UNITED STATES BANKRUPTCY COURT
SOUTHERN DISTRICT OF NEW YORK

In re	:	**Chapter 11 Case No.**
AMR CORPORATION, *et al.*,	:	**11-15463 (SHL)**
Debtors.	:	**(Jointly Administered)**

DECLARATION OF ERIC T. BRIGGLE
IN SUPPORT OF DEBTORS' MOTION TO REJECT COLLECTIVE BARGAINING AGREEMENTS PURSUANT TO 11 U.S.C. § 1113

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EXHIBIT LIST

No.	Exhibit
1823	Association of Professional Flight Attendants Early Out Program
1824	Illustrative AMR – APFA Early-Out Savings Model
1825	APFA Early Out Model Discussion

I, ERIC T. BRIGGLE, subject to the penalties provided by law for perjury, do hereby declare the following to be true and correct on the basis of my personal knowledge and upon information from business records of American Airlines, Inc. in my custody and control.

I. IDENTIFICATION OF DECLARANT

1. I am a Managing Director, Financial Planning for American Airlines, Inc. ("**American**," or "**the Company**"). I have been employed by American in that position since 2010, and have been employed by American since 2001. In my current role, I am responsible for financial planning and analysis, which includes the functions of labor financial analysis, corporate budgeting and planning, capital planning and competitive benchmarking. During my career at American I have held various analyst and manager roles within Financial Planning and Corporate Development, and prior to this role I was Managing Director of Investor Relations. I report to Brian McMenamy, who is Vice President and Controller for American.

2. My declaration discusses the timeline and relevant events related to the "early out" proposal made by APFA during the course of their negotiations with the Company pursuant to 11 U.S.C. § 1113.

3. This declaration is based on my personal knowledge and experience, upon information and materials provided to me at my request by others working under my supervision, and upon records regularly kept in the ordinary course of American's business that are within my custody and control as Managing Director, Financial Planning. I would be competent to testify to these matters as a witness if called to do so.

II. APFA EARLY OUT PROPOSAL

4. On February 15, 2012, two weeks after the Company presented its initial Section 1113 proposal, the APFA, through their advisors at Jefferies and Company ("**Jefferies**"), presented an early out proposal (the "**Jefferies proposal**") to American's negotiating team that

they characterized as being the "silver bullet" for American and the negotiations. A copy of the Jefferies proposal, entitled "Association of Professional Flight Attendants Early Out Program," is attached to my declaration as AA Ex. 1823. APFA proposed that the early out program offering occur prior to all other 1113 negotiations.

5. The Jefferies proposal called for a cash payment of $40,000 to flight attendants who chose to accept the program and thereby separate from the Company. *Id*. at Slide 10. Retiree travel privileges, vacation payout, pension, medical coverage, and sick payout would remain consistent with current policies. *Id*.

6. The Jefferies proposal assumed that 3,000 employees would accept the early out offer. Jefferies initially calculated the savings to the company from the early out program as being a total of $125.6 million (in net present value) over the course of the six years in which American's business plan would be effective. *Id.* at Slide 13. Jefferies characterized this as being "an average of $49.3 million in annual savings," or "21.4% of the Company's proposal." *Id.*

7. On information and belief, American's negotiating team received the presentation and asked a few questions related to the structure of the proposal. See AA Ex. 1000, Declaration of Taylor M. Vaughn in Support of Debtors' Motion to Reject Collective Bargaining Agreements Pursuant to 11 U.S.C. § 1113, at ¶ 48. The Company indicated that it wanted to further evaluate Jefferies's early out valuation model in order to better understand the assumptions being used. On February 17, 2012, the Company received Jefferies's early out valuation model, which consisted of a two-page spreadsheet. A copy of Jefferies's early out valuation model, entitled "Illustrative AMR – APFA Early-Out Savings Model," is AA Ex. 1824. After receiving the

Jefferies valuation model, the Company's negotiations team asked me and others in the Finance organization to analyze and evaluate that model.

