantee pilots a three-hour minimum day and a five-hour average day, regardless of how much time the pilot actually spends flying. Newgren Decl. ¶ 137. For example, if a pilot's trip sequence consists of three duty periods (*i.e.*, three flying days separated by rest), the pilot is guaranteed a minimum of fifteen hours of flight pay, even if the actual time flown is less. Second, the Minimum Pay and Credit rig requires the Company to pay the greater of: (a) a pilot's flight time pay actually earned; or (b) one minute of flight time pay for every two minutes of any actual, scheduled, or rescheduled on-duty period. Unlike the rig described above, this rig applies to every duty period. For example, if a duty period is twelve hours, the pilot is guaranteed a minimum of six hours of flight pay (1 minute of flight pay for each 2 minutes of flight duty), even if the actual time flown is less. In both cases, pilots will be paid the greater of the rig or the actual time flown. American would eliminate these guarantees altogether. *Id.*

American proposes to eliminate guarantees for military leave; no other network carrier does. Pilots may take four days of paid leave to participate in National Guard (or other military) activities, without a reduction in pay or a vacation debit. *Id.* ¶ 112. American will continue to allow pilots to take the necessary time to honor their military commitments consistent with the law, of course, but it will eliminate the existing guarantee protection for military leaves. *Id.*

#### **H. Eliminate Other Inefficiencies**

Other provisions of the Agreement perpetuate uneconomical and out-of-date inefficiencies that place American at a competitive disadvantage. American proposes the following changes to eliminate these provisions and allow the Company to make critical adjustments to affected aspects of its business:

##### **1. Interest Arbitration Relating to Minimum Staffing Requirements In St. Louis**

When American purchased some assets from Trans World Airlines in bankruptcy in April April 2001, it agreed to an arrangement with APA that guaranteed a number of captain spots in the St. Louis pilot base. Newgren Decl. ¶ 149. These measures were designed to secure captain positions for TWA pilots—senior at TWA but brand new pilots at American—who would otherwise not have had the seniority necessary for a captain’s position at American. The parties anticipated that as the Company grew and new captain positions became available, these guaranteed positions would soon end. September 11 intervened. The “temporary” staffing provisions in St. Louis continue to operate today. As a result, hundreds of American’s pilots and many of its aircraft are committed to operations out of that facility that make no economic sense. These assets could generate a far greater return if redeployed. American originally proposed to eliminate these provisions and close its base in St. Louis. However, after negotiations with APA, the Company has accepted APA’s proposal to solve the issue of any new protections for former

TWA pilots through interest arbitration focused by the parties on this issue alone. Newgren Decl. ¶¶ 149-50.

## **2. Allow Distance Learning**

Pilots require ongoing training to maintain their licenses and ratings and to comply with federal regulations and American's are no exception. The current CBA dictates that pilots do all of this training in Fort Worth, Texas. But computerization makes it possible to do a considerable portion of this training from virtually any location. Instead of pulling pilots off the line and flying them to Fort Worth at Company expense, American proposes that when federal regulations permit, its pilots complete recurrent and transition training from their home or domicile, and that pilots have flexibility to complete certain elements of training off schedule at their convenience." Newgren Decl. ¶¶ 113-14. Pilots will still be paid for the time spent conducting the training. This will increase productivity because pilots will not have to leave their line assignments for training as they do today and reduce unnecessary travel expenses. American will need 12-18 months to purchase and implement the appropriate software. Then, the Company will save \$2 million per year on average. *Id.*

## **3. Tulsa Flight Test Personnel**

When aircraft requires maintenance, ten pilots and one supervisory pilot based at the Company's Center in Tulsa, Oklahoma perform American's maintenance and engineering flying. Newgren Decl. ¶ 151. No other network carrier maintains a separate group of pilots for these duties, but rather outsources the work or assigns it to its own pilots on an *ad hoc* basis. American's eleven maintenance pilots are costly and spent an inordinate amount of time waiting for aircraft. *Id.* American proposes to eliminate the group performing this flying and use pilots from the management ranks or line pilots for these services when, and only to the extent, they are needed. *Id.* This will save an average of \$1 million per year. *Id.*

