AA Exhibit 0100

HEARING DATE AND TIME: April 23, 2012 at 10:00 a.m. (Eastern Time)
OBJECTION DEADLINE: April 3, 2012 at 4:00 p.m. (Eastern Time)

UNITED STATES BANKRUPTCY COURT
SOUTHERN DISTRICT OF NEW YORK

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

UPDATED DECLARATION OF BEVERLY K. GOULET IN SUPPORT OF DEBTORS' MOTION TO REJECT COLLECTIVE BARGAINING AGREEMENTS PURSUANT TO 11 U.S.C. § 1113

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I, BEVERLY K. GOULET, subject to the penalties provided by law for perjury, do hereby declare the following to be true and correct on the basis of my personal knowledge and upon information and belief from records in my custody and control:

I. IDENTIFICATION OF DECLARANT.

1. I am currently employed as the Chief Restructuring Officer of AMR Corporation ("**AMR**" or "**the Company**") and Vice President-Corporate Development and Treasurer of American Airlines, Inc. ("**American Airlines**" or "**American**"). I have been employed by American Airlines since April 1993. I began my employment at American as Associate General Counsel—Corporate Finance. I became Managing Director—Corporate Development in March 1999 and assumed my current position with American in June 2002. I received a B.A. in History and a J.D., both from the University of Michigan. Before joining American, I practiced corporate and securities law in Dallas for 13 years.

2. In my capacity as Chief Restructuring Officer, I am responsible for overseeing AMR's Chapter 11 restructuring. In my capacity as Vice President-Corporate Development and Treasurer, I manage debt and equity financings, derivatives programs, banking, corporate insurance and risk management, and fleet transactions. I also lead the analysis and execution of corporate development initiatives including mergers, acquisitions, divestitures, and strategic investments. Immediately prior to the commencement of the Chapter 11 cases, I was tasked by Thomas Horton, then President of AMR (and now Chairman and CEO) to lead the development and implementation of AMR's restructuring business plan. His instructions to me were to analyze our path into Chapter 11 and to develop a business plan focused on successfully restructuring our Company for long term viability. Among our goals were to deploy assets to optimize revenue, maximize efficiencies to minimize costs, repair our balance sheet and address

our substantial cost disadvantage, thereby setting the Company on the path toward long-term prosperity. Following this theme, we subsequently entitled our plan the "Plan for Success."

3. Except as otherwise indicated, the facts set forth in this declaration are based upon my personal knowledge, my review of relevant documents, information provided to me by other employees working under my supervision, and my experience, knowledge, and information concerning the operations of the Company and the airline industry as a whole. If called upon to testify, I would testify competently to the facts set forth in this declaration.

4. I make this declaration in support of American's Motion (the "**1113(c) Motion**") pursuant to 11 U.S.C. § 1113 to reject its collective bargaining agreements with the Allied Pilots Association ("**APA**"), the Transport Workers Union of America, AFL-CIO ("**TWU**"), and Association of Professional Flight Attendants ("**APFA**") (APA, TWU, and APFA are referred to collectively herein as the "**Unions**").

II. AMERICAN'S PATH TO CHAPTER 11

5. As set forth more broadly in Section II of the First Day Declaration of AMR's Chief Financial Officer, Isabella Goren ("Goren Decl."), filed November 29, 2011, American is painfully aware of the lengthy path that has led to the Debtors' Chapter 11 cases.[1] In 2000, American was the largest passenger airline in the world, measured by capacity, or available seat miles flown ("**ASMs**").[2] At that time, AMR—American's parent company—was earning reasonable profits.

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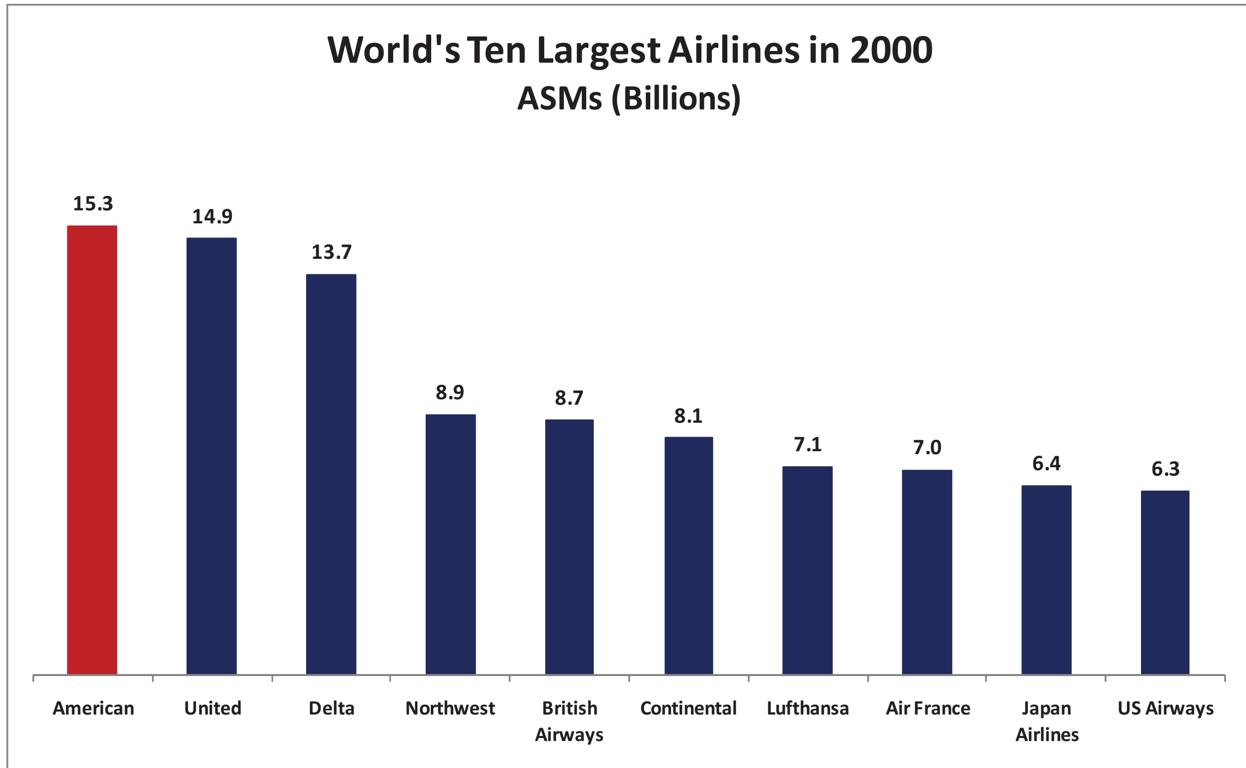
[1] The Goren Declaration is resubmitted herewith as AA Ex. 101.

[2] This measure includes AMR's regional operations, including the operation of American Eagle, Inc. ("**American Eagle**"), AMR's regional airline. In the airline industry, the standard measure of capacity is ASMs, which is a count of the number of passenger seats flown one mile. Actual passenger traffic is measured by Revenue Passenger Miles ("**RPMs**"). An RPM is one revenue passenger flown one mile. Both costs and revenues are often measured on a "per ASM" basis as



Source: OAG, May 2000 scheduled ASMs

AA Ex. 102.

6. However, in the past decade—one marked by numerous exogenous economic and other "shocks" and a complete transformation of the competitive landscape—the Company has fallen behind. While American moved quickly to reduce its costs (including reaching consensual agreements with the Unions in 2003 to reduce annual unionized labor costs by $1.6 billion),

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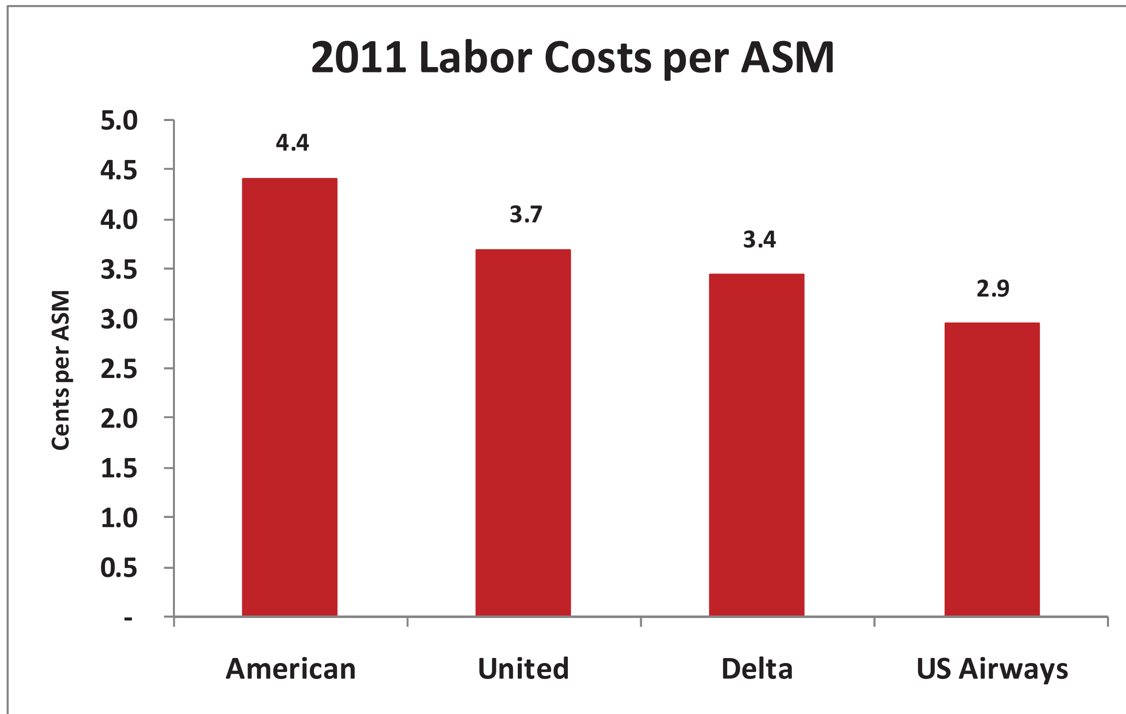
Costs per Available Seat Mile ("**CASM**") (costs divided by ASMs) and Revenue per Available Seat Mile ("**RASM**") (revenues divided by ASMs). *See* Declaration of Daniel M. Kasper in Support of American Airlines, Inc.'s Application to Reject Collective Bargaining Agreements Pursuant to 11 U.S.C. § 1113(c) AA Ex. 1 ("**Kasper Decl.**") ¶¶ 41 footnote 45, 62). Mr. Kasper's declaration, filed simultaneously with my declaration, provides a detailed and stark analysis of the external and internal factors that have transformed the industry and negatively affected American's performance.