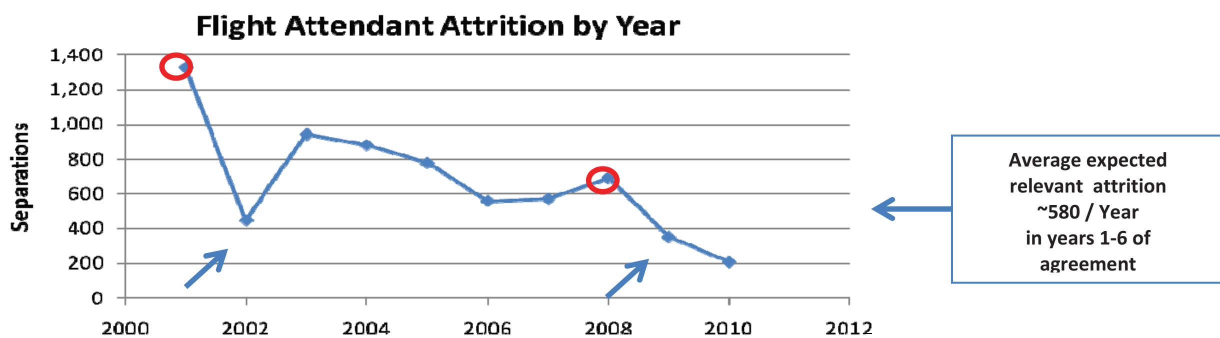
III. COMPANY RESPONSE PRESENTATION TO APFA

A. Corrections Required in Jefferies's Early Out Program Valuation Model

8. Upon our initial review of the Jefferies proposal and the associated valuation model, my team and I realized that, in calculating the average annual savings from the Jefferies proposal, Jefferies had neglected to account for the $120 million in up-front costs that the Company would incur by making $40,000 payments to 3,000 flight attendants. While the presentation of February 15 had claimed that an early-out program would result in a six-year average of $49.3 million in annual savings, once the up-front costs were included, the annual savings that Jefferies attributed to the early out plan dropped by $20 million to a six-year average of $29 million. My team and I alerted Jefferies and APFA to this oversight.

9. Members of my team and I performed a thorough analysis of the assumptions and calculations contained in Jefferies's valuation model, and identified a number of other flaws in addition to the failure to include up-front costs. On February 23, 2012, I made a presentation to APFA and its advisors outlining those flaws. Although I informed APFA that the Company recognized the benefits of an early out program and that it was open to considering such a program, the Company had significant reservations regarding Jefferies's valuation of the particular program proposed by APFA. The purpose of my presentation was to provide feedback related to specific issues with the APFA early out program valuation that, in my view, needed to be corrected in order to understand the true cost of the proposal. Those issues are set forth below in paragraphs 10-15; a copy of my February 23, 2012 presentation, entitled "APFA Early Out Model Discussion," is AA Ex. 1825.

10. **Attrition.** The most significant flaw in Jefferies's early out valuation model was their assumption that attrition patterns following the implementation of an early out program offering would be the same as those expected by the Company in the absence of such an offering. The Company's approach to early out valuation assumes that a given employee's likelihood to accept an early out offering increases the closer that employee is to his or her planned retirement; this results in decreased attrition in the years immediately following the early out program, because many of the employees who otherwise would have retired during those years would have accelerated their retirement to take advantage of the early out program. This phenomenon has historically been observed at American when similar programs were implemented. For example, in 2001, multiple types of up-front payments were received by flight attendants in conjunction with the new Collective Bargaining Agreement between the Company and APFA, causing a larger than normal number of flight attendants to voluntarily retire. In 2008, the Company offered an early retirement program to various employee groups, including flight attendants; among other items, the program offered a $15,000 payment for eligible flight attendants that elected to leave the company. In both 2001 and 2008, following the accelerated levels of attrition caused by the programs, attrition rates dropped in the subsequent years—as is illustrated by one of the charts included in my presentation of February 23, 2012:



AA Ex. 1825 at Slide 4.

