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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 FOUR: TWU—FLEET SERVICE EMPLOYEES,  
DISPATCH, GROUND SCHOOL & SIMULATOR  
INSTRUCTORS, AND SIMULATOR TECHNICIANS**

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## I. INTRODUCTION

The Transport Workers Union of America, AFL-CIO (“**TWU**”) represents seven employee groups at American Airlines, Inc. (“**American**” or “**the Company**”). American has divided its brief as to TWU in support of Debtors' Motion to Reject Collective Bargaining Agreements Pursuant to 11 U.S.C. § 1113 (the “**Motion**”) in the same manner as the Declarations of the American representatives primarily responsible for Section 1113 negotiations with TWU: one brief for four of the groups, and one for the other three. This brief addresses issues specific to four of the employee groups:<sup>1</sup>

- **Fleet Service employees:** These 10,208<sup>2</sup> employees service aircraft on the ramp at airport terminals, performing such tasks as baggage and cargo handling, fueling of aircraft and automotive equipment, attending to aircraft lavatories and cleaning and equipping aircraft interiors and maintenance of the ramp area and ground support equipment. These employees are also referred to as “Title III” and “Title IV” employees. *See* Declaration of James B. Weel (“Weel Declaration” or “Weel Decl.”) ¶ 4.
- **Dispatch:** These 175 employees are licensed by the Federal Aviation Administration (“**FAA**”) and monitor and maintain communication with all Company aircraft in route and exercise certain operational control-related functions. Weel Decl. ¶ 4.
- **Ground School and Simulator Instructors (“Instructors”):** These 170 employees provide formal classroom and tutorial training for pilots and certain

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<sup>1</sup> The other three TWU-represented groups—Mechanics and Related (“**M&R**”) employees, Stock Clerks, and Maintenance Control Technicians (“**MCTs**”)—are covered in American’s Memorandum in Support of the Motion, Part Four: TWU- Mechanics, Stock Clerks, and Maintenance Control Technicians and the Declaration of Mark L. Burdette (“Burdette Decl.”), attached as AA Ex. 1200.

<sup>2</sup> In order to finalize the financial cost-outs associated with American’s February 1, 2012 presentation to the unions, the Company used a “snapshot” of TWU headcount numbers as of December 7, 2011 for the financial modeling. Weel Decl. ¶ 3 n.3. The headcount figures cited here are active employees as of December 2011, which were used for that financial modeling. *Id.* “Active employees” does not include employees on inactive status, authorized leave, long-term disability, or those who are otherwise not actively reporting for work. *Id.* ¶ 3 n.2. The figures are referred to as “approximate” because in large workforces such as American’s, there can be daily fluctuations in both active and inactive employee headcount. *Id.*

aircraft maintenance personnel. Weel Decl. ¶ 4. Pilots are trained in procedures and standards for specific aircraft types and seats (*i.e.*, Captain versus First Officer). In addition to initial qualification training, pilots receive recurrent training every 9 months. In 2011, AA conducted 13,000 training events. *Id.*

- **Simulator Technicians (“Sim Techs”):** These 76 employees maintain and repair 26 flight simulators at American’s campus in Ft. Worth, Texas, which are used in pilot training. Weel Decl. ¶ 4.

Each of these TWU-represented work groups are covered by separate collective bargaining agreements (“CBAs”) between TWU and American. In 2003, American reached consensual agreements with TWU with regard to each of the TWU-represented employee groups that became effective on April 15, 2003—a period when American’s major network carrier competitors were beginning to restructure through the Chapter 11 process.<sup>3</sup> Weel Decl. ¶¶ 5-8. TWU, along with American’s other unions, voluntarily negotiated reductions in labor costs that narrowly averted American filing Chapter 11 proceedings at that time. *Id.* ¶ 6. However, from 2003 through 2006, US Airways, United, Northwest and Delta used the Chapter 11 process to lower their own labor costs below the levels in American’s 2003 CBAs, to achieve greater freedom to manage operations efficiently, and to terminate or freeze their defined benefit pension plans. *See* Declaration of Jerrold A. Glass (“Glass Decl.”), AA Ex. 800, ¶¶ 43-50, 273. Thus, American’s 2003 CBAs now hamper the Company from competing effectively, and from restructuring successfully. Neither TWU nor the Company was in a position in 2003 to foresee the conditions that confront American today, which render those wages and work rules no longer sustainable. Weel Decl. ¶¶ 7-8. The background facts regarding American’s financial distress and Business Plan are set forth in American’s primary 1113(c) brief and supporting Declarations,

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<sup>3</sup> American’s major “network carrier” competitors are Delta and Northwest (now merged), United and Continental (now merged), and US Airways. *See* Declaration of Daniel M. Kasper (“Kasper Decl.”), AA Ex. 1, ¶ 6 n.7.

and will not be repeated here. Rather, this brief is limited to the facts and issues related directly to these four TWU CBAs.

## **II. PRE-PETITION BARGAINING**

The 2003 CBAs became amendable on April 30, 2008. *See* AA Ex. 1103-1109. Under the Railway Labor Act, the 2003 CBAs remain in place until the parties negotiate a replacement CBA, or until the procedures in the Railway Labor Act for arriving at a new CBA have been exhausted. *Northwest Airlines v. Ass'n Flight Attendants*, 483 F.3d 160, 167 (2d Cir. 2007). Once TWU and American reach a Tentative Agreement (“TA”) as to a particular employee group, the membership of that employee group must vote to ratify the TA before it becomes effective. From 2006—when the parties exercised “early opener” bargaining options—until American’s Chapter 11 filing in November 2011, TWU and American have been engaged in protracted bargaining regarding these employee groups.<sup>4</sup> Weel Decl. ¶¶ 13-29. Throughout bargaining, American adopted an “open books” policy and gave all its Unions, including TWU, access to all financial data and computer modeling. *Id.* ¶¶ 34-39. American began bargaining with Dispatch for a new CBA in May 2006, and started bargaining for new CBAs with Fleet Service, Sim Techs, and Instructors in November 2007. Weel Decl. ¶ 16. When direct negotiations proved unsuccessful, American and TWU jointly invoked the mediation services of the National Mediation Board (“NMB”).<sup>5</sup> *Id.* ¶ 24. American and TWU engaged in mediated negotiations with the NMB with regard to Dispatch beginning in October 2008, and entered

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<sup>4</sup> American’s Corporate Communications group created chronological summaries of Section 6 bargaining with TWU, which were posted to the public AANegotiations.com webpage. Those chronologies are attached as AA Exs.1113-1116.

<sup>5</sup> The NMB is an independent agency charged with facilitating harmonious labor-management relations in the railroads and airlines. 45 U.S.C. § 153 (2006). The Railway Labor Act

mediated negotiations on January 30, 2009 with regard to Fleet Service, Instructors, and Sim Techs. *Id.* In the course of these negotiations, American opened its books to TWU and its financial advisors and provided reams of financial information that demonstrated the need for American to bring its labor costs in line with those of other carriers. *Id.* ¶¶ 34-39.

American's proposals in pre-petition negotiations focused on securing greater flexibility in outsourcing work on par with other airlines, moving from a defined benefit retirement plan of the kind eliminated at every other major airline to a 401(k) option for new hire employees with a 5.5% company match, instituting a new annual profit sharing plan, increasing the opportunities to outsource particular work, and modifying the "ASM cap" that limits the size of regional airline operations in support of American's mainline flights.<sup>6</sup> In an effort to obtain agreement to the needed work rule changes and outsourcing, American proposed to increase compensation in a variety of ways across the different groups, increase vacation time for less senior employees and, for some groups, increase the rate of pay for holidays worked by 33%. Weel Decl. ¶ 23.

The bargaining between American and TWU with regard to Fleet Service, Sim Techs,

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authorizes the NMB to provide mediation services to help a carrier and a union reach a new CBA. 45 U.S.C. § 155 (2006).

<sup>6</sup> The term Available Seat Miles ("ASM") refers to the measure of a flight's passenger-carrying capacity, calculated by multiplying the number of seats available for sale on a flight by the number of miles flown. For example, an aircraft with a 300-seat capacity flying 1,000 miles generates 300,000 ASMs for that flight. Weel Decl. ¶ 14 n.22. The significance of the "ASM cap" is further described in Section VIII, *infra*. "Regional operations" refers to smaller markets into which regional jets ("RJs") (typically have 70 or fewer seats) can be flown more economically than larger aircraft. RJs are also called "commuter jets" or "small jets." *Id.* ¶ 21 n.33. Regional carriers (such as American Eagle, Delta Connection, or United Express) typically fly exclusively RJs, whereas network carriers (such as American, Delta or United) fly a mix of RJs and larger aircraft. Regional operations are described in more detail in the Kasper Declaration, ¶¶ 102-107.

and Dispatch did not result in new CBAs.<sup>7</sup> Weel Decl. ¶¶ 26-29. Thus, the 2003 CBAs remain in effect with regard to these three groups. *See Detroit & Toledo Shore Line R.R. Co. v. United Transp. Union*, 396 U.S. 142, 150 (1969); *Trans World Airlines v. Indep. Fed'n of Flight Attendants*, 809 F.2d 483, 490 (8th Cir. 1987) (duration clause created an amendable contract, not one that “terminate[s] either automatically or upon service of notice of a limited number of intended changes”), *aff'd without op. by equally divided court*, 485 U.S. 175 (1988).