American's major competitors then "leapfrogged" those efforts, filing for Chapter 11, repairing their balance sheets, and using the Section 1113 process to secure large labor cost reductions and operating flexibility that have now left American with the highest unit labor costs among the major network carriers.[3]



Source: SEC Filings, OAG, US DOT Form 41, Company Data
Note: Stage length adjusted, mainline only - excluding special items
AA stage length methodology - using e-seat stage length
United includes Continental

AA Ex. 103.

7. In the years following 9/11, average fares for domestic flights fell (in large measure due to a dramatic rise in price competition driven by lower cost carriers) while fuel costs rose dramatically, and American's losses mounted. Meanwhile, its network competitors took advantage of their post-bankruptcy restructured balance sheets and reduced labor costs to

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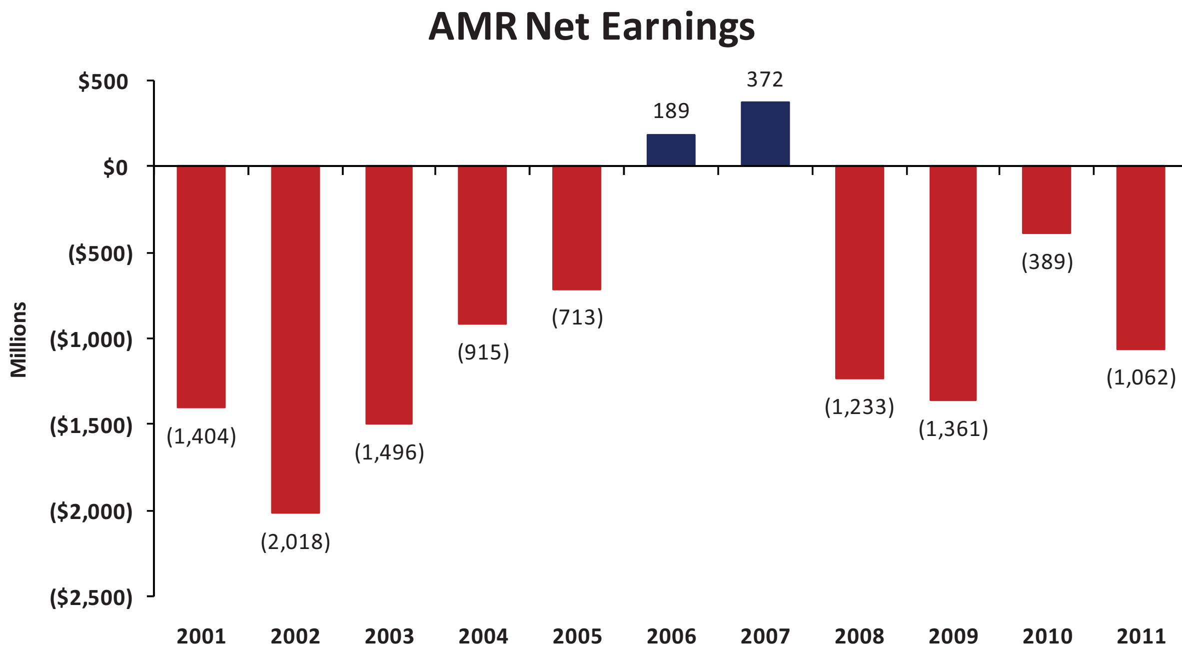
[3] In this declaration, the term "major network carriers" refers to United/Continental, Delta, and US Airways.

merge, creating two mega-carriers (United and Delta) with networks larger than American's. These restructured and newly-merged network carriers have been able to reverse their losses and earn profits. Although American redoubled efforts from 2003 to 2011 to reduce costs even further and, in fact, has maintained non-labor costs in line with its network competitors, it could not—without agreement from the Unions—address its largest barrier to profitability: the terms and scope of its collective bargaining agreements. Between 2001 and 2011, American's parent company, AMR, incurred losses of more than ***$10 billion***, on a cumulative basis. AMR was modestly profitable in only two of those 11 years and borrowed heavily to fund its losses, debt obligations and pension liabilities.

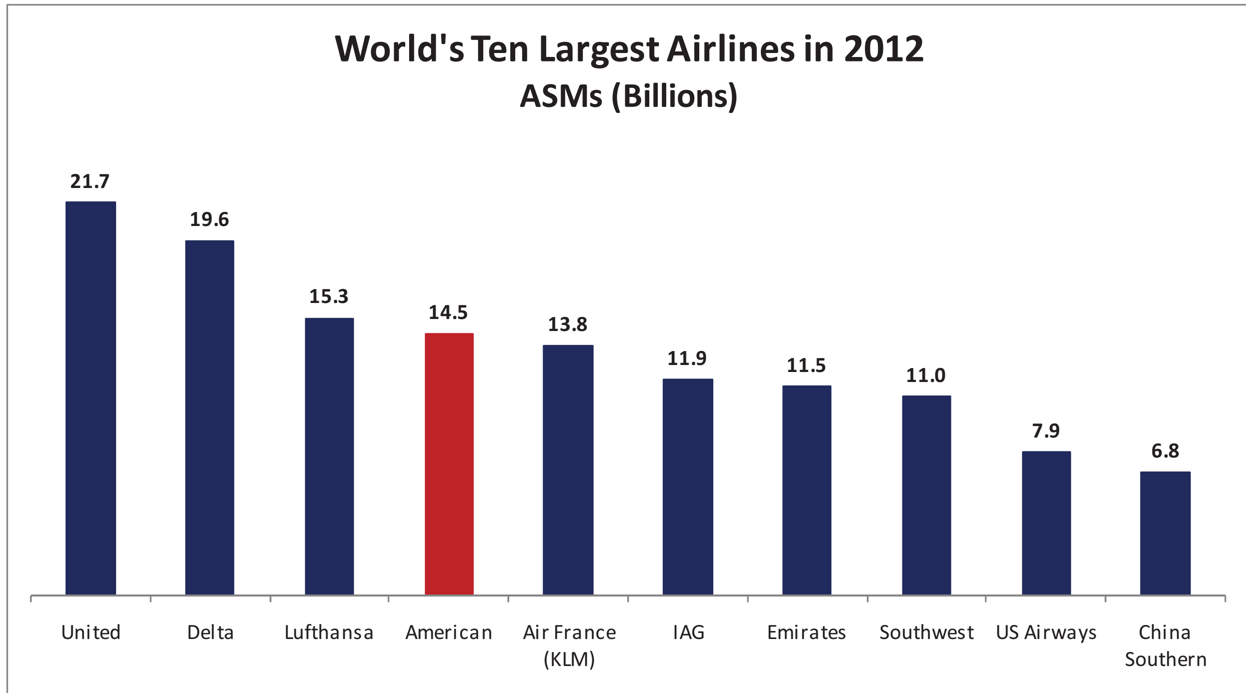


Source: SEC Filings
Net Earnings (Excludes Special Items)

AA Ex. 104.

8. With those insurmountable burdens on its business, AMR has been unable to re-invest and grow the airline to be competitive. The results on American's industry standing have been dramatic. Today, AMR, including all regional capacity, ranks fourth in overall capacity

(ASMs) among passenger carriers worldwide—and third (behind Delta and United) among U.S. carriers.[4]

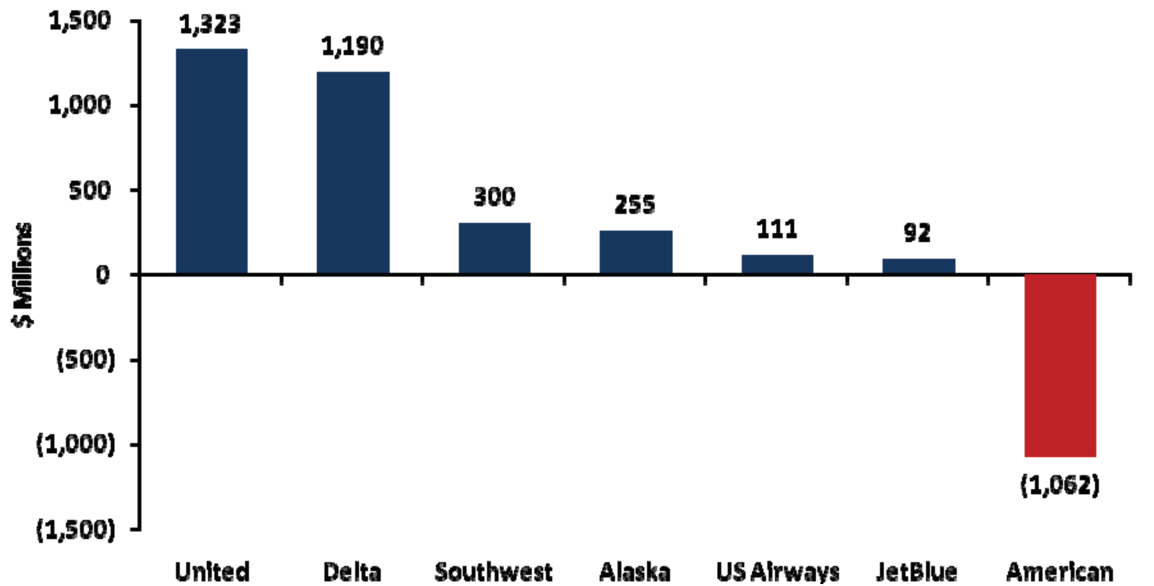


Source: OAG, May 2012 Scheduled ASMs

AA Ex. 105.

