UNITED STATES BANKRUPTCY COURT
SOUTHERN DISTRICT OF NEW YORK

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

SUPPLEMENTAL DECLARATION OF ALEXANDER V. ROHAN IN SUPPORT OF APFA'S OBJECTION TO DEBTORS' MOTION TO REJECT COLLECTIVE BARGAINING AGREEMENTS PURSUANT TO 11 U.S.C. § 1113

I, Alexander V. Rohan, hereby declare under penalty of perjury:

1. I am a Senior Vice President of Jefferies & Company, Inc. ("Jefferies"), which is an investment banking firm with principal offices located at 520 Madison Avenue, New York, NY 10022. I am duly authorized to make this declaration (the "Declaration") on behalf of Jefferies and submit this Declaration in connection with the *APFA's Objection to the Debtors' Motion to Reject Collective Bargaining Agreements Pursuant to 11 U.S.C. § 1113* ("Rejection Motion").

2. In December 2011, the Association of Professional Flight Attendants ("APFA") retained Jefferies as their financial advisor in relation to the Chapter 11 reorganization of AMR Corporation ("AMR" or "American").

3. Except as otherwise indicated, all facts set forth in this Declaration are based upon (a) my direct personal knowledge, (b) information learned from my review of relevant documents and testimony provided to the Court during the 1113 proceedings and (c) information supplied to me by AMR, employees of Jefferies working directly with me

or under my supervision, direction or control and/or from APFA's other professionals and advisors. I am not being compensated specifically for this testimony (other than payments received by Jefferies in its capacity as financial advisor to APFA). If called to testify, I could and would testify competently to the facts set forth herein.

A. Introduction

4. The purpose of this declaration is to correct the record with respect to the APFA's Early Out Proposal and address certain criticisms by Mr. Briggle that mischaracterize Jefferies' Early Out analysis.[1]

5. My Initial Declaration focused primarily on the fact that an Early Out Program was proposed by the APFA, summarily rejected by American, and that further attempts to negotiate were unsuccessful. *See* APFA Ex. 400 ¶14. In addition, I observed that Mr. Briggle and his team were apparently sharing analyses regarding the Early Out with the UCC Labor Subcommittee that we were told did not exist at the time.[2] *See* APFA Ex. 400 ¶¶ 19-20.

6. The Initial Declaration excluded much of our analysis supporting the Early Out in an attempt to spare the Court from unnecessary and somewhat complex details of the proposal. Nevertheless, Mr. Briggle has chosen to call into question the APFA's analysis, and, as a result, I am compelled to respond.

---

[1] This Declaration is in addition to my initial declaration ("Initial Declaration") which has been entered into evidence as APFA Exhibit 400. Note that capitalized terms referenced herein shall have the meaning ascribed to them in the Initial Declaration unless noted.

[2] Conspicuously absent from Mr. Briggle's Declaration is any reference (or attempt to rebut) the fact that he advised Jefferies that he was preparing a no-cost analysis when in fact such an analysis had already been shared with the UCC Labor Subcommittee.

7. This declaration will (1) correct the material mischaracterizations made by Mr. Briggle; (2) provide a more detailed overview of the Early Out Proposal; and (3) address Mr. Briggle's key concerns regarding the APFA's Early Out Proposal and why they are without basis or merit.

B. Mischaracterizations Made by Mr. Briggle

8. The most important purpose of this Declaration is to correct certain mischaracterizations of a portion of Jefferies' analysis that was clear on its face and explained to American and its representatives on multiple occasions.

9. Mr. Briggle references what he calls an "oversight" in the Early Out Proposal whereby, "…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." *See* Briggle Decl. ¶ 8. Mr. Briggle then further explains how his team "alerted Jefferies and APFA to this oversight." What Mr. Briggle is referring to here is one of a number of analytical charts contained in the February 15, 2012 Early Out presentation to AMR which is attached to his declaration as AA Exhibit 1823. In particular, he refers to slide 13 which shows two separate analyses: (i) one an analysis that depicts a net present value of potential savings associated with a range of flight attendant acceptances net of an illustrative up-front cost of $120 million, and (ii) a second analysis that shows the gross savings in each of the 6 years as compared to the 1113 Proposal. The slide in question is set forth below:

[redacted]

AA Ex. 1823 at Slide 13(notations added).