TWU and American, however, were able to reach a subsequent CBA with regard to the Instructors, which was ratified by the membership and became effective on October 1, 2011. *See* Weel Decl. ¶¶ 5, 15. While this CBA was ratified more recently, and therefore memorializes many necessary concessions, additional amendments are needed to accomplish the cost reductions necessary for American to successfully exit Chapter 11 reorganization. In addition, without use of the Section 1113 process, the Instructors' CBA is not otherwise amendable until April 1, 2015—more than three years from now—and therefore would not contribute to any necessary cost reductions for American without a consensual re-negotiation with TWU or intervention by the Court. *Id.* ¶ 15.

Since American's Chapter 11 filing, American and TWU have continued to negotiate with regard to all four employee groups under the procedures of Section 1113 of the Bankruptcy Code. *See* Section III, *infra*. Although some progress has been made towards reaching tentative

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<sup>7</sup> Two TAs were reached with Fleet Service. TWU refused to send first Fleet Service TA out to its membership for ratification. Weel Decl. ¶ 26. Due to American's Chapter 11 filing, the second Fleet Service TA was not submitted to the membership for ratification. *Id.* ¶ 28. TWU membership ratified a tentative agreement with the Dispatchers in December 2011 after American's Chapter 11 filings. American had previously advised TWU that in light of the changed circumstances resulting from the Chapter 11 filings, the Company withdrew its TA and would re-open negotiations for further changes. Weel Decl. ¶ 5, n. 7.

agreements on some specific items, none of these four TWU work groups has accepted the Company's current Section 1113 Proposals.

### **III. OVERVIEW OF SECTION 1113 PROPOSALS**

American's Section 1113 Proposals to Fleet Service, Dispatch, Instructors and Sim Techs seek approximately \$159 million in annual cost reductions. *See* AA Exs. 1140, 1141, 1142, 1143. To reach these cost reductions, American is *not* proposing to reduce basic pay rates. Rather, at the heart of American's Proposals are provisions that will allow American to operate more efficiently and compete more effectively with other airlines. For instance, the bulk of the provisions in the Fleet Service Proposal are designed to permit American to utilize part-time American employees and third-party vendors to provide some services more cost-effectively and efficiently than they can be performed by full-time TWU-represented employees at American. Weel Decl. ¶¶ 40-53. TWU has historically been resistant to such measures, seeking instead to keep a maximum amount of work performed by full-time TWU-represented employees as possible. *Id.* ¶¶ 10, 18, 27-28. American's Section 1113 Proposals with regard to the Dispatch, Simulator Technicians, and Instructors groups seek to increase productivity by increasing flexibility in scheduling and to reduce the overtime and holiday pay rates (and, with regard to the Simulator Technicians, reduce per diem rates for work-related travel). *Id.* ¶¶ 73-91. As to all groups, American seeks changes that include eliminating the ASM cap, reducing restrictions on furloughing and reassigning employees, and changes to pension and medical benefits, vacations, and sick leave. *Id.* ¶¶ 92-102.

On February 1, 2012, American presented its Business Plan for a restructured airline and its Section 1113 Proposals to all of its Unions. Weel Decl. ¶ 33. At the conclusion of this meeting, American shared with TWU copies of the presentation and offered to provide to the Union's advisors on an expedited basis any financial or operating information necessary to

understand American's analysis of the need for labor cost reductions. *Id.* ¶ 34. The following day, Brian J. McMenemy, American's Vice-President and Controller, presented in detail to representatives of all of the Unions American's costing methodologies for collective bargaining, which used the same computer models and protocols with which each Union was familiar through our prior collective bargaining. *Id.* ¶ 36. Then, Company representatives met with the financial advisors for each of the Unions in order to provide them with detailed information and data on the computer model used in preparation of the Company business plan. *Id.*

Additionally, Managing Director of Employee Relations James B. Weel presented copies of American's Section 1113 Proposals to TWU with regard to Fleet Service, Dispatch, Instructors, and Sim Techs, and described the terms of these proposals in a page-by-page "walk-through." Weel Decl. ¶ 34. Weel also provided TWU with cost-out summaries for each item in the proposals. *Id.* ¶ 35. TWU was provided access to the Company's full economic models that the Company used to value its proposal through a secure web-based access platform called *Intralinks*. *Id.*

Following these initial informational sessions, American promptly responded to voluminous formal and informal information requests from TWU. A chronology of data provided in response to inquiries from TWU is attached as AA Ex. 1502; *see also* AA Ex. 1507. American's management made themselves available virtually 24/7 since the Section 1113 Proposals were presented on February 1, including having meetings and responding to requests on weekends, early mornings and late into the night. Since February 1, American has responded to more than 280 formal, and dozens of informal, requests for information from TWU pertaining to valuations of American's Proposals, the Company's Business Plan, pension and benefits, cost reductions and expenses, and supporting models, metrics, and assumptions thereof, as well as

competitive data spanning ten years. *See* AA Exs. AA Ex. 1502, 1507. American management representatives met with TWU representatives extensively, including providing TWU with access to American’s subject-matter experts to provide information and respond to questions with regard to American’s proposals on active and retiree health and pension benefits:

**AA EX. 1135: AMERICAN HAS SPENT HUNDREDS OF MANAGEMENT HOURS IN SECTION 1113 NEGOTIATIONS WITH TWU REGARDING FLEET SERVICE, DISPATCH, INSTRUCTORS AND SIM TECHS SINCE FEBRUARY 1, 2012**

<b>TWU Negotiating Group</b>	<b>Number of Bargaining Sessions</b>	<b>Number of Days on Which Bargaining Took Place</b>	<b>Total Time Spent Bargaining</b>	<b>Total AA Management Hours Spent Bargaining</b>
Fleet Service	30 sessions	23 days	22 hours, 19 minutes	175 hours, 42 minutes
Dispatch	22 sessions	17 days	15 hours, 27 minutes	126 hours, 25 minutes
Instructors	22 sessions	16 days	16 hours, 59 minutes	126 hours, 5 minutes
Sim Techs	22 sessions	16 days	16 hours, 59 minutes	126 hours, 5 minutes

A chronology of post-petition negotiations regarding the Fleet Service, Dispatch, Instructors and Sim Techs groups is attached as AA Ex. 1134. Section 1113 requires the parties to continue to confer in good faith in an attempt to reach mutual agreement until the date of the hearing. *See* 11 U.S.C. § 1113(b)(2). It is the Company’s final proposal before the start of the hearing that should be considered by the Court. *See Teamsters Airline Div. v. Frontier Airlines, Inc.*, No. 09-CIV-343, 2009 U.S. Dist. LEXIS 61699, at \*25-\*32 (S.D.N.Y. July 20, 2009). The parties have agreed to file updated reports with the Court on the day before the hearing begins.

Throughout these negotiations, American continued to ask for the same total dollar amount of cost reductions, but was willing to negotiate trade-offs or other methods to meet the target. Some progress was made over the course of almost two months of negotiations, including tentative agreements to freeze the Defined Benefit pension plan for these employees and replace

it with a Defined Contribution plan, to reduce Fleet Service employees' longevity pay in order to provide cost reductions to mitigate furloughs, and comprehensive tentative agreements with Instructors and Sim Techs on all items other than benefits. *See* Weel Decl. ¶ 81, 87, 100.

American carefully considered counter-proposals from TWU and the cost-reductions that could be achieved through those counter-proposals. American therefore revised its initial Section 1113 Proposals, and the Company expects that the parties will continue negotiating in good faith until the date of the hearing in this matter. On March 22, 2012, American provided TWU updated term sheets that reflected changes to American's initial proposals that the Company had made in response to TWU concerns and counter-proposals made during bargaining. *See* AA Exs. 1136-1139. American also provided full cost-outs of its updated proposals on that date. *See* AA Exs. 1140-1143.

American must achieve significant labor cost reductions, including reductions from Fleet Service, Dispatch, Instructors, and Sim Techs. *See* Weel Decl. ¶ 32; Declaration of Jeffrey J. Brundage ("Brundage Decl."), attached as AA Ex. 500, ¶ 24. The Section 1113 Proposals were designed to achieve the required cost reductions by establishing competitive work rules supporting the Company's long-term Business Plan, and wage rates and employee benefits consistent with the industry. *See* Brundage Decl. ¶ 26. In proposing these changes, American has demonstrated its commitment to allocating the cost reductions fairly across the different employee groups and CBAs. *Id.* As described herein, American must obtain relief from the outsourcing and furlough restrictions, scope and work rule provisions, and benefits components of the Fleet Service, Dispatch, Instructors and Sim Techs CBAs in order to assist in its reorganization and to enable financial recovery.

This brief first describes the proposals that are specific to the business needs of the Fleet Service, Dispatch, Instructors and Sim Techs groups. Second, the brief discusses proposals that are common across the groups of TWU-represented employees, including reference to benefits, pensions and other items that are discussed at length in the Declaration of Carolyn E. Wright (“Wright Decl.”), attached as AA. Ex. 600.

#### **IV. PROPOSED CHANGES TO THE FLEET SERVICE CBA**

American’s Section 1113 Proposal to Fleet Service is expected to realize cost reductions of \$152.4 million annually. Weel Decl. ¶ 31; AA Ex. 1140. The Proposal includes increased outsourcing, increased utilization of part-time employees, and modification of certain work rules. AA Ex. 1136. A number of these proposals are items that the Company has proposed in Section 6 negotiations for many years.<sup>8</sup> See AA Ex. 1114. Some of them were included in TAs with TWU leadership, but were not presented to the membership for ratification. See Weel Decl. ¶¶ 26-28. The most important pieces of the proposal, however—significant lower-cost outsourcing of particular Fleet Service functions and increasing the threshold under which American is required to staff TWU-represented employees at a particular station—are ones that TWU has consistently resisted.