9. In 2011, AMR was the only major carrier to lose money, and its losses were more than $1 billion.

[4] See OAG May 2012 schedule.



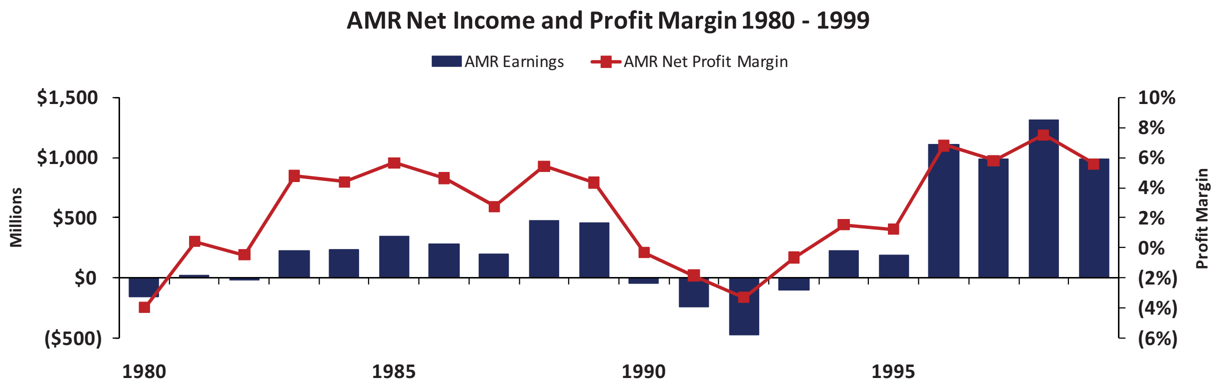
Net Income by Carrier (Excluding Special Items)
Source: SEC Filings

AA Ex. 106.

10. Faced with mounting losses and liabilities, having leveraged nearly all of its assets and with no agreements on its unionized labor costs in sight, AMR sought relief under Chapter 11 as the only reasonable alternative to implement a cost and capital structure necessary to preserve value for its economic stakeholders and to assure long term viability. AMR needs a cost and capital structure that provides the Company with the flexibility to secure its competitive position. American's success, therefore, will require that American obtain relief from its collective bargaining agreements as requested in the 1113(c) Motion so that its cost structure is rational and its revenue generating capacity is no longer subject to the severe operational constraints imposed by the terms of such agreements.

A. 1978-2000: American Emerges As An Industry Leader Following Deregulation

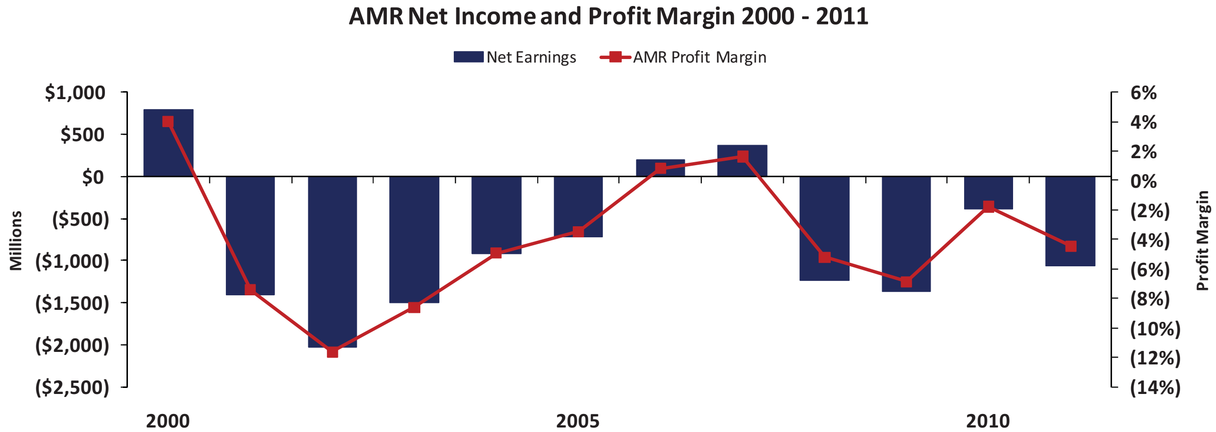
11. As explained by Mr. Kasper, at the time of the Airline Deregulation Act of 1978, American was one of many major U.S. air carriers, all regulated as to their routes and fares by the Civil Aeronautics Board. However, in the decades following deregulation, many major airlines failed to adapt, entered bankruptcy, and either were absorbed by merger or were liquidated. Kasper Decl.") ¶ 6. During that same twenty-year period, AMR was able to generate largely positive financial results, despite enormous competitive challenges:



Excludes Extraordinary Item charges and cumulative effect of accounting changes. Does not adjust for Discontinued Operations.
Source: SEC Filings
Note on Accounting Changes: Effective 1/1/92, AMR adopted FAS 106, changing the method of accounting for retiree medical and other non-pension postretirement benefits. Prior to 1992, other postretirement benefit expense was recognized by expensing health care claims incurred and annual life insurance premiums. The cumulative effect of adopting FAS 106 as of 1/1/92 was a one-time pre-tax charge of $917 million ($595 million net of tax benefits). This change also increased annual other postretirement benefit expense going forward (approximately $90 million or $58 million net of tax benefits in 1992).

AA Ex. 107.

12. However, starting in 2001 and throughout the ensuing decade, AMR's financial fortunes reversed and deteriorated, as American faced a competitive landscape transformed by the rise of new lower cost competitors and transparency in pricing, as well as numerous exogenous shocks that affected passenger demand and costs across the industry:



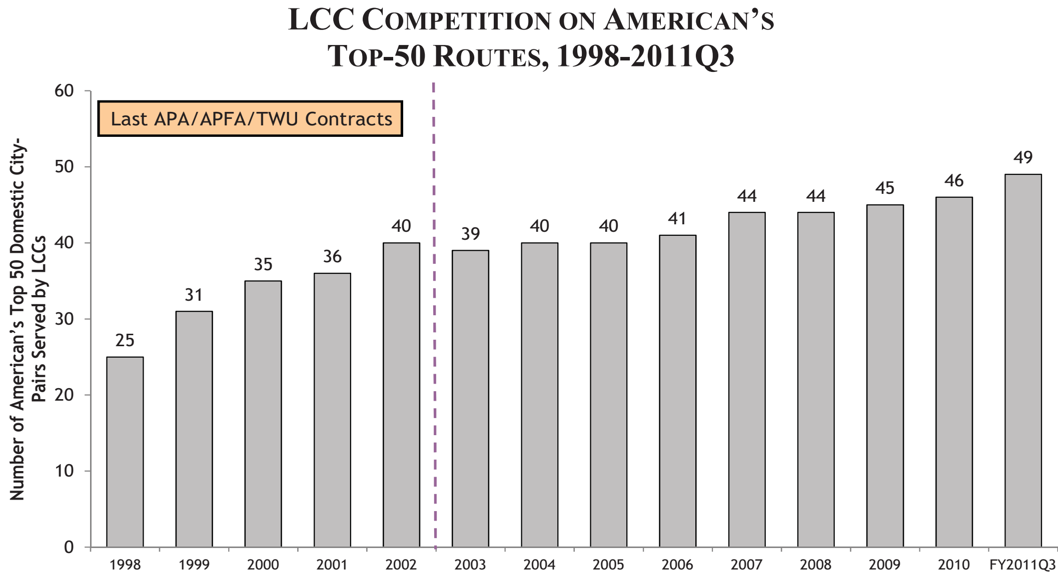
Excludes Special Item charges and adjusts for Discontinued Operations.
Source: Sec Filings
Note: Special Item charges include all significant one-time expenses.

AA Ex. 108.

B. The Impact on American of the Rise of the Low Cost Carriers and Transformation of Industry Pricing

13. As described more fully by Mr. Kasper (Kasper Decl. ¶¶ 15-18, 20), a number of factors converged to impose significant competitive pressure on American and the other large network carriers. First, in the past two decades, lower-cost carriers ("**LCCs**"), typified by airlines such as Southwest and (more recently) JetBlue and Spirit, have imposed significant downward pressure on pricing. These carriers, which typically have lower operating costs due in large measure to labor contracts with fewer work-rule/productivity restrictions and/or less senior workforces, have tended to undercut average fares of their network counterparts on routes on which they compete. (Kasper Decl. ¶ 16.) American is often required to meet or approach these lower fares to avoid a significant drop in passenger traffic on the route. *Id.* at ¶ 44. As Mr. Kasper explains, LCCs now operate on virtually all of American's largest domestic routes, serving 49 of American's 50 largest domestic routes measured by number of Origin and Destination ("**O&D**") passengers, up from 39 routes in 2003—when American negotiated its last

collective bargaining agreements with the Unions—and only 25 in 1998. (Kasper Decl. ¶ 43; AA Ex. 17).[5]



Source: U.S. DOT O&D Survey

AA Ex. 17.