11. Contrastingly, Jefferies's valuation model assumed that, regardless of the number of acceptances of an early out program, attrition volume would remain unaffected in the following six years:

REDACTED

AA Ex. 1823 at Slide 12 (emphasis added). As the above excerpt from Jefferies's presentation of February 15 indicates, Jefferies assumes that "natural" attrition (that is, attrition not due to an early out program, furlough, or involuntary termination) would be exactly the same in 2013-2017 regardless of whether an early out program is implemented. According to Jefferies's model, even flight attendants who were mere days from retirement would forego a $40,000 early out offer—and still retire from the Company as previously planned. In fact, the only way Jefferies's assumption could prove true would be if the only takers of an early out program would be those flight attendants who would not otherwise be projected to separate from the Company until least seven years or more from the date of program offering. This assumption artificially inflates the value of the early out program, because it effectively gives APFA credit for replacing 3,000 top-

of-scale flight attendants with new hires at the bottom of the scale without recognizing that many of the early out takers would have retired without an early out incentive.[1]

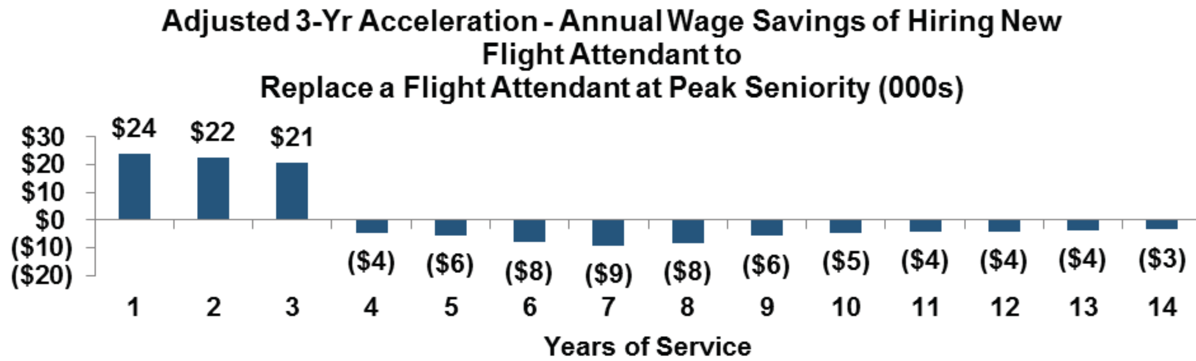
12. **Discount Rate.** Jefferies's model utilizes a 5% discount rate in determining the value of future savings that will occur due to the early out program. This discount rate results in a relatively high present value attributed to future savings. In my experience, a 5% discount rate for APFA's program is inappropriate, because (1) the capital needed to fund the program could otherwise be utilized for other internal Company projects, which typically utilized a 15% discount rate prior to the filing of American's bankruptcy petition; and (2) American is unlikely to be able to obtain capital financing on the open market following its emergence from bankruptcy at a comparable rate, meaning that the amount by which Jefferies is discounting future-year savings to account for the time value of money is likely to be less than the actual cost to the Company of obtaining that money.

13. In the Company's February 23, 2012 presentation, we alerted APFA to the Company's concern regarding the 5% discount rate and at the time suggested a higher discount rate.

[1] This difference appears to be the basis for Mr. Rohan's assertion in his Declaration that the Company relied on a materially different headcount forecast in evaluating APFA's early out program than it had utilized in valuing its own Section 1113 proposals. Rohan Decl. at ¶ 13. What Mr. Rohan omits to mention is that the difference in headcount is attributable to the *existence of the proposed early out program itself*. In valuing the early out program, the Company logically concluded that it would have to alter its original attrition forecast to account for the fact that flight attendants who had previously been projected to retire in the next few years would accelerate their retirement to take advantage of the early out program. Because many of the flight attendants who are likely to accept the early out program are likely to be the same individuals who would have retired without such a program during the six-year life of American's Section 1113 proposals, the "natural" attrition levels following implementation of an early out proposal can be expected to drop substantially—a phenomenon the Company has witnessed after other corporate events, including one prior early out program.