10. The difference between the two analyses contained in this slide is explained by the headings in each box as well as the "Key Points" to the immediate left thereof. Foremost, the first Key Point expressly states that Jefferies' calculation of the net present value of the Early Out Program takes into account the $120 million upfront payment. Likewise, the second Key Point makes clear that the bottom chart was not intended to include the impact of any up-front costs that may be incurred in an Early Out and was showing the potential savings on a "gross" annual basis.

11. During the course of the oral presentation of this slide, I expressly stated more than once to Mr. Briggle and the American negotiating team that the bottom chart does not reflect the cost of the Early Out program and is simply illustrative of the potential savings that could be achieved for the purposes of contrasting the amount relative to the Company's 1113 proposal before the upfront cost. I further advised Mr. Briggle and the American team that if they wanted to assume the up-front cost associated with the APFA "base case" ($40,000 per employee), that they would need to adjust the amounts accordingly by $20 million per year (which equates to $120 million divided by 6 years).

12. APFA received an inquiry from American's counsel Marc Esposito a few days after the presentation asking for further clarification of the difference between the two charts on slide 13.[3] Mr. Esposito's inquiry and the APFA's response are copied below:

[3] Contrary to Mr. Briggle's representation, I am not aware of any communication by Mr. Briggle, or his team, to Jefferies or the APFA on this point,. *See* Briggle Decl. ¶ 8.

Alex Rohan

From:	Rob Clayman <rclayman@geclaw.com>
Sent:	Monday, February 20, 2012 11:34 AM
To:	Marc Esposito
Cc:	Michelle Peak; Vaughn, Taylor; Alex Rohan; John D'Amico; Anne Loew; dwakins
Subject:	RE: Early Out Question

Mark,
Jefferies did not take the up front payment into consideration when calculating the 49mm average annual savings. Alex Rohan mentioned that during the presentation. Jefferies showed this on a gross basis to reflect the impact on their cost out sheet. If you had to add back the 120mm, it would be a 20mm deduction to the average (120/6) so the 49mm would drop to 29mm.
Rob

From: Marc Esposito [mesposito@fordharrison.com]
Sent: Sunday, February 19, 2012 5:42 PM
To: Rob Clayman
Cc: Michelle Peak; Vaughn, Taylor
Subject: Early Out Question

Rob,

We're still reviewing the Jefferies model and presentation and will have other questions, but for now, please see if the Jefferies group can provide guidance to the following:

On slide number 13 of their presentation, the "Key Points" identified are that the Early Out proposal (3,000 acceptances at an average of $40,000 per acceptance) generates $125.6M in savings on an NPV basis, "net of the total upfront buyout payment" of $120M. In the chart on the bottom of that page (titled "Early Out Program base case savings compared to Company's 1113 Proposal"), they calculate a six-year average annual savings to the Early Out Program of $49.3M. Please explain how they get to the $49.3M annual average savings taking the $120M upfront buyout into consideration.

Thanks,

Marc

13. This exchange plainly establishes that there was no error or oversight by Jefferies and the analysis was clearly explained during both the actual presentation as well as subsequently to American's counsel. Moreover, at no time subsequent to the email exchange copied above was this issue ever raised by Mr. Briggle or American with Jefferies.[4]

[4] Indeed, there is no reference of this matter in Mr. Briggle's February 23rd presentation that purports to identify the Company's concerns regarding the Early Out. *See* AA Ex. 1825.

C. The APFA's Early Out Proposal

14. In my Initial Declaration, I provided a generalized summary of the Early Out Proposal and the reasons why the APFA believes it should be an important part of the 1113 Proposal discussions. *See* APFA Ex. 400 at ¶¶ 7-11. Given the statements made by Mr. Briggle, it is necessary to provide further background on the Early Out Proposal and the discussions with American during February and March.

15. The Early Out Proposal was first presented to American on February 15, 2012 and was not a "take-it-or-leave-it" proposition – indeed, the presentation references "illustrative" terms for a base case Early Out and includes a range of analyses that show the potential savings based on different up-front costs and levels of acceptance. *See* AA Ex. 1823 at Slide 10. The stated purpose of the presentation was to commence a dialogue on what the APFA hoped would ultimately result in an agreed upon program.