14. In fact, as illustrated by Mr. Kasper, between 1998 and 2011, American's share of domestic O&D passengers[6] has remained essentially flat, while market share of the LCCs has

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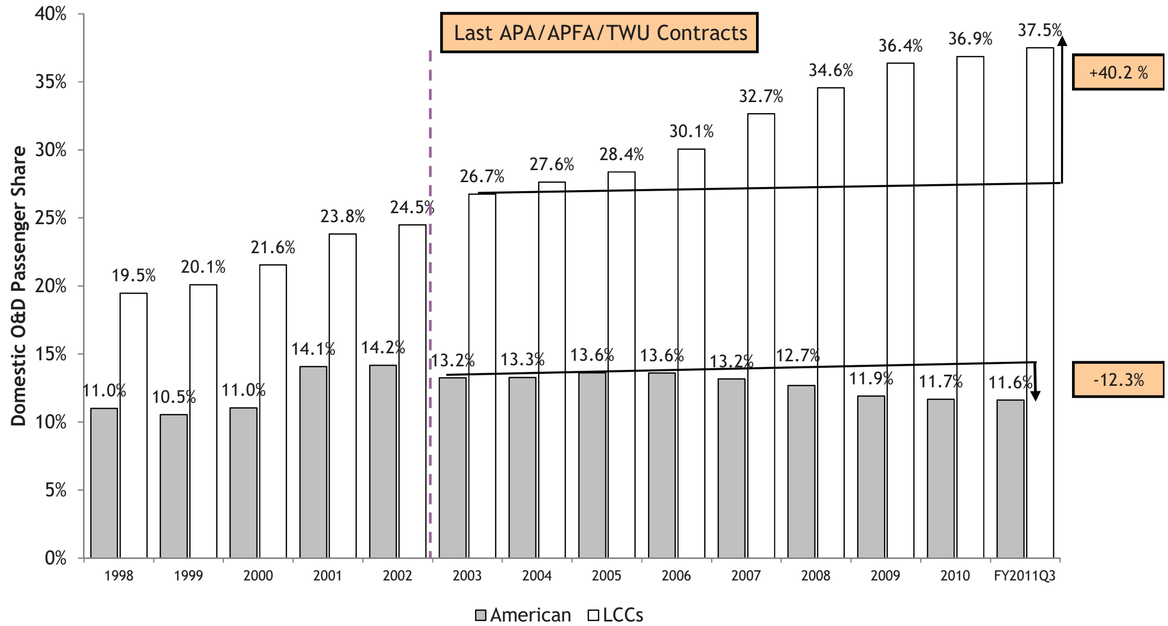
[5] American's top 50 domestic routes currently account for 45.1% of its domestic revenues. AMR Data (MIRS POS), (top 50 domestic markets by O&D passengers, DOT Domestic (D50 plus Puerto Rico and Virgin Islands), mainline only, full-year 2011). The remaining one of American's top-50 domestic routes not currently operated by an LCC—DFW to Orange County, California—will be open to competition by Southwest in 2014, with the expiration of the so-called Wright Amendment that currently prohibits airlines operating from Dallas's Love Field (Southwest's headquarters) from operating non-stop domestic routes to most states. (Kasper Decl. ¶ 43). American's business plan anticipates that the expiration of the Wright Amendment will reduce its revenues by a significant amount beginning in 2014.

[6] In the airline industry, traffic is often measured in terms of "origin and destination" (or "**O&D**") traffic, which captures all passengers originating in one city and terminating a trip in a second city, without regard to intermediate cities through which those passengers travel. Thus, a passenger traveling non-stop from JFK-NY to LAX and a second traveling from and to the same airports, but with a connection through Chicago, would both be counted in the JFK-LAX O&D traffic statistics. By using O&D passenger metrics, American can more accurately measure

nearly doubled (from 19.5% in 1998 to 37.5% in 2011), with most of the LCC growth occurring after 2003 (a period that saw American's share drop by more than 12%). Kasper Dec. ¶ 35:

AMERICAN VS. LCC DOMESTIC O&D MARKET SHARE, 1998-2011Q3



Source: U.S. DOT O&D Survey

AA Ex. 13.

15. The rise of the LCCs in American's domestic network coincided with a new transparency in pricing brought about by the advent of on-line fare displays and powerful Internet search engines that enable passengers an unprecedented ability to obtain comparative fare pricing on any route at the click of a button. In light of this transparency and the availability of lower-cost alternatives, American has learned from bitter experience that if it fails to match fares on a route with lower cost competition, it loses traffic and the route becomes less profitable

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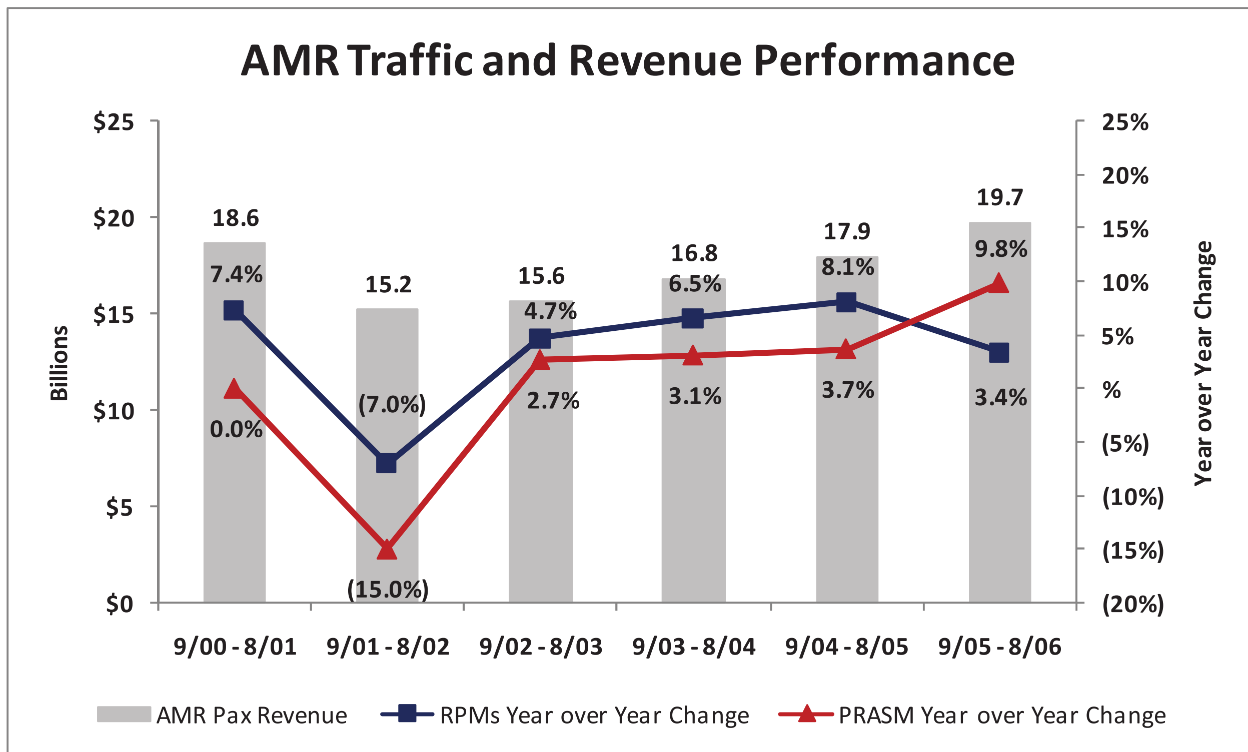
demand for travel between city pairs without regard to intermediate cities through which a person travels.

or more unprofitable; and if American does match fares, it may sustain or stimulate its share of passenger demand on the route, but it does so at lower yields (revenue per passenger mile), with a similar negative impact on profitability. (*See* Kasper Decl. ¶ 16).

C. 9/11/2001 Begins A Turbulent Decade

16. As mentioned, the events of September 11, 2001 had a devastating impact on passenger demand and revenues. In the one year after 9/11, AMR's traffic fell 7 percent compared to the prior year, and passenger revenues declined 18 percent, only recovering to prior levels five years later:



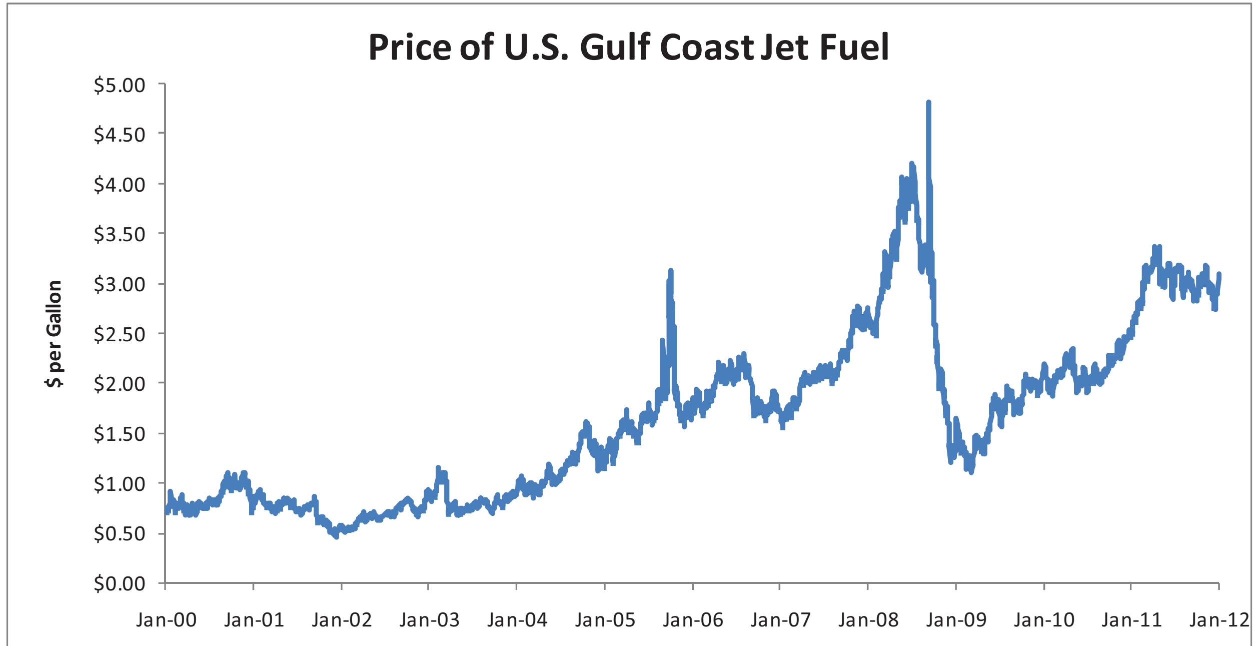
Source: Company Data

AA Ex. 109 .

17. This collapse in demand and revenues could not have come at a worse time for American. In January 2001, American announced that it was acquiring substantially all of the

remaining assets and employees of TWA, which had entered bankruptcy for the third time. With American traffic up 11 percent between 1996 and 2000,[7] American conceived of the TWA acquisition as a good vehicle for growth, and given American's half-decade of success since 1995, it had the balance sheet to accomplish it. Among other things, TWA provided additional maintenance capacity (which would be needed in an era of growth) and capacity for additional East and West traffic flow through its substantial St. Louis hub. The acquisition was also partly in response to an announcement by United of its plan to merge with US Airways (the deal ultimately fell through). Unfortunately, however, the events of 9/11/2001 made the TWA acquisition ill-timed in hindsight, as demand dropped precipitously. In addition, the price of jet fuel began a steep climb that, except for the immediate aftermath of the financial markets crisis in 2008, continued virtually unabated throughout the decade.