##### **A. Increased Outsourcing of Fleet Service Work**

Because Article 1(d) of the current Fleet Service CBA largely restricts American’s ability to outsource to levels established in 1950, American’s current practice is far below the level of outsourcing used by the other network carriers, resulting in higher labor costs for the same

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<sup>8</sup> “Section 6” refers to Section 156 of the Railway Labor Act, which sets forth the requirements for an employer to bargain with a union with regard to pay, work rules, and working conditions. 45 U.S.C. § 156 (2006). This term refers to the bargaining in which TWU and American engaged in an attempt to reach consensual agreement on a new CBA prior to American’s invocation of the Section 1113 process.

services. *See* AA Ex. 1104; Weel Decl. ¶¶ 40, 41; Glass Decl. ¶¶ 191-197. American proposes to amend the terms of the Fleet Service CBA to permit outsourcing of certain Fleet Service functions. *See* Weel Decl. ¶¶ 40-48. These changes are essential to American's reorganization because they will enable American to realize very substantial cost reductions without eliminating any component of service. *Id.* Outsourcing the following Fleet Service functions will result in total annual cost reductions of \$72.2 million.<sup>9</sup> *See* AA Ex. 1140.

### 1. Cabin Cleaning Functions

As part of American's 2003 CBA with TWU with regard to Fleet Service, TWU agreed to permit American to outsource the overnight airplane cabin cleaning functions that are performed while planes are out of service during nighttime hours. Weel Decl. ¶ 44; AA Ex. 1104, Attachment 11.1. American has consistently proposed to outsource these same functions that also occur in between flights while the planes are in service ("**dayline cabin cleaning**") in Section 6 bargaining. *Id.* ¶¶ 27, 28. TWU leadership had agreed to outsource dayline cabin cleaning as part of the parties' TA in 2011, which was not submitted to the membership for a vote.<sup>10</sup> *Id.* ¶ 44. American again proposes this same outsourcing as part of its

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<sup>9</sup> All annual cost reductions discussed in this brief and the Weel Declaration are based on a calculation of the change's effect taken on a six-year average. Weel Decl. ¶ 42 n.44. In addition, these cost reduction estimates do not take into account compounding. Compounding recognizes that the proposed changes to work rules, benefits, compensation and headcount cannot be achieved in a vacuum. In order to address the fact that, for example, reductions in headcount will also impact overall benefits costs (*e.g.*, because there are fewer employees), after the projected cost reductions were determined for each category of cost reduction (such as benefits and work rules), American's Finance Department conducted an additional series of calculations to adjust the total direct labor cost reductions to avoid double counting the projected cost reductions. This process is discussed in more detail in the Declaration of Brian J. McMenamy ("McMenamy Decl."), attached as AA Ex. 700.

<sup>10</sup> Moving the dayline cabin cleaning work to a lower and less expensive Fleet Service job classification was a provision of the first Fleet Service TA in 2010. Weel Decl. ¶ 27.

Section 1113 Proposals.<sup>11</sup> *Id.* ¶ 43.

Under the current Article 11 of the Fleet Service CBA, American must use TWU-represented Fleet Service employees to perform the following daytime cabin cleaning functions:

- equipping the airplane cabin for a flight with equipment and supplies such as rugs, linen, blankets, literature, disposal and refuse containers;
- changing the airplane curtains, rugs, upholstery, etc., periodically, as required;
- cleaning the interior of the airplane by hand sweeping and dusting, emptying ash trays, removing stains from upholstery, cleaning the inside of windows, cleaning and servicing lavatories and buffet disposal containers, and removing of refuse; and
- removing linen, blankets, literature and refuse from the airplane.

AA Ex. 1104.

At the same time that these daytime cabin cleaning functions are occurring, Fleet Service employees must also perform a number of “under the wing” services, including loading and unloading baggage and directing the airplane on the ground. Weel Decl. ¶ 43. If cabin cleaning remains in house, American has two staffing options: 1) use the same crew to clean the cabin as to perform other “under the wing” functions, which requires fewer employees, but results in a longer service period for the airplane while it is out of service on the ground; or 2) use two separate dedicated Fleet Service crews—one to do cabin cleaning and one to work “under the wing,” which cuts down on service time, but increase the number of employees and labor cost needed to perform the work. *Id.* Outsourcing the cabin cleaning functions to a vendor would permit them to be performed simultaneous to the “under the wing” work being performed by TWU-represented employees.

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<sup>11</sup> American’s proposal to eliminate this function under the Fleet Service Agreement is also consistent with American’s proposal to TWU regarding the M&R Employees, in which cabin

Dayline cabin cleaning is outsourced by every other network carrier. *See* Weel Decl.

¶ 43; Glass Decl. ¶¶ 31, 191-198, 228-232. Outsourcing cabin cleaning services would result in a 984-employee headcount reduction and annual cost reductions of \$29.8 million.<sup>12</sup> Weel Decl. ¶ 43; AA Ex. 1140.

## 2. Cargo Functions:

Under the current Fleet Service CBA, American cannot outsource any cargo operations that are not already outsourced. AA Ex. 1104, Art. 1(d). American seeks to outsource all cargo functions currently handled by Fleet Service employees, which include:

- transporting cargo to and from aircraft including from the Company to other carriers;
- loading and unloading the cargo compartments of airplanes with cargo (such as mail, passenger baggage, air express, air freight, ballast, and Company material);
- warehousing cargo;
- weighing air freight;
- stacking, picking up and delivering cargo;
- checking cargo handled against its accompanying forms to identify any mishandling or discrepancies, correcting and/or escalating routine errors; and
- safeguarding cargo from weather.

Weel Decl. ¶ 42; AA Ex. 1104, Art. 11; AA Ex. 1136.

Outsourcing these functions would reduce the Fleet Service headcount by 997 employees, and result in cost reductions of \$28.6 million per year. Weel Decl. ¶ 42. This proposal is also

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cleaning will be outsourced and the Cabin Cleaner classification will be eliminated. Weel Decl. ¶ 38; Burdette Decl. ¶¶ 29, 30 n.21.

<sup>12</sup> TWU tentatively agreed to this particular proposal during Section 1113 negotiations, but ultimately did not accept American's comprehensive proposal with regard to Fleet Service. Weel Decl. ¶ 44.

consistent with the Company's proposal to TWU regarding the M&R CBA, in which cargo functions performed by employees under that contract will be outsourced as well. Weel Decl. ¶ 42 n.43; Burdette Decl. ¶ 30.

### **3. Fueling Functions**

The following fueling functions are currently performed by 195 TWU-represented employees at eleven stations:

- electrically grounding both the aircraft and the fuel truck;
- servicing the aircraft with fuel, oil, and other fluids;
- draining aircraft fuel and oil tanks, taking stick readings;
- litmus and water tests of fuel tanks to detect hazardous conditions and checking the fuel truck meter;
- filling the fuel truck from fuel storage tanks;
- driving the fuel truck as required for aircraft and gasoline truck fueling operations;
- securing caps or valves after fueling operation;
- ordering deliveries of fuel and oil;
- operating tank storage farm, receiving and checking deliveries of fuel and oil;
- servicing ground and ramp equipment, including fuel pumps, hoses and assigned fuel truck to keep in operating condition;
- making a routine check of fire fighting equipment on assigned truck at beginning of work shift;
- reporting need for repairs on equipment;
- assisting in loading, unloading and racking both filled and empty drums; and
- hand trucking supplies.

AA Ex. 1104, Art. 11.

American is the only network carrier performing its own fueling functions. *See* Weel Decl. ¶ 46; Glass Decl. ¶¶ 31, 227.

By outsourcing fueling at stations where TWU is currently performing work, American will realize annual cost-reductions of \$5.4 million. Weel Decl. ¶ 46; AA Ex. 1140. American has consistently proposed to outsource these fueling services. Weel Decl. ¶ 46. Recognizing the cost reductions to the Company, TWU leadership agreed to outsourcing of some fueling functions as part of the 2010 Fleet Service TA, and then agreed to complete outsourcing of these functions as part of the 2011 TA, which was not submitted to the membership for a vote.<sup>13</sup> *Id.*

#### **4. Baggage Services**

American proposes outsourcing two different functions related to the handling of baggage by Fleet Service employees: American Eagle bag transfers and bag expeditors.<sup>14</sup> These services can be provided by outside vendors at a total annual cost reduction of more than \$7 million, and a reduction of approximately 300 employees.

Currently, 251 Fleet Service employees are used to transfer the baggage of travelers connecting between American and American Eagle flights. *See* Weel Decl. ¶ 45. These American employees either retrieve baggage from the American Eagle flight and bring it to the American flight, or take baggage from the American flight and deliver it to the American Eagle

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<sup>13</sup> TWU tentatively agreed to this particular proposal during Section 1113 negotiations, but ultimately did not accept American's comprehensive proposal with regard to Fleet Service. Weel Decl. ¶ 46.

<sup>14</sup> American initially proposed outsourcing a third baggage-related function: bag encoders who are responsible for monitoring baggage as it makes its way through the baggage-handling system. *See* AA Ex. 1126. During the course of Section 1113 negotiations, however, American accepted and adopted TWU's counter-proposal that American continue performing bag encoder functions in-house, in exchange for reducing Fleet Service longevity pay premiums, discussed *infra*. Weel Decl. ¶ 47 n.46.

flight. *Id.* American seeks to outsource these bag transfer functions at five stations (DFW, JFK, LAX, MIA, and ORD), which would result in annual cost reductions of \$5.5 million.<sup>15</sup> *Id.*

American also seeks to outsource bag expediting at five locations (DFW, JFK, LAX, MIA, and SJU), resulting in a headcount reduction of 57 employees, at annual cost reductions of \$1.7 million. *See* Weel Decl. ¶ 47. The function of a bag expediter is to reroute baggage when there is a flight cancellation, rebooking or misplaced bag, and to update the reservations system to allow tracking of the bag. *Id.* Currently, bag expediting functions are performed by three groups of American employees: Fleet Service Clerks, Agents, and Management.