#### **4. Crew Rest Seats**

Federal law requires that every airline provide crew rest facilities on flights of a specified duration. American's pilot CBA requires that in certain instances the Company provide two adjacent first class seats for crew rest so that the pilot is not forced to sit next to a member of the general public. This is true even on the Boeing 777, which boasts a dedicated crew "pod" containing two business-size seats, two bunks, and an in-flight entertainment system entirely separate from the passengers. American proposes to dedicate premium revenue-generating seats to crewmembers only on aircraft that lack crew rest facilities. On the Boeing 777, used on the longest international routes that often generate the most revenue, no cabin seats will be provided because the crew can use the rest "pod." Where the aircraft has a crew bunk, American will provide standby for a business class seat, or a first class seat if it is available at the time the flight is boarded. Finally, where the aircraft has no crew rest area, the Company will dedicate one business class seat for each augment crewmember. Newgren Decl. ¶¶ 152-53.

#### **5. Crew Hotels and Bases**

While American pilots are away from base, American is responsible for ensuring they have lodging. Currently, the Company is required to use only those hotels and motels that are acceptable to APA. Due to the long list of conditions a hotel must meet to satisfy APA, American is often forced to accommodate pilots at "downtown" hotels or at other facilities far away from the relevant airport. This inflates costs because downtown hotel rooms are generally more expensive than comparable quality rooms nearer the airport and because American must pay to transport the crews there and back to the airport. To reduce these excess costs, the Company proposes that airport hotels be the default accommodations for pilots, saving an average of \$4 million per year. *Id.* ¶ 154.

**I. Furloughs**

To reorganize successfully, American is, at least initially, going to need fewer employees in nearly every corner of the Company. American, however, has tried very hard to structure its Section 1113 proposals to minimize the number of pilot furloughs. Thus, the Company proposes to furlough approximately 400 pilots with the expectation that all of the furloughed pilots will return to the property. Newgren Decl. ¶¶ 155-56. However, the CBA contains two restrictions on the Company's right to furlough that limit the Company's flexibility and increase costs. First, the current CBA allows for 'stand in stead' furloughs, which allow one pilot to volunteer to take a furlough designated for another, more junior pilot who otherwise would have been furloughed based on seniority. But if the pilot volunteering to take the furlough was already on leave or was preparing to retire in any event, American does not obtain the economic value of the furlough it had planned. Instead, it must pay furlough pay to someone who was already inactive or planned to leave in any event, and is still required to furlough the junior pilot. Second, the CBA prohibits American from furloughing pilots above a specific place on the existing seniority list. Although this line is drawn at a place that would not be implicated by the relatively small number of contemplated furloughs, it denies the Company the flexibility necessary to respond to unforeseen catastrophic events such as the September 11 terrorist attacks. American proposes to eliminate these provisions. *Id.*

**J. Gain Sharing**

American wants all of its employees, including pilots, to share in a bright and profitable future. Its proposal includes a mechanism to ensure that when American becomes profitable again, its employees will share in that success. American proposes to replace its current Annual Incentive Program ("AIP") and 2003 Profit Sharing program with a far more valuable profit sharing plan. In their place, American proposes a profit sharing plan that will pay █% from the



first dollar of profits American earns. Pilot awards will be based on an individual's percentage of earning relative to overall payroll participants. Newgren Decl. ¶¶ 185-86.

**IV. CONCLUSION**

American's proposals are necessary to permit the Company's successful reorganization. American has conferred in good faith, providing APA with detailed information showing that the pilot agreement guarantees above-market compensation and benefits. The proposals are fair and equitable. The proposed pay groups and changes to certain compensation rules will result in critical cost savings. Codesharing and increased regional flying will provide a practical solution to American's finite resources for competing against much larger networks. The changes to work rules and other inefficiencies will eliminate provisions that threaten American's viability. American respectfully requests that this Court grant its motion for an order rejecting the pilot collective bargaining agreement pursuant to 11 U.S.C. Section 1113.

Dated: March 27, 2012

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