[7] See US DOT T100. Calculation based on mainline RPMs 2000 v. 1996.

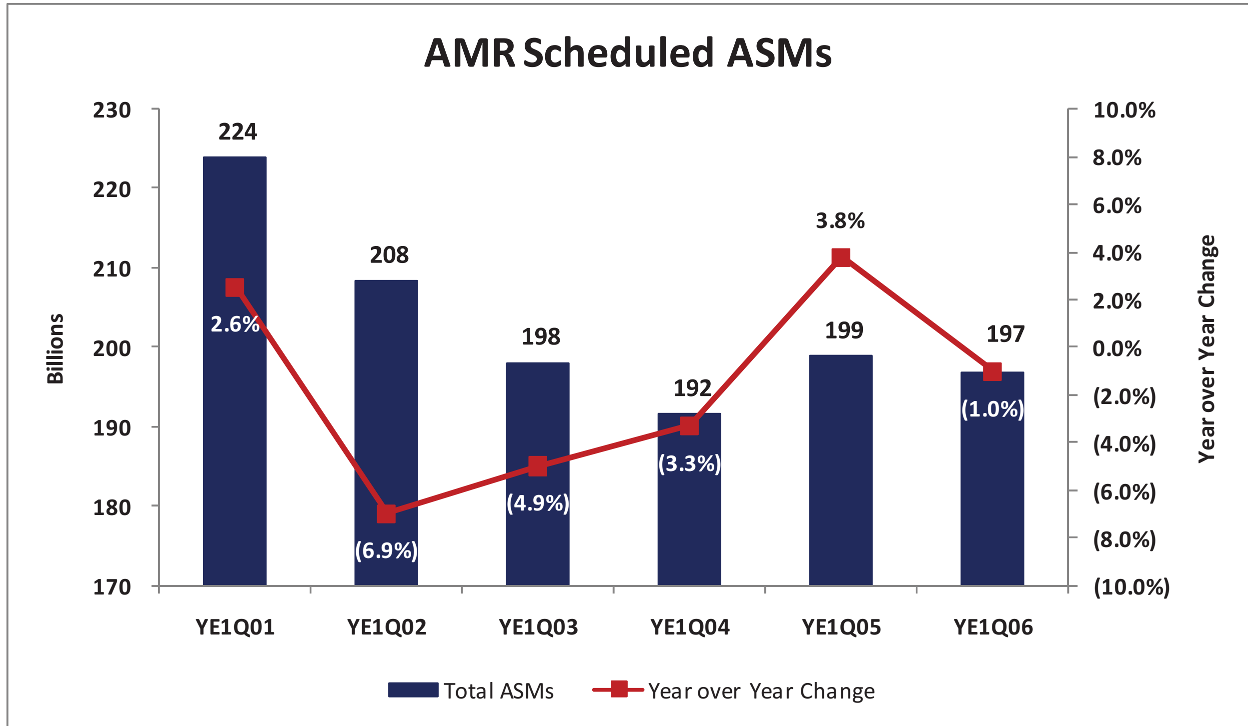


U.S. Gulf Coast Kerosene-Type Jet Fuel Spot Price FOB (Dollars per Gallon)
Source: Thomson Reuters
Found at US Energy Information Administration website:
http://www.eia.gov/dnav/pet/pet_pri_spt_s1_d.htm

AA Ex. 110.

18. In the five years after the TWA acquisition, the industry's domestic capacity dropped 9.9% and international capacity dropped 0.3%.[8] AMR's system wide capacity saw a comparable drop, leaving American burdened with a larger asset base than it had productive use for in the foreseeable future.

[8] OAG—consolidated scheduled ASMs, industry includes American.



Source: OAG
Note: Consolidated Scheduled ASMs, includes TWA and Reno Air

AA Ex. 111.

19. The World Trade Center attacks came in a decade that included numerous other external shocks, each of which had a major negative financial impact on the airline industry, including two economic recessions (the first at the beginning of the decade, following the bursting of the "dot.com bubble," and more dramatically the major recession that began in 2008, from which we are still recovering). Demand was also negatively impacted by the Iraq War beginning in 2003, the SARS outbreak of 2002-2003 and the H1N1 influenza outbreak of 2009, which hit Latin America traffic particularly hard.[9] Negative shocks continued to affect the Company's results in 2011, with the devastating tsunami in Northern Japan.[10]

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[9] According to industry statistics, due to the H1N1 outbreak, air traffic in Central America fell 62% in May 2009, see http://www.aviationtoday.com/regions/usa/OAG-Releases-H1N1-Tracker_35020.html, while traffic in Mexico was down 10% in the same period. *See*

20. **Other Major Airlines File for Bankruptcy.** As the last decade unfolded, American was not the only major network carrier to experience negative financial results. As catalogued in the declarations of Mr. Kasper and airline labor expert Jerrold Glass,[11] between 2002 and 2005, four network carriers filed for bankruptcy protection: US Airways (twice, on August 11, 2002 and September 12, 2004); United (on December 9, 2002); Northwest (on September 14, 2005); and Delta (also on September 14, 2005). (Kasper Decl. ¶ 27; Glass Decl. ¶¶ 43-54.) In bankruptcy, each of these carriers was able to shed debt, cut operating costs (including unionized labor costs), freeze or terminate pension obligations, restructure its balance sheet and obtain relief from work rule and scope restrictions in its collective bargaining agreements, thereby gaining substantial new operational flexibility to respond to changes in the competitive landscape. (Glass Decl. ¶¶ 43-54)

21. **2003: American Avoids Bankruptcy.** While American successfully avoided bankruptcy during this turbulent period, its massive losses made the decade exceptionally difficult. Understanding where American is today requires an understanding of that history. American was close to bankruptcy in late 2002 (when United filed) and early 2003. In the Spring of 2003, after intense negotiations with its workgroups and on the brink of a Chapter 11 filing, American reached consensual agreements with its Unions. American achieved total annual labor cost reductions of $1.8 billion, including $1.6 billion in annual savings from

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http://www.aviationtoday.com/regions/usa/OAG-Releases-H1N1-Tracker_35020.html. During the second quarter of 2009, American's mainline RPMs were down 8% from the prior year. *See* US DOT Form 41.

[10] *See* Transcript, AMR 1Q11 quarterly earnings call (April 20, 2011). AA Ex. 112.

[11] *See* Declaration of Jerrold A. Glass in Support of Motion by American Airlines, Inc. to Reject Collective Bargaining Agreements Pursuant to 11 U.S.C. § 1113 ("**Glass Decl.**"), filed simultaneously with my declaration.

American's unionized employees and $200 million from other employees. The labor cost reductions which American obtained at that time were parallel to those U.S. Airways had obtained in its first bankruptcy, and United Airlines was then seeking from its union-represented employees early in its bankruptcy cases. Each of American's new labor agreements had a five-year term, which meant that they would be subject to re-negotiation in 2008. After American reached its new labor agreements in the Spring of 2003, however, both U.S. Airways (in its second bankruptcy) and United (in the latter stages of its bankruptcy) sought and obtained additional rounds of labor cost reductions from their union-represented employees through the 1113 process in bankruptcy. Delta and Northwest followed this pattern, each obtaining an initial round of voluntary labor cost reductions in 2004, followed by additional labor cost reductions, and other savings, in their subsequent Chapter 11 cases. (*See* Glass Decl. ¶¶ 45-48, 50-54.)

22. American's 2003 agreed-upon labor cost reductions were not borne solely by the Unions. As stated above, management and non-union employees contributed an additional $200 million in annual cost reductions. Nor were all consequences of these agreements negative. As part of the agreements, American issued 37,921,045 stock options to unionized and non-unionized workers, of which 32,332,043 went to unionized workers, 2,692,712 went to non-unionized and non-management employees, and 2,896,290 went to non-unionized management. By 2007, the options given to American's unionized employees, if held until that time and then exercised, would have been valued at nearly $1.2 billion.[12]

23. **Post 2003: American's Cost Reduction Efforts.** In light of the restructuring of its competitors' businesses effected through the Chapter 11 process, which left American with a

[12] $1,163,953,548 = 32,332,043 options, with an exercise price of $5 and a value of $41, which was the high share price on the New York Stock Exchange of AMR's common shares on January 17, 2007.

decided labor cost disadvantage, after 2003 American focused on reducing costs at every level possible, while striving to grow revenues. By the end of 2004, AMR had achieved a total of approximately $4 billion in annual cost reductions. As reflected in AMR board of directors presentations and other Company business records I have reviewed, these amounts included the $1.8 billion in labor cost reductions, supplier concessions of approximately $200 million, and strategic initiatives accounting for approximately $2 billion in annual savings (such as reductions in food and beverage service ($250 million), reductions in travel agency commissions ($180 million) and booking fees ($60 million), reduced fuel consumption as a result of the American's "Fuel Smart" initiative ($50 million),[13] productivity enhancements ($170 million) and fleet simplification ($200 million)).[14] During this process, AMR scrutinized its costs at every level and in every department of the Company, including such major actions as reducing operations at its unprofitable St. Louis hub, the withdrawal from its hub in San Juan, Puerto Rico, and the closing of numerous surplus facilities, and other, more modest initiatives such as limiting the use of cell phones by management employees at Company expense.