16. Aware of the Company's desire to proceed as quickly as possible with the 1113 process, the APFA sought to rely on the Company's forecasts and information to minimize potential areas of disagreement. This included relying on American's forecast for headcount and expected rates of attrition.[5] Moreover, Jefferies employed a degree of conservatism in the analysis by assuming lower annual hours worked by flight attendants, a lower wage scale than currently in place and certain medical cost assumptions that reduced the potential savings from the Early Out. The APFA instructed Jefferies to focus

[5] Assumptions regarding attrition drive practically all of American's analysis that attempts to de-value the "base-case" of the Early Out Proposal. On information and belief, "attrition," as referred to in American's headcount forecasts, concerns those employees who voluntarily leave the workforce for reasons other than scheduled terminations (e.g. voluntary retirement, change of employment, change in life circumstances, death, prolonged illness, etc.).

on the major drivers of value (wages and medical benefits), even though the Early Out Proposal would provide even greater benefits due to other factors.

17. The Early Out Proposal included a summary of the reasons why it results in a "win-win" for the Company and the APFA, and explained why the current demographics support adopting a program that would allow new hires to enter the workforce earlier than the Company's projections. *See* AA Ex. 1823 at Slide 2. One of the main drivers of this benefit is the elimination of furloughed flight attendants, who create a significant hurdle to achieving any cost savings from new hires.

18. As mentioned in my Initial Declaration, American has not hired a new domestic flight attendant in over 11 years. *See* APFA Ex. 400 at ¶ 9. The inability to introduce new hires into the workforce deprives American of the cost savings that can be achieved by replacing a top-of-scale flight attendant with bottom-of-scale new hires. This phenomenon is impacted by the rights of furloughed flight attendants to be "recalled" by the Company in the event of an opening. The Company cannot actually hire a "new" flight attendant at the bottom-of-scale until the furlough list is exhausted. Under the Company's 1113 Proposal, there would be over 2,000 flight attendants laid off, which would result in them being added to the furlough list.

19. An Early Out Program could eliminate the need for terminations by incentivizing voluntary separations from the workforce (which would not increase the number of furloughed flight attendants), and in turn accelerate the Company's ability to hire bottom-of-scale flight attendants. Indeed, given the amount of flight attendants currently on furlough, any meaningful participation in the Early Out would reduce, if not

eliminate, furloughed flight attendants and allow the Company to hire new bottom-of-scale flight attendants.

20. The Early Out Proposal was presented in a way that was meant to avoid the significant reductions in labor costs required under the 1113 Proposal, with the hope that providing an alternative source of savings and a reinvigorated workforce would be appealing to the Company. Contrary to Mr. Briggle's claims, it was not characterized as a "silver bullet" by me or anyone from Jefferies. *See* Briggle Decl. at ¶ 4. Rather, it was viewed as a potential bridge to reaching an ultimate consensual agreement on the 1113 Proposal.

21. Unfortunately, American chose not to engage in negotiations regarding an Early Out and never provided a counter offer. Rather, the Company produced an analysis that purported to discredit the APFA's valuation of the Early Out Proposal by assuming an unrealistic impact on future attrition which is unprecedented, unsupportable and fails to consider many important factors regarding the evolving demographics of American's flight attendants.

D. American's Changes to Its Attrition Forecasts

22. As mentioned above, the major assumption in American's attempt to discredit the APFA's analysis in support of the Early Out is to eliminate a substantial portion of projected attrition from the Company's forecast. This is a very simple, yet significant change, and allows American to turn the projected savings of the Early Out Proposal on its head, resulting in a significant cost to the Company. Indeed, other than

concerns regarding the appropriate discount rate for valuing the Early Out, it appears that all of Mr. Briggle's analyses are based on a change in attrition.[6]

23. In order to agree with American's original attrition adjustment, one must believe that <u>every single person</u> who participates in an early out program is the <u>exact same individual</u> projected to leave the Company in future years.

24. Therefore, based on Mr. Briggle's analysis provided in AA Ex. 1825, the APFA's "base-case" Early Out Proposal with 3,000 acceptances would result in an equal downward adjustment to future attrition. The impact of that adjustment, as shown by Mr. Briggle, is 3 years with zero attrition, as shown below.

[redacted]

AA Ex. 1825 at Slide 7 (notations added).