14. **Cost Savings Attributable to Early Out Program Are Short-Lived.** During the Company's February 23 presentation, I indicated that there were other areas that would need to be considered in order to fully evaluate an early out program. The value of an early out comes from accelerating the retirement of a high-seniority flight attendant, resulting in the accelerated hiring of a flight attendant who will start at the bottom of the wage scale. However, the benefits associated with the early retirement are not unlimited, and would exist only up to the point at which the flight attendant would have retired otherwise. Thus to truly capture the economics of the early out, the savings driven by the accelerated retirement must be compared to the savings that would have occurred naturally without an early out. In an extreme example, wherein a flight attendant that would have otherwise left 16 years from now chooses to retire early for a $40,000 cash payment, the savings would be represented as the differential between having a senior flight attendant continuing to work for another 15 years less the salary of a new hire as outlined below:

A more reasonable scenario would encompass flight attendants that would accelerate retirement by one, two or three years from today. [2] An example of the 15-year cash flows for a three-year retirement acceleration is shown below:



Based on forecasted attrition and 3,000 acceptances, American's analysis assumes that approximately 60% of those acceptances would be flight attendants expected to retire within the next 3 years. Conversely, the Jefferies model inflates savings by basing cash flows on the first chart, which has all positive cash flows. Thus Jefferies assumes that *all* 3,000 flight attendants that accept the $40,000 under the early out program would otherwise have worked for American for at least 15 years. Accelerating retirement by 15 years through the offer of a $40,000 payment appears highly unlikely and therefore an unreasonable assumption, particularly for all 3,000 acceptances.

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[2] As an illustration, consider a flight attendant who would accept an early out offer if it were available in 2012, but would otherwise retire in 2013 (the "senior flight attendant"). The savings from the early out program would be positive in 2012, as the senior flight attendant at top-of-scale was replaced by a first-year flight attendant. In 2013, however, American would actually pay *more* under the early out program than it would have without it, because the flight attendant who started working in 2012 pursuant to the early out program would be one step up the ladder from one who hypothetically would have started in 2013 to replace the senior flight attendant. That negative differential would continue for an additional 14 years, until the hypothetical flight attendant had reached the top of the pay scale. Although the sum of all of those negative differential costs would not equal the first-year savings attributable to the early out program, they would significantly reduce those savings, a phenomenon that the Jefferies model completely ignored.

15. **Other Considerations.** Finally, I informed Jefferies and APFA that pension and retiree medical costs had not been fully addressed in their presentation. Although negotiations were ongoing with respect to the Company's Section 1113 proposals in these areas, potentially making them something of a moving target, I advised that whatever the outcome of those negotiations these were topics that would have an impact on early out program value.

B. Corrected Program Value

16. For the February 23, 2012 meeting, my team reworked the Jefferies early out valuation model in order to correct the flaws we had identified in their analysis. By conforming the attrition assumptions contained in the model to the Company's historical experience with early out programs, we discovered that the APFA's early out proposal actually results in a cost to the Company of $75 million (net present value, for 3,000 participants at $40,000 per participant), rather than the $125.6 million savings projected by APFA.. Adjusting the discount rate upward by five to ten points would further worsen the net present value of the program by $3 million to $6 million.

17. During presentation on February 23, 2012 we communicated that these values were produced using Jefferies's own model and demonstrated the effects of not modeling key elements correctly. Notwithstanding the criticisms of the Jefferies model, on behalf of the Company, I committed to continue to work with APFA and Jefferies in order to reach a more reasonable early out proposal and to ensure that its value was properly captured. After the presentation was complete, Taylor Vaughn, the Company's lead negotiator, told the APFA that while this work was ongoing, the parties should otherwise continue to engage in negotiations over the term sheet presented by the Company.

IV. APFA'S FOLLOW-UP TO COMPANY REBUTTAL

18. On March 7, 2012, Jefferies and APFA provided a response to the Company's rebuttal presentation. In that presentation, Jefferies attempted to respond to the concerns my team and I pointed out at the February 23, 2012 meeting. Jefferies maintained that the Company's concern about Jefferies's attrition assumptions was unfounded and believed that their model's functionality was correct. Thus, Jefferies's analysis was unchanged and showed the same value presented in the initial discussion of February 15, 2012.

19. At the end of the meeting, the Company proposed to have smaller future discussions between my team and the Jefferies team, with both sides agreeing that a cost-neutral early out structure should be a goal of those talks. This would keep the early out discussions moving forward outside of the negotiations around the Company's proposed term sheet.