24. These initiatives continued throughout the decade, and in fact are ongoing. In 2011, AMR targeted an additional $300 million in annual budgeted savings through (among other things) implementing maintenance efficiencies, utilizing a new aircraft route analysis

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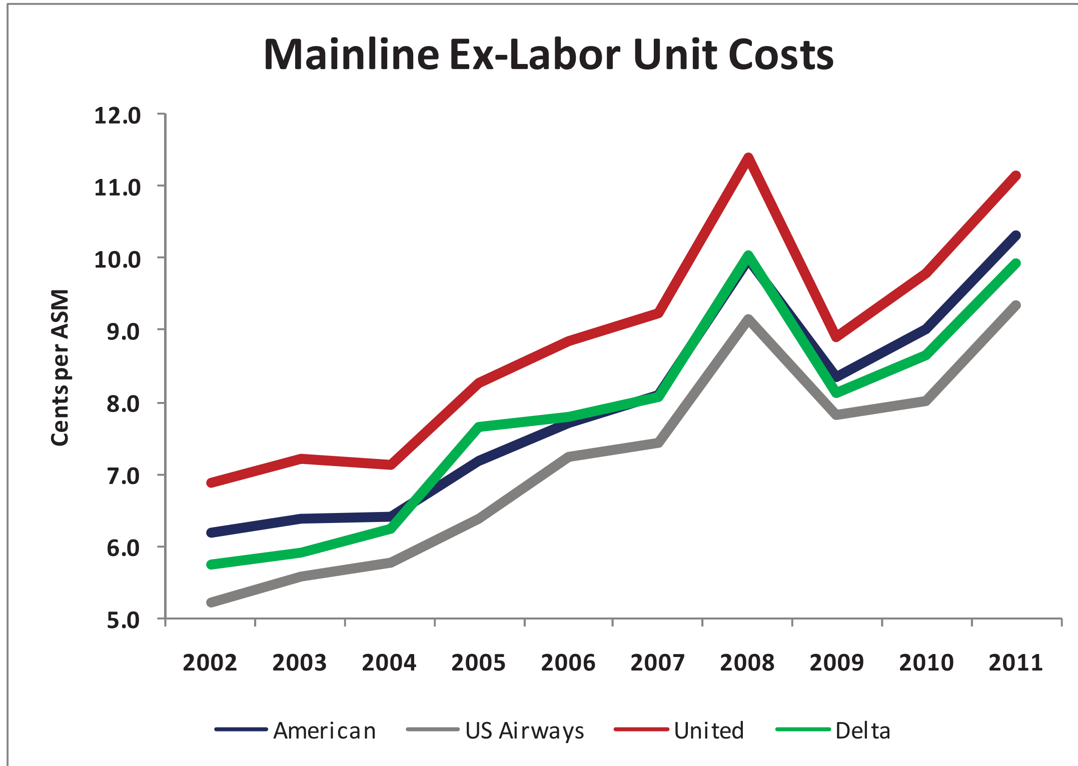
[13] As reflected in our public releases at the time, in 2011 American estimated that it saved 134 million gallons of fuel worth approximately $442 million through "Fuel Smart" initiatives, including single engine taxiing, the installation of fuel-saving "winglets" on our aircraft and reducing unnecessary weight from the aircraft. *See* http://www.aa.com/i18n/amrcorp/newsroom/fuel-smart.jsp. AA Ex. 113.

[14] Company data.

system to lower air traffic control expenses, and implementing a checked bag scanning program to reduce mishandled baggage costs.[15]

25. In summary, during the period 2002-2011, AMR was able to identify approximately $4.75 billion in annual budgeted savings from sources other than its collective bargaining agreements with the Unions. In part as a result of all of these efforts, American's non-labor costs per ASM were competitive with other network carriers.

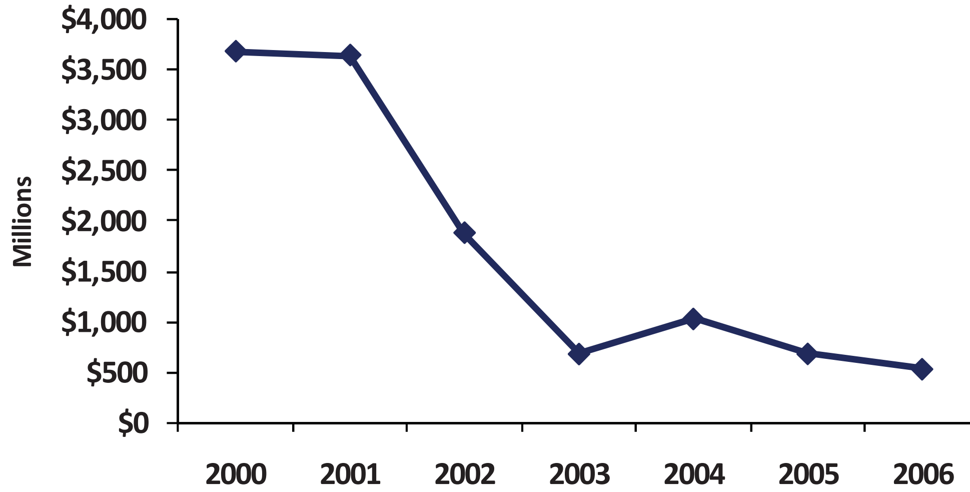
[15] Company Data. In 2011, AMR's Fuel Smart program resulted in savings of $23.7 million, changes in various operations resulted in savings of $89.5 million, amendments to pricing and distribution policies resulted in savings of $10.2 million, streamlining of interactions with customers resulted in savings of $2.3 million, and alterations to miscellaneous corporate operating categories, such as maintenance efficiencies, purchasing initiatives, productivity improvement, and insurance plans resulted in savings of $187.9 million.



Source: SEC Filings, OAG, US DOT Form 41, Company Data
Note: Stage length adjusted, mainline only - excluding special items
AA stage length methodology - using e-seat stage length
US Airways includes America West, United includes Continental, Delta includes Northwest

AA Ex. 114.

26. **2001-2006: American's Limited Capital Investment in Its Business.** Airlines are by their nature extremely capital intensive, requiring investments not only in aircraft, but also in computer technology, airport facilities, and ground equipment, among other things. With its operating losses and high debt levels, AMR had no alternative but to under-invest in the business, adopting a "limp along" strategy just to survive. Between 2001-2006, AMR's capital investment fell to unsustainably low levels.

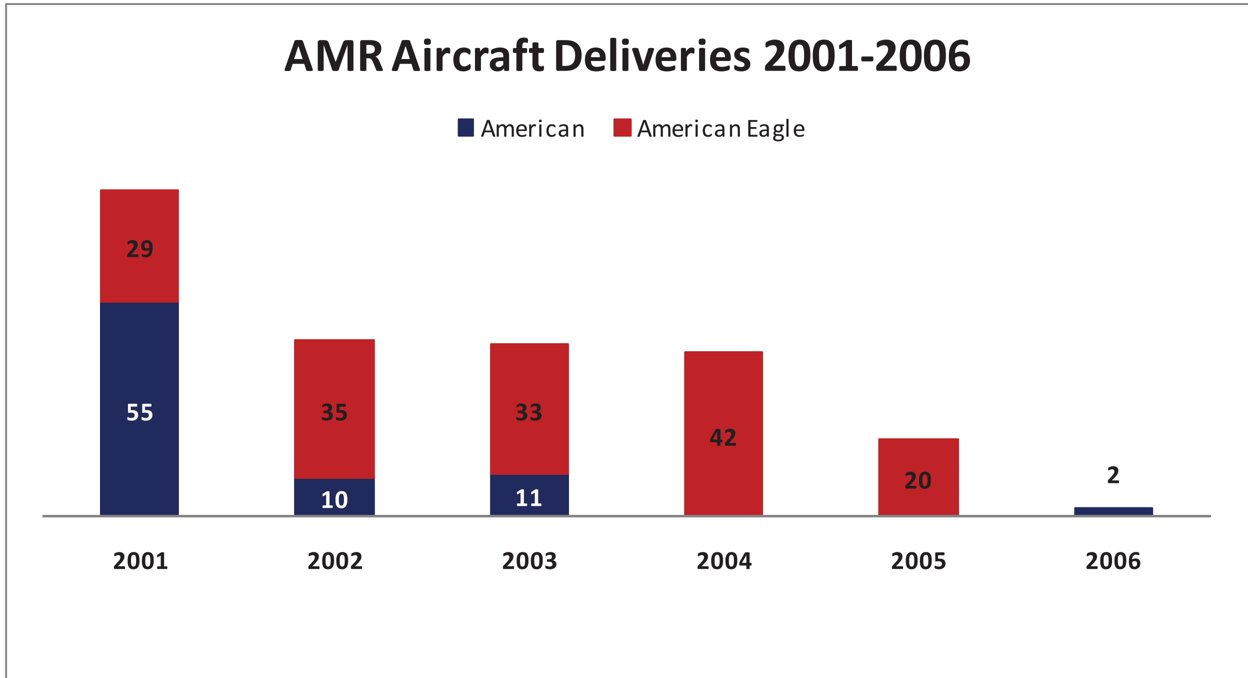


Source: AMR SEC filings
Note: Capital Expenditures, including PDPs on flight equipment

AA Ex. 115.

27. Along with other investments, AMR dramatically reduced its capital spending for fleet renewal. During this period, both American and American Eagle negotiated delivery deferrals with their respective suppliers, Boeing and Bombardier, and American Eagle cancelled orders with Embraer. American's deferrals were negotiated on four separate occasions, as it became apparent that it was necessary to defer capital investments further than initially thought. These deferrals delayed delivery of new, replacement aircraft for several years. As a result, American was forced to continue to operate its aging and increasingly less efficient fleet much longer than planned.[16]

[16] Ordinarily, given a fleet of 1,000 aircraft, each with an average life of 25 years, an airline would need to replace 40 aircraft annually simply to keep its fleet from aging.



	2001	2002	2003	2004	2005	2006
AMR fleet age	8.8	10.0	10.0	10.0	10.9	11.9

Source: Company Data.

AA Ex. 116.