## **5. Bus Driving**

American seeks to outsource bus driving functions performed by Fleet Service employees. Weel Decl. ¶ 48. Bus driving is not a function typically performed by Fleet Service employees in the industry, and indeed it is only performed by American Fleet Service Clerks at two stations. *Id.* TWU leadership agreed to complete outsourcing of these functions in both the 2010 and 2011 Fleet Service TAs. *Id.* Outsourcing these functions will result in the elimination of 46 positions, and will result in an annual cost reductions of \$1.2 million.<sup>16</sup> *Id.*

### **B. Increase Station Staffing Thresholds**

As part of American's outsourcing proposals, American seeks to modify Article 1(c) of the Fleet Service CBA to raise the annual departures threshold for mandatory staffing of TWU-represented employees. This change would bring American in line with its competition, permit

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<sup>15</sup> TWU tentatively agreed to this particular proposal during Section 1113 negotiations, but ultimately did not accept American's comprehensive proposal with regard to Fleet Service. Weel Decl. ¶ 45.

<sup>16</sup> TWU tentatively agreed to this particular proposal during Section 1113 negotiations, but ultimately did not accept American's comprehensive proposal with regard to Fleet Service. Weel Decl. ¶ 48.

American more latitude to outsource services that creates the most economic savings for American, and would result in \$37.6 million in yearly cost reductions. *See* Weel Decl. ¶¶ 49, 50. The cost reductions are based American's current costs, less the cost of replacement services from outside vendors who can and do perform similar work for other carriers at costs substantially lower than American's current costs. *Id.*

The 2003 Fleet Service CBA requires American to staff stations with TWU-represented employees if the station is currently staffed with TWU-represented employees, and the station maintains 2,555 or more annual American departures (7 departures per day) for Fleet Service Clerks and 1,460 annual (4 daily) for Ground Service employees. AA Ex. 1104, Art. 1(c). In addition, American must staff stations not currently staffed by TWU with TWU-represented Fleet Service Clerks if the station usage increases to at least 5,475 annual (15 daily) American departures, and must staff with TWU-represented Ground Service employees if station usage increases to at least 3,650 annual (10 daily) American departures. *Id.* Finally, the 2003 CBA requires American to restaff cities that have been previously de-staffed, once those stations reach 2,555 annual (7 daily) departures for Fleet Service Clerks and 1,460 annual (4 daily) for Ground Service employees. *Id.* By contrast, other airlines are not bound in their labor contracts to particular station staffing levels. *See* Weel Decl. ¶ 49; Glass Decl. ¶¶ 233-238. Instead, other network carriers select the size of the stations they choose to outsource, versus those they choose to staff with their own employees.

American seeks to modify Article 1(c) to provide for staffing with TWU-represented employees only at stations with 7300 or more annual AA departures (20 per day). *See* AA Ex. 1136. Under the current 2012 flight schedule, this change would result in TWU-represented staffing at 13 stations, reflecting a 1,424-employee headcount reduction. *See* Weel Decl. ¶ 50.

**C. Increased Utilization of Part-Time Employees**

American also proposes amending the Fleet Service CBA to permit management flexibility with respect to utilizing part-time employees, which will result in total annual cost reductions of \$10 million, based on four changes: (1) reduction in overtime expenditures due to elimination of part-time employee caps; (2) reduction in overtime expenditures due to increased use of part-time employees for overtime work; (3) realization of cost-reductions by having part-time Crew Chiefs supervise part-time crews; and (4) reduction in employee benefit costs due to increased use of part-time employees.<sup>17</sup> Weel Decl. ¶¶ 51-53.

**1. Lifting Part-Time Employee Cap**

The elimination of language in the Fleet Service CBA that caps the number of part-time employees that American can utilize to March 2001 staffing levels will result in annual cost reductions of \$3.4 million at DFW airport *alone*. Weel Decl. ¶ 52. Although DFW is currently the only station in which the part-time cap restricts the addition of any more part-time employees, the cap applies to all stations, which would ultimately restrict the use of part-time employees at stations that grow beyond their current size. *Id.* In addition, the increased use of part-time employees over full-time employees will result in another \$4.3 million annually in reduced benefits costs, as part-time employees are not eligible for the same benefits as full-time employees. *Id.*

Ramp operations are especially well-suited to the use of part-time employees, because numerous aircraft are scheduled to arrive at an airport “hub” at slightly staggered intervals in a narrow time range (a “rolling bank” of flights). Weel Decl. ¶ 51. Once these flights land, passengers de-plane and those who have not yet reached their final destination change to

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<sup>17</sup> Crew Chiefs are TWU members with certain non-supervisory organization or oversight duties

connecting flights of aircraft that depart again (also in “rolling banks”), creating the “spokes” of airplane routes radiating out to other destinations from the central “hub.” *Id.* As a result, ramp employees are very busy for periods of time when rolling banks of aircraft arrive, performing their duties associated with landing, transferring baggage and cargo among airplanes to make the proper connections, loading any necessary supplies or perform necessary services, and ensuring a safe takeoff of the departing flight. *Id.* Following such periods of activity are shorter periods of relative calm when full-time Fleet Service employees cannot be fully utilized. *Id.* The use of part-time employees alleviates these periods of paid downtime by allowing American to schedule shorter shifts designed to cover heavier-traffic periods, and by providing employees who can fill additional available work hours at straight-time rates, rather than full-time employees who would be entitled to overtime premiums for the additional work.

## **2. Using Part-Time Employees to Cover Overtime Work**

American’s current overtime procedures appear in Article 6 and Article 43 of the Fleet Service CBA, but are also subject to Letter of Memorandum 2 and a large number of “local letters” which represent side agreements between local TWU leadership at a particular station and local American management. Weel Decl. ¶ 67. Under these current provisions, American is restricted in its ability to assign additional or overtime hours efficiently and in a manner that is consistent with the needs of the business. Weel Decl. ¶ 68. Furthermore, the current overtime distribution rules under the local letters can be cumbersome to apply and result in employees being treated differently for overtime purposes in different stations. *Id.* American proposes modifying Articles 6(d) and 43(l), and replacing all Letters of Memoranda and local overtime

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above and beyond the normal duties of a member of the bargaining unit. Weel Decl. ¶ 53.

agreements and practices with standardized overtime procedures that will result in annual cost reductions of \$1.8 million. *Id.* ¶ 67.

Under the current Article 43(l), overtime work that is needed one hour before the start of a full-time employee's shift or one hour after the end of a full-time employee's shift must first be offered to full-time employees. Weel Decl. ¶ 68. As a practical matter, because the amount of overtime needed is often short in duration, it can take longer to move down the list of full-time scheduled employees to find someone willing to take the overtime than it would have taken to simply let a part-time employee stay to complete the work. *Id.*

Under American's proposal, local management would have flexibility to determine whether the additional/overtime hours will be proffered to employees who are available to continue working after the end of an existing shift (a "**holdover**"), to employees who are available to be called in to work before a scheduled shift (an "**early call in**"), or to employees who are on their day off. Weel Decl. ¶ 69. The method of assignment may vary depending on the particular need on a given day, and local management may choose to utilize more than one method of assignment to fill additional/overtime hours on a given day. *Id.* Voluntary hours will be proffered based on the lowest number of accrued additional/overtime hours within each status (full time or part time). *Id.* Involuntary hours will be assigned in reverse seniority order within each status, but employees will not be assigned involuntary hours on their day off or early call in.<sup>18</sup> *Id.*

When there is a need to fill a period of six hours of work or less, the hours will be proffered to part-time employees on a voluntary basis before full-time employees. Weel Decl. ¶

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<sup>18</sup> This limitation on the assignment of involuntary hours was added to the Company's proposal during the Section 1113 process, in response to concerns raised by TWU at the bargaining table. Weel Decl. ¶ 69.

70. This will result in cost reductions because full-time employees are more likely to be paid at a higher rate and will generally be entitled to an overtime premium (one-half times the employee's regular rate of pay) for those additional hours. *See* AA Ex. 1104. The hours will be proffered to full-time employees on a voluntary basis only if there are no part-time volunteers available to do the work. Weel Decl. ¶ 70. If no full-time or part-time employees volunteer, then the work will be assigned to part-time employee. *Id.*

When more than six additional man hours are required, the hours will be proffered first to full-time employees.<sup>19</sup> Weel Decl. ¶ 71. This would produce an equitable distribution of overtime opportunities among part-time and full-time employees. Part-time employees would be proffered additional/overtime hours of more than six hours only after the hours have been proffered to full-time employees on a voluntary basis. If there insufficient full-time or part-time employees available to work the needed hours, the hours will be assigned to part-time employees on an involuntary basis and, if necessary, to full-time employees on an involuntary basis. *See* AA Ex. 1136.