25. Mr. Briggle reached this conclusion notwithstanding the significant projected increase in flight attendants who will become eligible for retirement over the next 6 years. In addition, based on our review of 13 years of attrition data provided by the Company, there is no reasonable basis to conclude that any nexus exists between an early out program and future retirement choices.

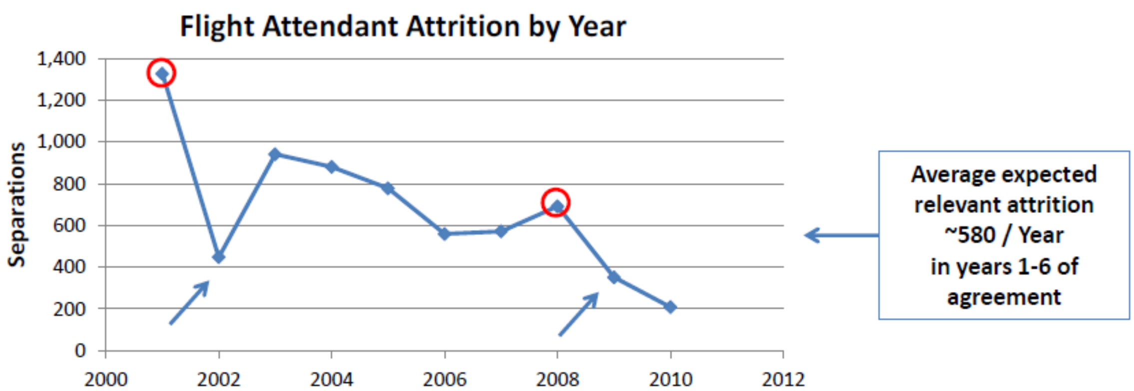
---

6 With respect to the discount rate, it is only worth mentioning that Jefferies selected 5% based on the following: (1) observations of the use of a 5% discount rate for valuations of other early out programs and (2) the use of a 5% discount rate in valuing employee benefit costs which we believe is a more appropriate comparable given the lower risk profile of the contractual savings that would be achievable from an early out. Further, the Debtors' financial advisor Rothschild has projected a [redacted]

26. We do not believe that a material adjustment (if any) to attrition is necessary given the fact that the Early Out Proposal would in essence replace the approximately 2,000 flight attendants that American expects to lay-off and place on "furlough" pursuant to the 1113 Proposal.

American's Basis for Adjusting Attrition is Unsupportable

27. In support of American's attrition adjustment, they provided APFA with a simplistic chart, copied below, showing attrition over a 10 year period highlighting 2001 and 2008 as examples of where an early out (or similar program) resulted in significant reductions in attrition. *See* Briggle Decl. at ¶ 10.



28. This chart is relied upon by Mr. Briggle to support broad generalizations that an early out results in "decreased attrition in the years immediately following the early out…," and that American has observed this "…phenomenon…when similar programs were implemented." *See* Briggle Decl.at ¶ 10. However, Mr. Briggle does not provide any detail regarding changes in attrition directly related to future retirement decisions. Furthermore, of the "similar programs" he observed, only one (2008) has any resemblance to an early out. Based on Jefferies' review of the 22 categories of attrition

data supporting the above chart, it is hardly clear that any nexus exists between an early out and future retirement decisions.

29. Indeed, in reviewing the Company's detailed attrition data in 2009 and 2002 (the years immediately following those cited in Mr. Briggle's chart), Jefferies observed only a modest decrease (less than 5%) in "general retirements" in 2009 and observed a substantial increase in the same category in 2002.[7]

30. Another important factor that undercuts Mr. Briggle's attrition assumption is that American has never experienced a year with zero attrition.[8] Indeed, it would be incredible to believe that American would have a year with no attrition given the host of unforeseen reasons an employee could leave the workforce. As mentioned above, American changed this unsupportable assumption of zero attrition without ever sharing that analysis or reasons with Jefferies.

31. Finally, during one of APFA's discussion sessions with American, Mr. Briggle admitted that he has never performed any analysis of American's past early out programs and that the Company does not have any cost/benefit analyses associated with the implantation of the 2008 program. This was confirmed in the response shown below by American to APFA's request for any historical analysis that could support American's arbitrary changes to its attrition assumption as a result of the Early Out Program.