28. **2006-07: Modest Profits.** After suffering losses in each of the first five years of the decade, American returned to modest profitability in 2006 and 2007, although with higher cost structures than all but one of its network competitors.[17]

29. As a result, even though positive, AMR's net income was not keeping pace with its network competitors.

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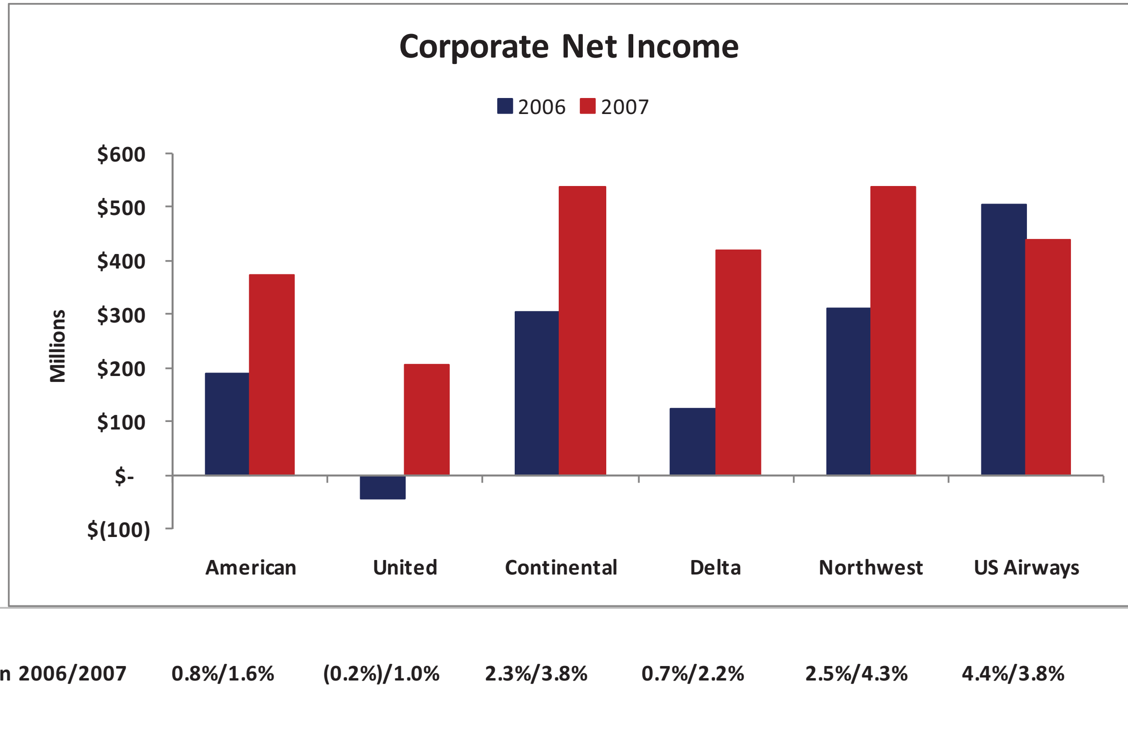
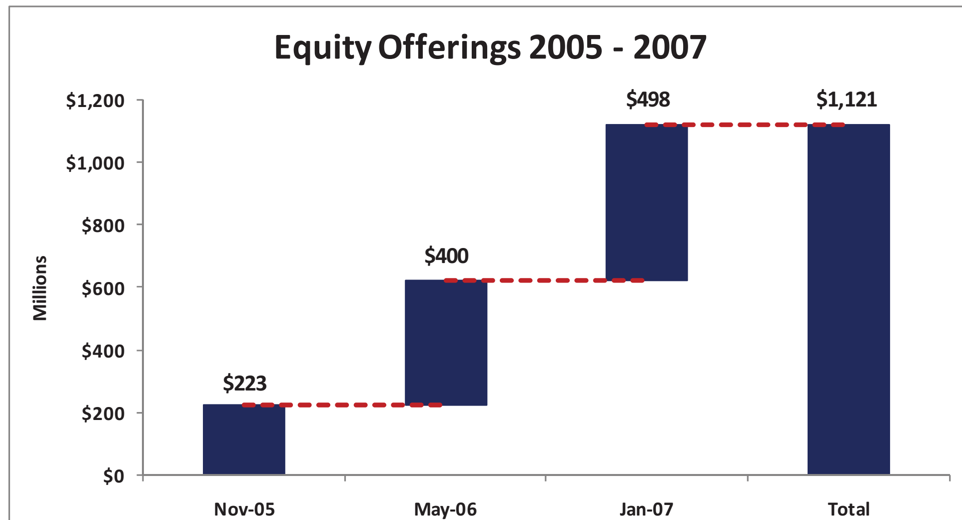
[17] In 2006 American's mainline stage-length adjusted CASM was 11.45 cents, compared to US Airway's CASM of 9.66, Delta/Northwest's combined CASM of 10.72, and United/Continental's combined CASM of 12.04. Similarly, in 2007 American's mainline stage-length adjusted CASM was 11.85, compared to US Airway's CASM of 10.01, Delta/Northwest's combined CASM of 10.88, and United/Continental's combined CASM of 12.52. Adjustments made using AA stage length methodology. Sources: SEC Filings, Form 41, and Company Data.



Source: SEC Filings
Excludes Special Items

AA Ex. 117.

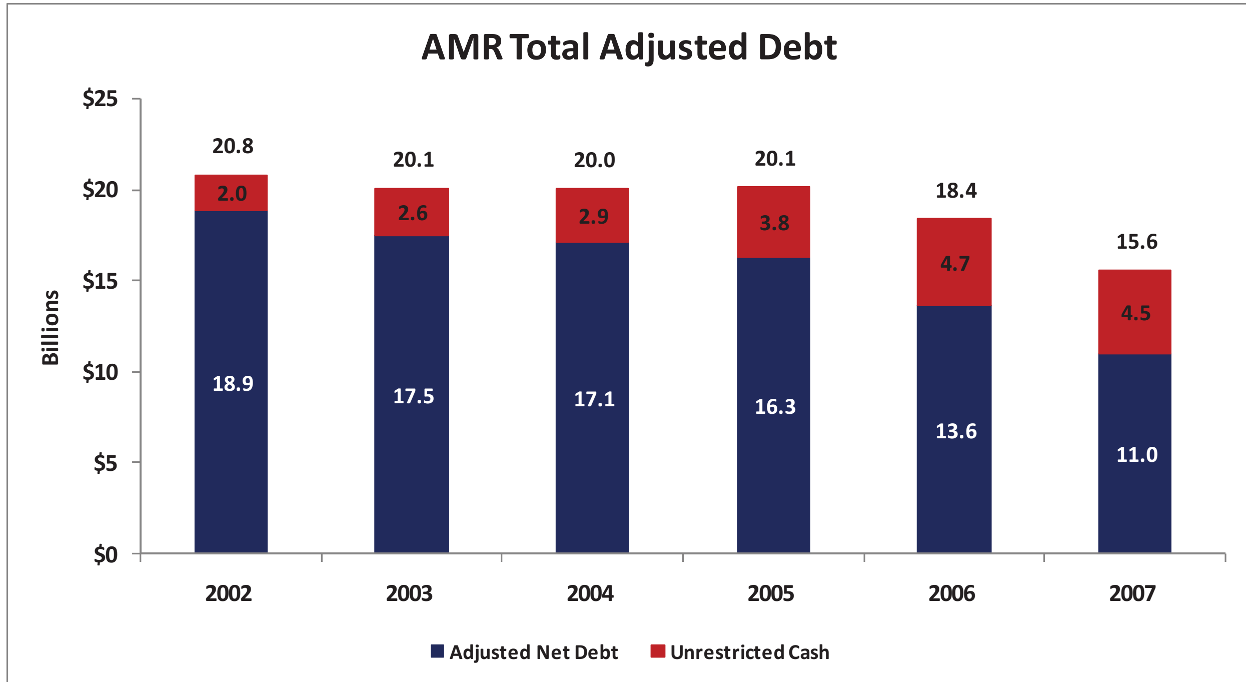
30. With the slight breathing room provided by modestly improved profitability, AMR took steps to improve its balance sheet and liquidity, tapping the equity markets three times for a total of more than $1.1 billion during the period from November 2005 to January 2007.



Source: SEC Filings

AA Ex. 118.

31. As a result of these efforts, AMR's unrestricted cash stood at $4.5 billion by year-end 2007, up from $2.0 billion at year-end 2002, and adjusted net debt had been reduced from a high of $18.9 billion at year-end 2002 to $11 billion at year-end 2007.

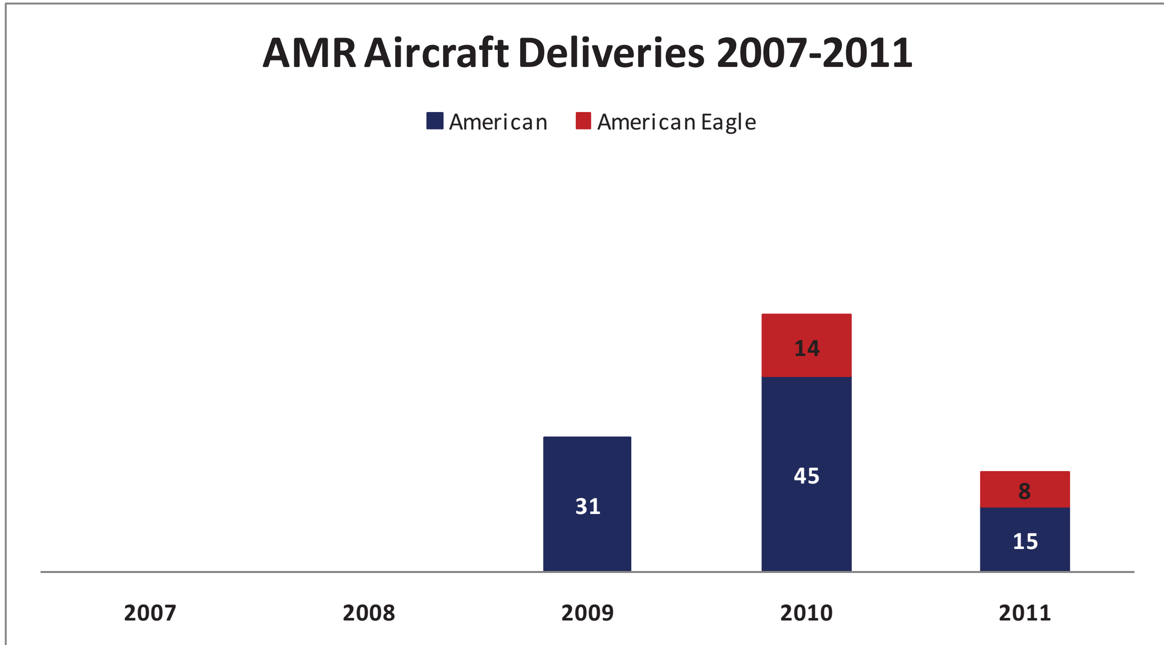


Source: SEC Filings, Company Data
Note: Total Adjusted Debt = Total Debt + Off Balance Sheet Debt + Capitalized Aircraft Operating Leases; Adjusted Net Debt = Total Adjusted Debt - Unrestricted Cash
The calculation for capitalizing aircraft operating leases uses the cash flows for each lease individually and a discount rate equal to the average prime rate during the inception year of the lease, plus 1%. Once set, the discount rate remains locked for each lease until it expires or is refinanced.