### **3. Creation of Part-Time Crew Chiefs**

Amending the Fleet Service CBA to allow for future Part Time Crew Chief positions will result in an additional annual cost reduction of \$400,000. Weel Decl. ¶ 53. This cost reduction would result from using the same number of Crew Chiefs that currently supervise part-time crews, but employing that number of Crew Chiefs on a part-time basis that comports with the schedules of the employees they supervise. *Id.* Currently, American must pay full-time Crew

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<sup>19</sup> This aspect of the proposal was modified during the Section 1113 process, in response to concerns raised by TWU about full-time employees being deprived of the opportunity to work overtime hours under American's original Section 1113 proposal. Therefore, American modified its proposal to give full-time employees the first opportunity to work additional/overtime shifts of more than six hours. Weel Decl. ¶ 71.

Chiefs to work full-time shifts, even where they supervise a crew of employees who work part-time. *Id.*

**D. Permit Movement of Employees to Reduce Headcount and Accomplish Outsourcing Objectives**

In order to accomplish its outsourcing objectives, American must be able to remove surplus employees from the payroll, move transferring employees on a timeline that accomplishes the smoothest transition of outsourced work, and assure that Crew Chiefs who transfer into vastly different positions can do so successfully. The following provisions of American's Fleet Service Section 1113 Proposal accomplish those objectives.

**1. Remove Restrictions on Furloughing Employees and Lengthy Recall Rights**

Article 42(a) of the 2003 Fleet Service CBA contains provisions that restrict American's ability to lay off "protected employees" under the CBA, either by ending their employment with the Company or by re-assigning the employees to a lower job classification. AA Ex. 1104.

Article 42(b) of the contract protects against layoff those employees at the largest maintenance bases and many line stations so long as American continues to operate at those stations.<sup>20</sup> AA Ex. 1104. The effect of this Article is that most employees cannot simply be separated from the Company if their services are no longer needed due to outsourcing or other changes to the business.

First, these protected employees are allowed to "bump" more junior employees out of their positions, rather than facing termination. AA Ex. 1104, Arts. 15, 42(a). Even if an

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<sup>20</sup> In Article 42(c), a limited force majeure exception is available, encompassing only (a) acts of God, (b) strikes, (c) national war emergency, (d) revocation of the Company's operating certificate, (e) grounding of a substantial number of aircraft for safety reasons, and (f) a reduction in flight operations caused by unavailability of fuel or other essential material. AA Ex. 1104.

employee is junior enough to be “bumped” out of active service himself, he remains on a “furlough list” (also called a “recall list”) and must be recalled to work at American—at the same pay and seniority rights with which he left the active workforce—in the event that any openings become available in the future. *Id.* Thus, American is prevented from hiring new, lower-wage, entry-level employees so long as there is a former employee on the recall list who could be recalled to work. American’s reorganization simply cannot succeed without the ability to reduce its labor costs through reductions in force. Weel Decl. ¶¶ 59, 60. Absent the requested relief, American would have to pay hundreds—if not thousands—of employees for whom there is no work. *Id.* ¶ 60.

In addition, American also seeks to reduce the length of time that laid off employees remain on the recall list, from the current industry-leading 10 years to an industry standard 5-year period. *See* Glass Decl. ¶¶ 245-251. Currently, American cannot hire new employees, at lower starting wage rates, until it has recalled every employee back to work that it has laid off in the prior decade. AA Ex. 1104. By contrast, other airlines have shorter recall periods and thus are able to hire lower-cost employees instead of recalling more senior employees at higher wage rates. Glass Decl. ¶¶ 245-251. Changing this recall provision will result in an annual cost reduction of \$10 million six years after implementation (\$1.7 million annually, when allocated across a six-year average), which would be the first year in which American could hire new hires rather than resorting to the recall list. *See* Weel Decl. ¶ 60.

## **2. Staggered Reporting Dates for Employees Moved Due To Reduction in Force/Outsourcing**

In order to effectuate its reduction in force and outsourcing proposals, American also seeks to stagger reporting dates for employees who bump into new positions as a result of any

reduction in force. These changes are necessary to ensure efficient operations during American's transition. Weel Decl. ¶ 61.

Permitting staggered reporting dates for employees who bump into new positions as a result of the reduction in force will ensure minimal disruption to the operations, rather than having a large percentage of the workforce turning over and going through training for new positions at the same time. Weel Decl. ¶ 61. Although there are no specific cost reductions associated with this proposal, the Company's outsourcing proposals cannot be accomplished without the implementation of appropriate measures to ensure that operations can continue smoothly during the transition. *Id.*

### **3. Crew Chief Trial Period**

American employs TWU-represented "Crew Chiefs" who are responsible to American management for the overall performance of the employees assigned to their crews. AA Ex. 1104, Art. 2. Under the current CBA, Crew Chiefs are selected in large part based on seniority, and thus would have rights to bump more junior Crew Chiefs in connection with American's proposed outsourcing, even if those more junior Crew Chiefs are in entirely different work units. *See* Weel Decl. ¶ 62. For instance, a Crew Chief who has worked only in cargo operations could bump into a Line position for which he has no training or experience, if that were the only open position available. *Id.* To ensure that those Crew Chiefs are capable of performing in new areas, American proposes that Crew Chiefs should be subject to a 180-day trial period, similar to what they would experience as a new Crew Chief coming into the position for the first time. *Id.* Although not tied directly to cost reductions in and of itself, this proposal is necessary to ensure efficient operations and to allow American to remove Crew Chiefs who cannot perform the functions of a new assignment.

**E. Proposed Work Rule Changes**

The restrictive work rules in the Fleet Service CBA prevent American from utilizing its employees efficiently. American needs relief from these restrictions to use its employees cost-effectively.

**1. Management Control Over Qualifications**

American seeks control over the Qualifications Administration Manual (“QAM”), which lists specific qualifications required for many job positions. Weel Decl. ¶ 54. Article 11(h) of the current Fleet Service CBA prohibits American from making changes to the QAM without TWU’s consent or an arbitration before a System Board of Adjustment. *Id.* ¶ 55; AA Ex. 1104. By having control over if and when a dispute over the Company’s proposed QAM will ever be submitted to the Board for resolution, TWU effectively controls American’s ability to change the qualifications required for employees. Weel Decl. ¶ 55. American seeks to lift this restriction, and modify Articles 11(i) and (j) to provide full discretion to management on modifications to QAM. *Id.* ¶ 54. These modifications would allow American, like its competitors, to quickly adapt to changing technology by allowing the Company to update the classifications and qualifications required of its employees immediately in response to such advances. *Id.* ¶ 63; Glass Decl. ¶¶ 260-267.

While there is no quantifiable cost reduction associated with permitting management control of the QAM, *per se*, without this contractual change, American cannot remain nimble enough to keep up with its competition. For example, in 2001, the Company undertook a review of the entire QAM to determine whether required qualifications should be updated or modified. Weel Decl. ¶ 56. Under the current Article 11, American could not unilaterally make these changes, but rather was required to present them to TWU for their approval. *Id.* Although there were only a small number of proposed changes to which TWU did not agree, the Company could

not implement *any* of the changes until it had either obtained TWU's consent to *each* of the proposed changes, or TWU submitted the disputed items to the Board for resolution. *Id.* The parties discussed and came to agreement on a number of qualifications tests to be eliminated in 2005 and 2006, but TWU put the process on hold in order to focus on preparing for the collective bargaining negotiations that were scheduled to commence in 2007. Weel Decl. ¶ 57. As a result, American has been forced to continue with the qualifications testing that has been in place since 2001, even though TWU acknowledges that the number of tests should be reduced. *Id.*

## 2. Reassignment of Work

To further facilitate implementation of the outsourcing initiatives described above, American also seeks to reassign work currently done by Fleet Service employees at the Tulsa, Oklahoma maintenance base ("TULE") to OSMs under the M&R CBA. This will result in annual cost reductions of \$5.8 million, by eliminating 82 Fleet Service Clerks. Weel Decl. ¶ 58.

## 3. Longevity Pay Premiums

American proposes reducing the hourly longevity pay premiums provided in Article 4(d) for employees with 17 or more years of seniority as follows:

<b>Years of Service</b>	<b>Current Hourly Longevity Pay Premium</b>	<b>Proposed Hourly Longevity Pay Premium</b>
<b>17</b>	<b>\$0.21</b>	<b>\$0.06</b>
<b>18</b>	<b>\$0.24</b>	<b>\$0.09</b>
<b>19</b>	<b>\$0.27</b>	<b>\$0.12</b>
<b>20 or more</b>	<b>\$0.30</b>	<b>\$0.15</b>

*See* AA Exs. 1104, 1136.

As discussed, *supra*, American adopted this proposal made by TWU in exchange for reconsidering and withdrawing American's initial proposal to outsource the work of 91 bag encoders. Reducing these hourly pay premiums will result in annual cost-reductions of \$2.5 million. Weel Decl. ¶ 63; AA Ex. 1140.

#### **4. Holidays**

American proposes eliminating Article 8(c) of the Fleet Service CBA, which provides that when an employee does not work on a holiday, American must treat the next workday that the employee works as a holiday for purposes of pay treatment. *See* AA Ex. 1104. Instead, employees will be paid for a holiday at holiday pay only when they actually work on the holiday. *See* AA Ex. 1136. This proposal will result in an annual cost reduction of \$1.4 million. *See* Weel Decl. ¶ 64; AA Ex. 1140.

#### **5. Vacations**

Currently under Article 8, Fleet Service employees are entitled to accrue 30 regular paid vacation days per year, may request an additional 5 paid personal vacation days, and may purchase additional Flex Vacation days from the Company to supplement their paid vacation. AA Ex. 1104. American proposes reducing the maximum number of vacation days that employees can accrue from 30 days to 25 days per year.<sup>21</sup> *See* Weel Decl. ¶ 65. This change will result in \$1.3 million in annual cost reductions.