V. EARLY OUT WORKING GROUP

20. Following the discussion at the March 7 meeting, my team and I held a conference call with Alex Rohan and the Jefferies team on March 14. The main purpose of the call was to have further discussions on the assumptions behind each group's analysis of a possible early out program in an effort to find ways to bridge differences.

21. During the call, I reiterated that the Company was interested in an early out program, but that we should aim to a structure that was cost-neutral.

22. The main topic discussed on the March 14 call was the attrition assumption that each group was making. I once again mentioned the Company's belief that any forecasted future attrition would be affected greatly by an early out program, and that Jefferies should consider making adjustments to its assumptions. Jefferies claimed that there could be ways to structure the acceptances to minimize selection by flight attendants who would otherwise retire within the

next few years.[3] During the call, we stated that based on some of the points that APFA and Jefferies had brought up at the previous meetings that we would give some thought to possible modifications to our attrition assumptions to account for unforeseen and involuntary attrition. It was my belief that Jefferies would do the same on their end regarding their assumptions, or provide ideas about how to structure the acceptances per their argument.

23. The appropriate discount rate to use for the analysis was also discussed during the call. While Jefferies insisted that their choice of 5% was the proper value, I reiterated that pre-petition internal capital decisions were made using a 15% rate. I acknowledged that the Company's future discount rate would likely decrease as its capital structure and risk profile changed; however, the rate could not be calculated at that point, and the value would not drive significant change.

VI. EVENTS FOLLOWING MARCH 14 CONFERENCE CALL

24. Throughout this time period, the Company had to make various assumptions regarding the necessary work rules and pay structure to apply in its analysis, as the APFA had not yet provided a comprehensive term sheet. Although the Company began negotiations on its proposed term sheet on February 1, 2012, APFA did not provide a comprehensive term sheet until March 22, 2012. APFA's initial early out proposal was part of its comprehensive proposal. Along with the early out, there were items that increased labor costs and which APFA had previously agreed to give up. Thus, as part of pricing out APFA's proposals, the Company analyzed the early out program to determine its value.

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[3] Notably, the Jefferies valuation model assumes that all of the early out program participants are at the top of the pay scale. To achieve the value it places on the program, therefore, every one of the 3,000 takers would have to have at least 15 years' seniority—but, notwithstanding their seniority, *also* be at least seven years away from retiring absent the early out *and* willing to forego continued employment at the top of the pay scale for $40,000.

25. Following the conference call on March 14, we took the opportunity to reexamine our attrition and discount rate assumptions to address the concerns from APFA that we were too aggressive on those aspects. As a result of looking at actual historical separations over a 9-year period through 2010, my team and I determined that approximately 12% of total separations were involuntary and thus would be unaffected by an early out program (we subsequently used 15% in our model to be conservative). Additionally, we updated our model to use a 10% discount rate. Adjusting our analysis to take this into account increased the value of the early out program, though we still concluded that it would represent a cost to the Company under the structure proposed by APFA. During a meeting on March 26th to discuss our priceout of APFA's proposal, my team provided the updated value of the program, calculated at a cost of $56 million on a net present value basis, to APFA's negotiating team and mentioned that we had updated our assumptions and analysis.

VII. CONCLUSION

26. Throughout the discussions, the Company attempted to lay out its concerns as to why the early out structure as proposed by the APFA would result in a cost to the Company. My team and I also shared with Jefferies our conclusion that the Jefferies valuation model relied upon several critically faulty assumptions, and contained insufficient functionality to properly model an early out program. However, while our valuation analysis was updated to address concerns raised by APFA and Jefferies regarding attrition and discount rates, Jefferies's analysis remains unchanged and disregards our suggestions.

27. Based on a careful evaluation of APFA's early out proposal and the associated valuation model, I have concluded that implementation of that proposal would result in a net present cost to the Company of $56 million.

I declare under penalty of perjury that the foregoing is true and correct on the basis of my personal knowledge and the business records of AMR Corporation and American Airlines.

Executed this 22nd day of May, 2012.

ERIC T. BRIGGLE
Managing Director, Financial Planning & Analysis
AMR Corporation

AA Exhibit 1823
** FILED UNDER SEAL**

AA Exhibit 1824
** FILED UNDER SEAL**

AA Exhibit 1825
** FILED UNDER SEAL**