[7] See Debtors' Intralinks "21.11 Attrition_Historic_Rates (Revised)". In addition, while Mr. Briggle refers to alleged early retirement programs in 2008 and 2001, Jefferies and the APFA could only confirm the existence of such a program in 2008.

[8] See Debtors' Intralinks "21.11 Attrition_Historic_Rates (Revised)". Jefferies reviewed historical attrition information provided by American that covers the period 1998-2010.

EARLY OUT REQUEST NO. 2:

Please provide details of, and analysis supporting, the two previous early-out programs referenced in your presentation including, but not limited to:

- Terms of the proposals
- Any internal presentations or analysis in connection with consideration of the proposals and the potential savings/costs associated therewith.
- Results of the proposals
- Any analysis or presentations regarding the proposals after they were enacted

RESPONSE TO EARLY OUT REQUEST NO. 2:

2001: An early-out was not offered in 2001. However, in 2001, multiple types of payments were received by Flight Attendants in conjunction with the new Collective Bargaining Agreement between the Company and APFA, which contributed to a high level of Flight Attendant attrition in that year. The Company identified that increased level of attrition as an example in order to demonstrate how a spike in attrition is followed by lower levels of attrition in subsequent years.

2008: The Company offered a Voluntary Bridge to Retirement ("VBR") program to various groups throughout the Company. The 2008 VBR, the details of which are being posted, resulted in 360 acceptances from Flight Attendants.

American has posted to *Intralinks*:

***Intralinks* Document No.**	**Document/Item**
21.78	2008 VBR Plan Details

At this time, the Company has been unable to find any pre- or post-program analyses related to the 2008 VBR.

The Company performs forward looking analyses and has not gone back to analyze the economic effects of the programs.

APFA Ex. 832 at 3-4.

Failure to Consider the Evolving Demographics of the APFA Workforce

32. If one were to adopt American's unique way of viewing behavioral assumptions in the context of the Early Out, there should be equal consideration of the evolving demographics of the APFA workforce. The APFA workforce currently consists of approximately 80% top-of-scale flight attendants, of which approximately [redacted]. Based on existing demographics that number [redacted]. As a result, there will be a constant increase in the amount of flight attendants who could voluntarily retire from the workforce. American does not appear to have considered that the impact of an Early Out, if any, on future retirement decisions could be mitigated by flight attendants qualifying for retirement during the next 6 years.

Failure to Consider Structuring Solutions for the Early Out

33. In an attempt to respond to American's concerns about the future behavioral impact an Early Out would supposedly have on attrition, Jefferies proposed a structural solution. The solution was premised on American's belief that for every person accepting the Early Out, there would be one less person to attrite in the immediate future. Notwithstanding our disagreement with the underlying assumption, we proposed structuring the Early Out so that only 50% of those subscribing for the program would be accepted. As a result, there would be an identified group of employees that are expressing the desire to voluntarily leave the workforce equal in number to those who would be permitted to participate in the Early Out. American had no response to this proposed structure.

American's Revisions to its Attrition Adjustment

34. According to Mr. Briggle's Declaration, he revised his attrition adjustment to account for some marginal amount of attrition in the years following an Early Out and provided his revised valuation on March 26. Briggle Decl. ¶ 25. As a result, Mr. Briggle alleges that the cost of the Early Out is now $56 million. *Id.* We have reviewed the data supporting historical attrition rates for American and do not believe that a significant reduction in attrition is supportable.[9] In addition, Mr. Briggle's negative $56 million valuation for the Early Out Program Proposal does not include the impact of additional sources of value including, among other things, the impact of reduced sick/vacation costs, the savings associated with training and the underlying conservative assumptions embedded in the analysis. As a result, Mr. Briggle's negative valuation of the Early Out materially understates the ultimate benefits of the program.

35. In conclusion, the mischaracterizations by Mr. Briggle, and his observations and assumptions regarding the Early Out Program (in particular the attrition assumptions related thereto), are without sufficient historical (or any other) support.

[9] Jefferies believes that a modest adjustment to attrition, if supported by any reliable evidence, may be acceptable. Even under those circumstances, the Early Out Program Proposal would continue to yield significant cost savings.

I declare under penalty of perjury that the foregoing is true and correct on the basis of my personal knowledge and information referenced herein.

Alexander V. Rohan

Executed on May 24, 2012 in New York, NY.