American also proposes eliminating separate paid Personal Vacation days. *See* Weel Decl. ¶ 66. Employees are currently permitted to borrow these paid days from the next year's vacation accrual. This contractual provision sets up an endless cycle in which, year over year, employees borrow paid personal vacation days from the next year to be used in the current year. When the employee eventually leaves the Company, the deficit of vacation days cannot be collected by the Company. The net result is that the employee has been paid for vacation days

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<sup>21</sup> TWU tentatively agreed to this particular proposal during Section 1113 negotiations, but ultimately did not accept American's comprehensive proposal with regard to Fleet Service. Weel Decl. ¶ 65.

that he or she never earned. Eliminating the ability to borrow these days will result in \$1.6 million in annual cost reductions.<sup>22</sup> *See* AA Ex. 1140.

**V. PROPOSED CHANGES TO THE DISPATCH CBA**

American's proposal to Dispatch includes changes that are expected to realize total cost reductions of \$3.239 million per year. *See* AA Ex. 1141.

**A. Proposed Work Rule Changes**

**1. Confirm Ability to Change Daily and Yearly Work Cycles**

American seeks confirmation that under Article 3(a) of the Dispatch CBA and the August 15, 1995 Letter regarding Operational Specialists, the Company may establish 8 hour day schedules despite its previous use of 10-hour schedules. Weel Decl. ¶ 76. The language of Article 3(a) provides that “[w]ork schedules will be drawn up on the basis of eight (8) consecutive on-duty hours.” *Id.*; AA Ex. 1109. However, the Company has commonly used 10-hour day schedules for Operational Specialists in Dispatch, and seeks to clarify that despite that previous usage, the Company maintains the right to revert to 8-hour schedules. *See* Weel Decl. ¶ 76. Even though American believes that it already has the right to make this change, American has given TWU \$50,000 in credit towards their target cost reductions, in exchange for clarifying these scheduling rights. *See* AA Ex. 1141.

American seeks confirmation that, pursuant to Article 3(b) of the Dispatch CBA, the Company may establish a work cycle of six work days, three days off, six work days, three days off and six work days followed by four days off, which equates to 234 work days per year. Weel Decl. ¶ 73. The existing language of Article 3(b) provides that “a work cycle and a work

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<sup>22</sup> TWU tentatively agreed to this particular proposal during Section 1113 negotiations, but ultimately did not accept American's comprehensive proposal with regard to Fleet Service. Weel Decl. ¶ 66.

schedule averaging not more than 18 days of work out of each twenty-eight (28) calendar days, and which contains not more than six consecutive days of work without a scheduled day off will be maintained for Flight Dispatchers and Dispatchers in Training.” *Id.*; AA Ex. 1109. A work schedule of 18 out of every 28 days results in 234 work days per year. In practice, however, the Company has agreed to schedule Dispatchers on a work cycle of six work days, three days off, six work days, three days off, and six work days followed by *six* days off, which equates to 219 work days per year. Weel Decl. ¶ 73.

American seeks confirmation that it may, as per the explicit contract terms, return to a 234-day schedule, which would increase annual Dispatch productivity. *See* Weel Decl. ¶ 73. Even though American believes that it already has the right to make this change, American has given TWU \$1.579 million in credit towards their target of labor cost reductions in exchange for clarifying these scheduling rights. AA Ex. 1141.

## **2. Reduce Holiday and Overtime Premiums**

American seeks to modify Articles 6 and 7 of the Dispatch CBA to provide that holiday pay and overtime shall be paid at a rate of one and one-half times the employee’s regular rate of pay in all cases. Weel Decl. ¶¶ 74, 79. Holidays for Dispatchers are currently paid at a rate of two and one-half times the employee’s regular rate of pay. *Id.* ¶ 74; AA Ex. 1109, Art. 7. Overtime may be paid at “double time” in some cases. *Id.*; AA Ex. 1109, Art. 6. Reducing the overtime premium will result in annual cost reductions of \$43,000. *Id.* ¶ 79. Reducing the holiday premium will result in an annual cost reduction of \$181,000. AA Ex. 1141.

## **3. Reduce Vacation Accrual**

As described above with respect to the Fleet Service CBA, American would reduce the maximum number of vacation days accrued from 30 days to 25 days, and modify Article 8(k) of

the Dispatch CBA to eliminate personal vacation days.<sup>23</sup> See Weel Decl. ¶ 75. These changes will result in total annual cost reductions of \$50,000. AA Ex. 1141.

**4. Require Year-Long Commitment To Receive Relief Operations Coordinator Premium**

In addition to Dispatchers, the Dispatch CBA covers a position called “**Operations Coordinator**,” which involves duties above and beyond those assigned to Dispatchers, including:

1. Receives and acts upon assignments from Management.
2. Initiates equipment changes, moveups and cancellations utilizing coordination with flight dispatchers, managers, crew schedule, passenger service representatives, freight representatives and the maintenance operations center-TUL.
3. Sets up and mans the diversion desk during periods of schedule disruption caused by flight diversions, until such time that the manning of the position can be assumed by other dispatchers.
4. Maintains and communicates system equipment balance.
5. Acts as a coordinating point of office procedures instituted to manage ATC flow control programs.
6. Provides tactical and strategic coordination between Flight dispatch and the Air Traffic Management facilities worldwide.
7. Provides continuous coordination with Air Traffic Management facilities on behalf of the Company.
8. Supporting development of advanced Air Traffic Flow Management systems and procedures.
9. Ability to review Flight Dispatch policies and procedures pertaining to air traffic and recommending changes as necessary.

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<sup>23</sup> TWU tentatively agreed to the elimination of personal vacation days during Section 1113 negotiations, but ultimately did not accept American’s comprehensive proposal with regard to Dispatch. Weel Decl. ¶ 75.

10. Ensuring that coordination and communication is maintained between Flight Dispatch and any other affected department on matters pertaining to Air Traffic Control on the current and the next day's operation.
11. As other functions become part of the SOC Operations Center, the Operations Coordinator will act as a coordinating point of irregular operations so as to keep managers informed as to the status and severity of the irregularities for edification and further action deemed necessary.
12. Maintains records, forms and other paperwork associated with the position.

AA Ex. 1109, Art. 2.

Some employees are regularly scheduled to perform Operations Coordinator functions. In addition, the Company maintains a list of employees who can be called in to perform these duties on a "relief" basis, if the scheduled Operations Coordinator cannot perform them. *See* Weel Decl. ¶ 77. To attract volunteers for the Relief Operations Coordinator list, an employee who qualifies and signs up receives a \$1.00 per hour premium for any hour he or she worked—either in their regular capacity or as a Relief Operations Coordinator. *Id.* ¶ 78. Under the current CBA language, employees can place themselves on the Relief List and receive the hourly premium throughout the year, and then withdraw from the list to avoid being called for duty during the holidays at the end of the calendar year. AA Ex. 1109, Art. 4. On those not infrequent occasions, American has lost the value of the hourly premium that it has paid throughout the year to an employee who now will not be available for the contemplated role.

To eliminate this problem, American seeks to require Relief Operations Coordinators to remain on the Relief List for a full year. *See* AA Ex. 1137. This change will result in an annual cost reduction of \$48,000 in additional wages that would otherwise have to be paid to another

employee to cover for the Relief Operations Coordinator (whose very function is to cover for the Operations Coordinator).<sup>24</sup> Weel Decl. ¶ 78.

**B. Proposal Contingent Upon Consensual Agreement**

It takes an entire year to train and qualify new Dispatchers. Therefore, when Dispatchers retire from service, it can leave the operations short-handed for a year while a replacement is trained. In the interim, overtime must be paid to other Dispatchers to fill the gap. Weel Decl. ¶ 80. To alleviate these costs and create a smoother transition, American has proposed that when a consensual agreement is reached with TWU, the Company will create a retirement incentive program for Dispatchers. Employees would receive a monetary incentive for providing advance notice of their retirement to the Company, thereby permitting better planning and training of replacements. *Id.*

Even though this proposal would not be implemented until the signing of a new Dispatch CBA with TWU, American has given TWU credit for \$157,000 in annual cost reductions associated with this proposal. *See* AA Ex. 1141.

**VI. PROPOSED CHANGES TO THE INSTRUCTORS' CBA**

American's proposal to the Instructors includes changes that are expected to realize a total cost reductions of \$2.154 million a year. Weel Decl. ¶ 31; AA Ex. 1142. TWU tentatively agreed to all of the following changes to the Instructors' CBA. Weel Decl. ¶ 81.

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<sup>24</sup> TWU tentatively agreed to this particular proposal during Section 1113 negotiations, but ultimately did not accept American's comprehensive proposal with regard to Dispatch. Weel Decl. ¶ 78.

**A. Proposed Work Rule Changes**

**1. Reduce Paid Holidays**

American seeks to modify Article 7 of the Instructors' CBA to reduce the number of paid holidays from ten to five. Weel Decl. ¶ 82. This change will result in an annual cost reduction of \$270,000. *See* AA Ex. 1142.

**2. Eliminate Personal Vacation Days**

As previously described, Instructors are currently entitled to paid Personal Vacation days under their CBA. American seeks to eliminate these days, consistent with its proposals to the other work groups. Weel Decl. ¶ 83. Given the small number of Instructors, the current use of PV days does not provide significant savings for the Instructor group. However, American's Proposal is consistent with its Proposals regarding the other TWU-represented groups. *Id.*

**3. Permit Increased Monthly Work Cycles**

Article 3(g) of the current Instructors' CBA forbids American from scheduling an Instructor to work more than 20 work days in a calendar month. Weel Decl. ¶ 84; AA Ex. 1111. American proposes modifying Article 3(g) such that 55% of the Instructors may be scheduled up to 21 work days in a month. Weel Decl. ¶ 84; AA Ex. 1138. Pay for the first 20 days would be at the monthly rate outlined in Article 4(a) of the Instructors' CBA, *i.e.*, no change from the current contractual provision. *Id.* Pay for the twenty-first day, if worked, would be at straight time rates. *Id.* This will save the Company from paying an overtime premium if an Instructor is needed to work a twenty-first day in a month, resulting in an annual cost reduction of \$200,000.<sup>25</sup> *See* AA Ex. 1142.

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<sup>25</sup> Although American's initial proposal would have permitted unlimited use of 21 work-day schedules at the Company's discretion, the Company modified its proposal to accept TWU's counter-proposal to include the additional day in advance in the bid schedule, and to provide for

#### **4. Increase Flexibility in Scheduling Seat Fillers for Simulators**

When pilots train in a flight simulator, the second seat must also be occupied, just as it would be in an actual airplane. Weel Decl. ¶ 85. If the second seat cannot be filled, the training period must be cancelled. *Id.* The occupant of the second seat is not required to be an Instructor, but can also be a position called “Check Airman,” which is covered under the Pilot’s CBA between American and the Allied Pilots Association. *Id.* ¶ 85 n.48. Letter of Memorandum 1 in the Instructors’ CBA dictates the order in which employees can be called to fill in the open second seat, in order to avoid cancelling a scheduled training session. *Id.* ¶ 85; AA Ex. 1111, Letter of Memorandum 1.

American proposes modifying the Letter of Memorandum to permit calling in to work a Check Airmen who is on a paid day off, prior to being required to call in a Simulator Instructor on an unpaid day off, to whom American would have to pay an overtime pay premium. Weel Decl. ¶ 85. This change will result in an annual cost reduction of \$30,000 by utilizing employees who are already being paid to perform required work. AA Ex. 1142.

#### **5. Reduce Overtime Premiums**

As described above, American seeks to modify Article 6 of the Instructors’ CBA to provide that all overtime shall be paid at a rate of one and one-half times the employee’s regular rate of pay. Weel Decl. ¶ 86. The current contract provides for some payment of overtime at “double-time” or even two and one-half times the employee’s regular rate of pay. Changing this provision will result in an annual cost reduction of \$40,000. AA Ex. 1142.

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a 55% cap on the total number of bid schedules that include a twenty-first day in a given month. Weel Decl. ¶ 84.

## VII. PROPOSED CHANGES TO THE SIM TECHS CBA

American's proposal with regard to the Sim Techs' CBA includes work rule changes that are expected to realize a cost reduction of approximately \$1.7 million a year. Weel Decl. ¶ 31; AA Ex. 1143. TWU tentatively agreed to all of the following changes to the Sim Techs' CBA. Weel Decl. ¶ 87.

### A. Proposed Work Rule Changes

#### 1. **Reduced Per Diem Rates**

Sim Techs are at times required to travel to Montreal, Canada for additional training from the company that manufactures American's simulators. Weel Decl. ¶ 88. On these training trips, the Company pays the Sim Techs' associated travel expenses. *Id.* The current contractual language simply states that "[t]he Flight Department will issue procedures for per diem (per IRS guidelines) ... for employees covered by this agreement." *See* AA Ex. 1108. TWU has historically interpreted this language to guarantee payment of per diem rates *at the published IRS maximum rates*, which are currently \$122 per day for international travel. Weel Decl. ¶ 88; McMenemy Decl. ¶ 89. It has been the Company's position that nothing in the IRS guidelines requires an employer to pay employees the maximum per diem rates provided.<sup>26</sup> Nevertheless, TWU has formally objected to the suggestion of paying per diems under this rate, including filing grievances on behalf of employees who attended training in Montreal, Canada and did not receive IRS maximum per diem rates. Weel Decl. ¶ 88.

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<sup>26</sup> Rather, the IRS guidelines give the maximum per diem rate that employers can use without treating part of the per diem allowance as wages for tax purposes. *See* Rev. Proc. 11-47, 2011-42 I.R.B. 520 (providing rules for using a *per diem* rate to substantiate the amount of an employee's expenses for lodging, meal, and incidental expenses that an employer reimburses for the purposes of deducting ordinary and necessary expenses paid or incurred during the taxable year in carrying on any trade or business).

American proposes to modify Article 23(d) to eliminate the reference to “IRS Guidelines” and instead provide that the Flight Department will issue procedures for per diem, hotel and ground transportation expenses while traveling away from the base. Weel Decl. ¶ 88. American projects setting this per diem at \$51 per day, which will result in an annual cost reduction of \$38,000. Weel Decl. ¶ 88; McMenemy Decl. ¶ 89.

## **2. Holiday Pay**

American seeks to modify Article 7 to eliminate all holiday pay in exchange for 5 Day at a Time days off (“DATs”) to be approved at management’s discretion and used within the same calendar year. Weel Decl. ¶ 89. In exchange for these DATs, no premium pay would be available when employees work on a holiday. Furthermore, no additional day off would be provided if the employee was already scheduled to be off on the holiday. This additional requirement will result in an annual reduction of \$8,000.<sup>27</sup>

## **3. Eliminate Personal Vacation Days**

Sim Techs are currently entitled to paid Personal Vacation days under their contract. American seeks to eliminate these days, consistent with proposals to the other TWU work groups. Weel Decl. ¶ 90. As with the Instructors, the infrequency of such days in the small Sim Techs work group does not drive significant cost-reductions. However, this Proposal is consistent with that of other TWU groups.

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<sup>27</sup> American’s initial proposal was to eliminate the existing five paid annual holidays, but the Company instead adopted TWU’s counter-proposal regarding DATs.

## **VIII. PROPOSED CHANGES ACROSS TWU EMPLOYEE CBAS**

### **A. Proposals Contingent Upon Consensual Agreement**

American is also proposing to make the following changes to the seven TWU Agreements that will become effective once the Company has reached a consensual agreement with the Union.

#### **1. Profit Sharing**

American proposes a “first-dollar” profit sharing plan that will pay out 15% of American’s pre-tax income to employees. *See* AA Exs. 1136, 1137, 1138, 1139, 1209, 1210, 1211.

#### **2. Salary Enhancement**

American proposes to increase the base rate of pay for TWU employees by 1.5% annually beginning 12 months after the date on which a consensual agreement is signed, and for each of the four years thereafter. *See* AA Exs. 1136, 1137, 1138, 1139, 1209, 1210, 1211.

#### **3. Defined Contribution Plan Match**

American proposes to match individual employees’ contributions to its defined contribution 401(k) plan up to 5.5% of their wages. *See* AA Exs. 1136, 1137, 1138, 1139, 1209, 1210, 1211.

### **B. Duration of six years**

American proposes to modify Article 47 of all CBAs to provide a duration of six years for all groups, after which they would become amendable pursuant to Section 6 of the Railway Labor Act. Weel Decl. ¶ 93. Extending the duration of the CBAs to six years is consistent with the Company’s business plan, and the Company believes this duration is necessary to attract the financing it will need to exit bankruptcy.

**C. Eliminate Company Pay For Time Spent On Union Business**

American also proposes to eliminate “Union Business Baker” (“**UBB**”) Time covered by the February 24, 1993 R.W. Baker letter (“**Baker letter**”) and replace it with leave paid by the union.<sup>28</sup> Since February 1993, it has been American’s practice to pay full wages to certain union officers or representatives who work full-time for the union and do no work for American.<sup>29</sup> American proposes to eliminate UBB and replace it with leave paid by the Union, because the work is performed for—and therefore is properly compensated by—the union.<sup>30</sup> Elimination of this provision will result in an annual cost reduction of approximately \$3.5 million for TWU-represented groups.<sup>31</sup> Weel Decl. ¶ 97; AA Exs. 1140, 1141, 1142, 1143, 1212, 1213, 1214.

**D. Elimination of ASM Cap**

American seeks to eliminate the restrictive ASM cap embodied in these CBAs with TWU, with the exception of the Instructor agreement, which had eliminated the ASM letter as part of the new agreement ratified in September 2011. The 2003 TWU CBAs preserved a

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<sup>28</sup> American also provides leave to other employees working on union business, during which the employee is either paid in full by the union (**UB**) or paid by the Company but reimbursed in full by the union (**UBC**). See AA Exs. 1103, 1104, 1107, 1108, 1109, 1110, 1111.

<sup>29</sup> From 1993 to 1999, one paid union representative was allowed for the first 800 to 1000 TWU members, and another paid union representative was allowed for every 1,000 employees thereafter. In 1999, the threshold was modified to permit one paid union representative for the first 500 to 1,000 members, and another paid union representative for every 1,000 employees thereafter. Weel Decl. ¶ 97, 97 n.53.

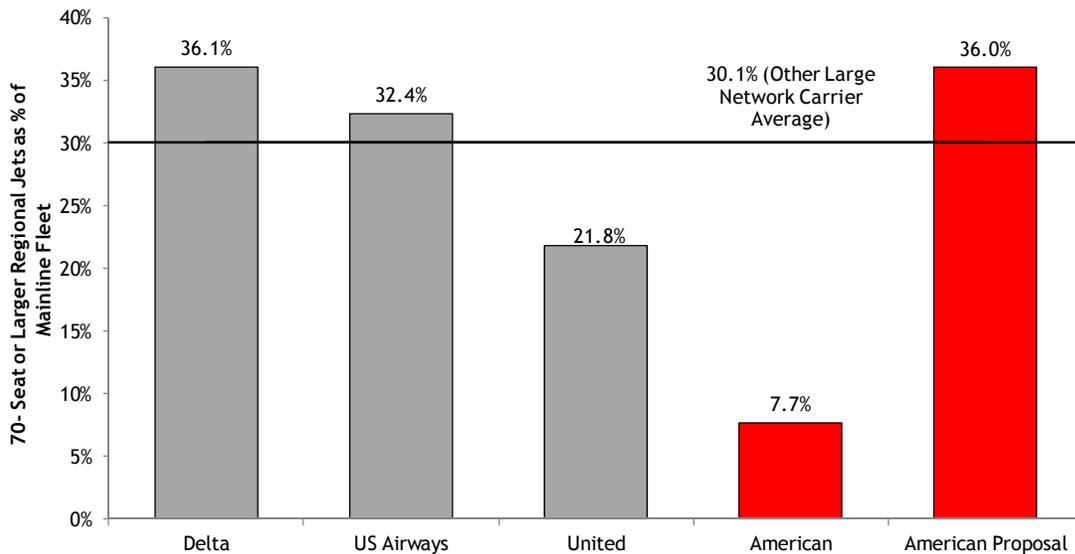
<sup>30</sup> On its face, the Baker Letter is not part of any specific TWU agreement, but under the Railway Labor Act, longstanding practices acceded to by both parties are often treated as part of the labor contract. See *Detroit & Toledo Shore Line R.R. Co. v. United Transp. Union*, 396 U.S. 142 (1969).

<sup>31</sup> The elimination of this provision has no current cost reduction for Dispatch, Instructors, or Simulator Technicians because those groups are currently too small to qualify for a representative paid through UBP pay. However, in order to be consistent across the work groups and to guard against incurring that expense at any time in the future, American seeks to eliminate the provision for all groups, including Mechanics & Related, Stock Clerks, and MCTs.

provision, originally agreed to in 1995, which limits the size of regional airline operations in support of American's mainline flights. AA Ex. 1136, 1137, 1138, 1139, 1209, 1210, 1211. This provision restricts the size and deployment of American's regional network of "regional jets" with smaller seat capacities by setting a cap on the number of the airline's total ASMs that can be flown by regional flights. Weel Decl. ¶ 21. Due to the cap, the regional operation, excluding markets exclusively served by American's regional carriers at any time during or after 1993, is not allowed to grow beyond 6% of American system capacity for total ASMs. *Id.* In other words, regardless of the demand for American's flights in smaller markets served by regional jets, American is hampered from taking advantage of these opportunities and growing its fleet of RJs by the ASM caps. *Id.*

American proposed to allow American to increase its number of regional ASMs as necessary to optimize its network. Weel Decl. ¶ 21. No other carrier's network has an equivalent restriction, and American has by far the lowest percentage of regional operations of any network carriers:

**EXHIBIT 63: 70-SEAT OR LARGER RJS AS A PERCENTAGE OF MAINLINE FLEET OF LARGE NETWORK CARRIERS**



Source: American Airlines, Inc. SEC 10-Q filing for the quarter ending September 30, 2011; US Airways Q1-12 Fact Sheet, Jan 1, 2012; United Continental Holdings, Inc. Fleet Plan Jan. 26, 2012; <http://blog.delta.com/2012/01/06/a-new-year-means-more-ways-than-ever-to-surf-the-internet-on-delta/>; American Airlines Section 1113(c) Proposal To The Allied Pilots Association (APA), February 1, 2012, Term Sheet.

Note: 70-seat (or larger) RJs include the Bombardier CRJ-700 and CRJ-900 and the Embraer E-170 and E-175. US Airways' 15 E-190s are included as mainline aircraft. If those aircraft are classified as 70-seat or larger RJs, US Airways' percentage is 38.5%.

In markets American cannot economically serve, partnerships with regional airlines like American Eagle provide feed to the network that American otherwise would not have. Weel Decl. ¶ 22. Modifying the cap would allow American to optimize the network and benefit American's profitability by improving the schedule and permitting the company to place smaller planes on lower demand flights. *Id.*

American has consistently bargained with TWU for a lifting or easing of these caps. Weel Decl. ¶¶ 21-22, 27-28. TWU previously agreed to increase the ASM cap as part of the 2011 Dispatch TA and the 2011 Fleet Service TA, which were not implemented due to the subsequent Chapter 11 filing. *See* AA Ex. 1123, Attachment 1.5, Ex. 1124, Letter of Memorandum. Weel Decl. ¶ 94. Although this proposal is revenue-generating, there are not labor cost reductions associated with it.

**E. Job Protection**

As described above related to Fleet Service, American proposes eliminating Article 42 and all applicable station and system protections in order to accomplish the necessary outsourcing and reductions in force without the “bump and roll” effect that would currently take place under the CBA. Weel Decl. ¶ 95. This change is consistent with American’s proposals with regard to all TWU groups. Weel Decl. ¶ 95.

**F. Eliminate Move Allowance**

Article 44 of the TWU CBAs provides that employees who relocate as a result of a reduction in force are entitled to a \$12,500 moving allowance, *in addition to* the payment of the expense of the moving company that moves their possessions. AA Ex. 1103, 1104, 1107, 1108, 1109, 1110, 1111. This allowance imposes a cost on American that is not offset by any additional work or benefit conferred on American. American proposes to eliminate the \$12,500 moving allowance provided for in Article 44 (but not actual moving expenses provided for in Article 15(f)). Weel Decl. ¶ 96.

**G. Leaves of Absence**

American proposes modifying Article 17 of the TWU CBAs to reduce the duration of SLOA and IDLOA from 5 years to 3 years. Weel Decl. ¶ 98.

**H. Sick Leave**

American proposes universal changes to the sick leave policy for TWU, as well as management and non-union employees, and the unions representing pilots and flight attendants. Weel Decl. ¶ 99. Under American’s proposal, any sick occurrence with a duration of seven or fewer consecutive days is considered “**Incidental Sick.**” *Id.* Incidental Sick time will be paid from an employee’s available sick bank at 100% of hourly rate for the first 24 hours for full-time employees and the first 15 hours for part-time. *Id.* Subsequent Incidental Sick hours will be

paid at 60% of the employee's regular hourly rate. *Id.* Any sick occurrence greater than seven calendar days must be medically substantiated by an Absence Management Vendor, and then will be paid from the employee's available sick bank at 100% of the employee's regular hourly rate. *Id.* The change in these provisions will result in annual cost reductions of more than \$1.8 million for all TWU-represented groups. *Id.*

**I. Pension**

Article 40 of the Fleet Service, Dispatch, Instructors', and Sim Techs' CBAs requires the Company to establish, maintain, and contribute to a defined-benefit pension plan for covered employees. *See* AA Exs. 1103, 1104, 1107, 1108, 1109, 1110, 1111. For the reasons addressed fully in the Wright Declaration, American proposes to modify this Article 40, along with any other portions of the CBAs to the extent they explicitly or implicitly require the Company to establish, maintain, and/or contribute to a defined benefit pension plan. *See* Wright Decl. ¶¶ 47-49.

By modifying this contractual requirement, the Company would be free to freeze its existing Defined Benefit pension plan and replace it with a Defined Contribution plan, which will result in annual cost reductions of \$71 million for all TWU-represented groups.<sup>32</sup> *Weel* Decl. ¶ 100.

**J. Active Medical and Life**

The Company proposes to harmonize its health-care offerings across all employee groups, replacing the current system under which every different represented group has negotiated a unique set of benefits. *See* Wright Decl. ¶ 18. The life and health benefits

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<sup>32</sup> TWU tentatively agreed to a freeze of the Defined Benefit plan upon signing a new consensual agreement with each of the seven TWU work groups, but ultimately did not accept the Company's comprehensive proposals that would have resulted in a consensual agreement.

American provides its TWU-represented employees are currently governed by Article 41 of the TWU CBAs. Weel Decl. ¶101. As addressed more fully in the Wright Declaration, American has proposed replacing its current three-tiered coverage options with a more flexible four-tiered model. *See* Wright Decl. ¶ 30. The change in these provisions will result in annual cost reduction of \$37 million for TWU-represented groups. Weel Decl. ¶ 101. In addition, increased part-time employee cost-share of medical benefits will result in an annual cost reduction of another \$4.3 million for TWU-represented groups. *See* AA Ex. 1140.

**K. Retiree Medical**

As addressed more fully in the Wright Declaration, the Company proposes changes to its post-retirement health care benefit.<sup>33</sup> *See* Wright Decl. ¶¶ 39, 40. These changes will result in annual cost reductions of \$54 million for TWU-represented groups. Weel Decl. ¶ 102.

**IX. CONCLUSION**

As is set forth in American’s Main Brief, American is entitled to reject the existing CBAs with TWU, provided that: (1) American has made proposals to TWU that are “necessary to permit the reorganization of the debtor” and are “fair and equitable” to all affected parties, and it has provided TWU with relevant information necessary to evaluate the proposals (11 U.S.C. § 1113(b)(1)); (2) TWU has refused the proposals without good cause; and (3) the balance of the equities favors rejection. 11 U.S.C. § 1113(c).

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<sup>33</sup> TWU-represented employees who have been “pre-funding” their retirement medical benefits will be refunded the amount they have already contributed.

Dated: March 27, 2012

/s/ Stephen Karotkin

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