AA Ex. 119.

32. AMR was also able to resume making some incremental, but necessary, investments in its aging aircraft fleet. Beginning in 2007, American began accelerating delivery of the previously deferred aircraft, as well as exercising purchase options to acquire additional, new B737-800 aircraft to replace its aging MD80 fleet. In 2008, American also placed an order with Boeing for 42 787-9 aircraft to begin replacing its widebody fleet. (Because of long lead times in the production of aircraft, actual delivery of the new B737-800 aircraft did not begin until 2009). In all, American took delivery of 91 B737-800 aircraft between 2009 and 2011, comprised of the new orders and previously-deferred deliveries. During this same period,

American Eagle took delivery of 22 CRJ 700 aircraft. The delivery of these new aircraft, however, did not reverse the aging trend of AMR's fleet.



	2007	2008	2009	2010	2011
AMR fleet age	12.8	12.9	13.1	13.4	13.7

Source: Company Data

AA Ex. 120.

33. Even as AMR was showing some improvement, however, the Company hit stiff headwinds. By 2008, jet fuel costs had increased dramatically.[18] While fuel prices came down later in the year as the grip of the "great recession" took hold, the economic downturn also

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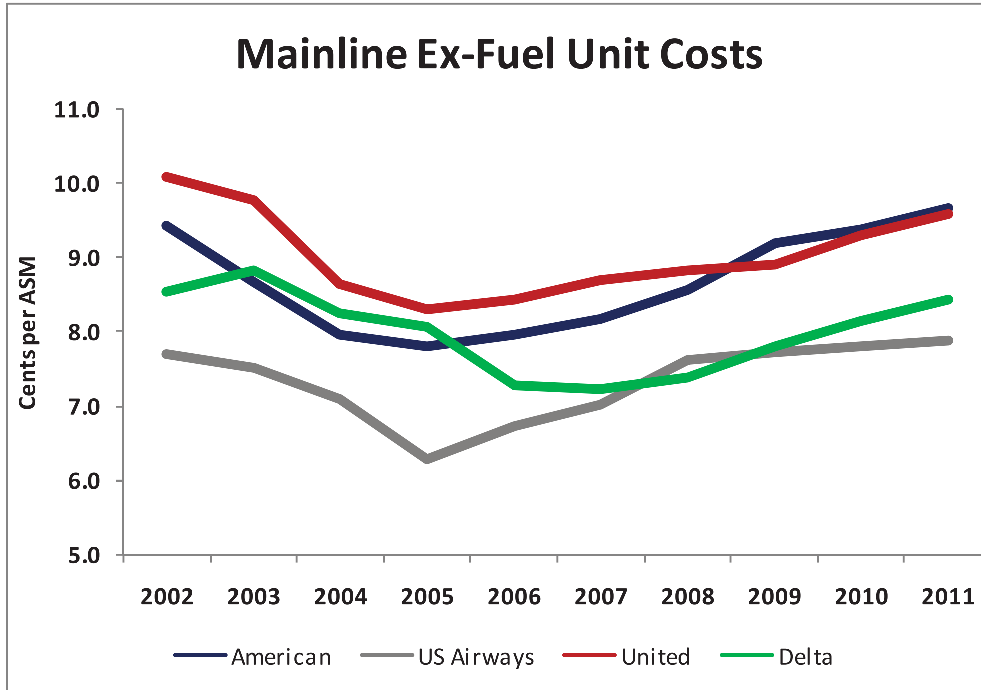
[18] *See* fuel price chart, AA Ex. 110, paragraph 17, *supra.*

depressed passenger demand, and American's brief period of modest profitability came to an end. In 2008, AMR's losses exceeded ***$1.2 billion***.[19]

34. **Post 2007: Other Airlines Emerge From Bankruptcy and Further Change the Competitive Landscape.** Rising fuel costs were not the only factor to reverse AMR's fortunes. With passenger demand falling, AMR struggled with a cost structure (primarily labor costs) that was no longer competitive. By 2007, both United and U.S. Airways had emerged from Chapter 11, with U.S. Airways strengthened by its merger with America West. See Glass Dec ¶¶ 43, 45, 48-50. Meanwhile, both Delta Air Lines and Northwest Airlines emerged from bankruptcy in the Spring of 2007 with materially lower labor costs than American. See Glass Dec ¶¶ 52, 54. As a result, by 2009, American became the network carrier with the highest overall costs per available seat mile (excluding fuel), on a stage-length adjusted basis (*i.e.,* correcting for the fact that due to differing route lengths and aircraft sizes, some carriers are able to spread their costs per available seat mile over longer distances). As demonstrated below, American remains in this position today.

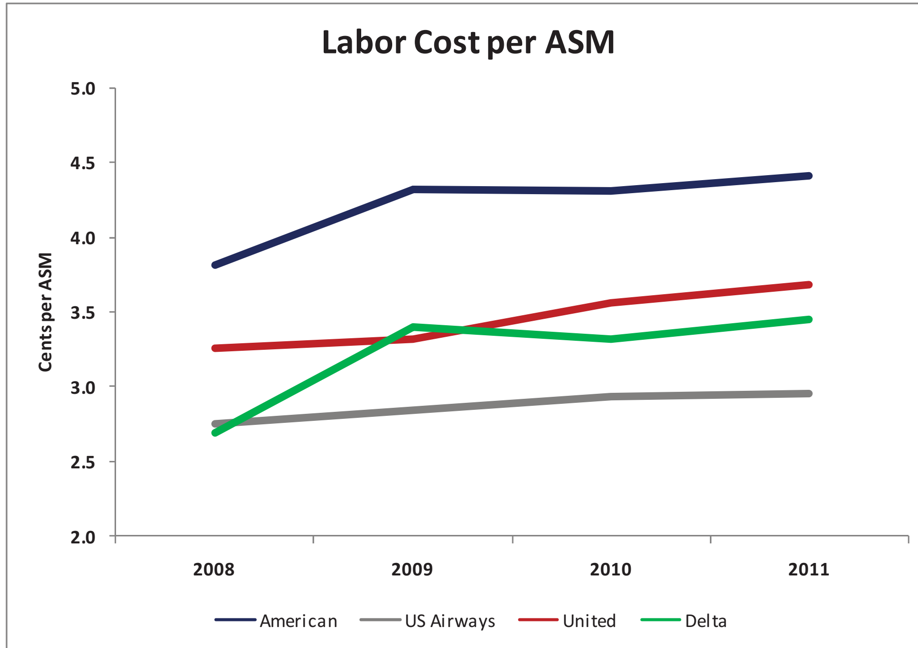
[19] *See* Chart of AMR Net Earnings, AA Ex. 104, paragraph 7, *supra.*



Source: SEC Filings, OAG, US DOT Form 41, Company Data
Note: Stage length adjusted, mainline only - excluding special items
AA stage length methodology - using e-seat stage length
US Airways includes America West, United includes Continental, Delta includes Northwest

AA Ex. 121.

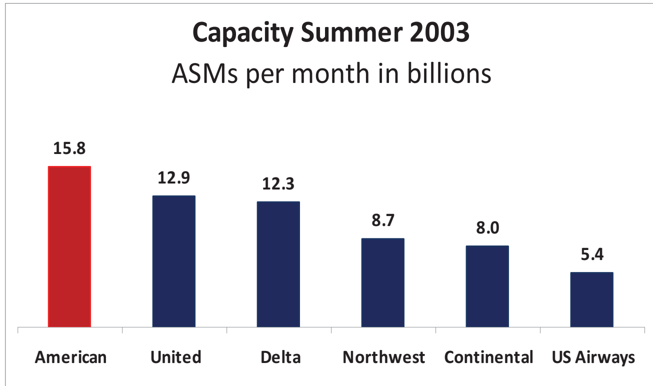
35. The picture of American's comparative labor costs is even more dramatic. On a stage length adjusted basis, American's labor costs per available seat mile are far above those of its major network competitors.

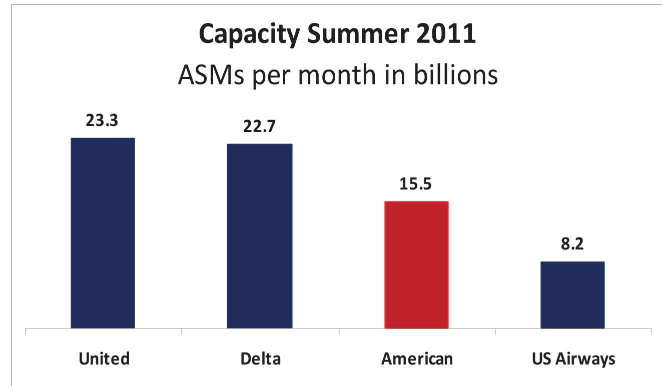


Source: SEC Filings, OAG, US DOT Form 41, Company Data
Note: Stage length adjusted, mainline only - excluding special items
AA stage length methodology - using e-seat stage length
US Airways includes America West, United includes Continental, Delta includes Northwest

AA Ex. 122.

36. **Post 2008: Airline Mergers Also Change The Competitive Landscape.** In the spring of 2008, Delta announced its intent to acquire and merge with Northwest, with the acquisition consummated in October 2008. In 2010, United announced its intent to acquire Continental, which closed in 2011. These mergers enabled the new Delta and United to combine their cost advantages with materially enhanced network strength.





Source: Diio

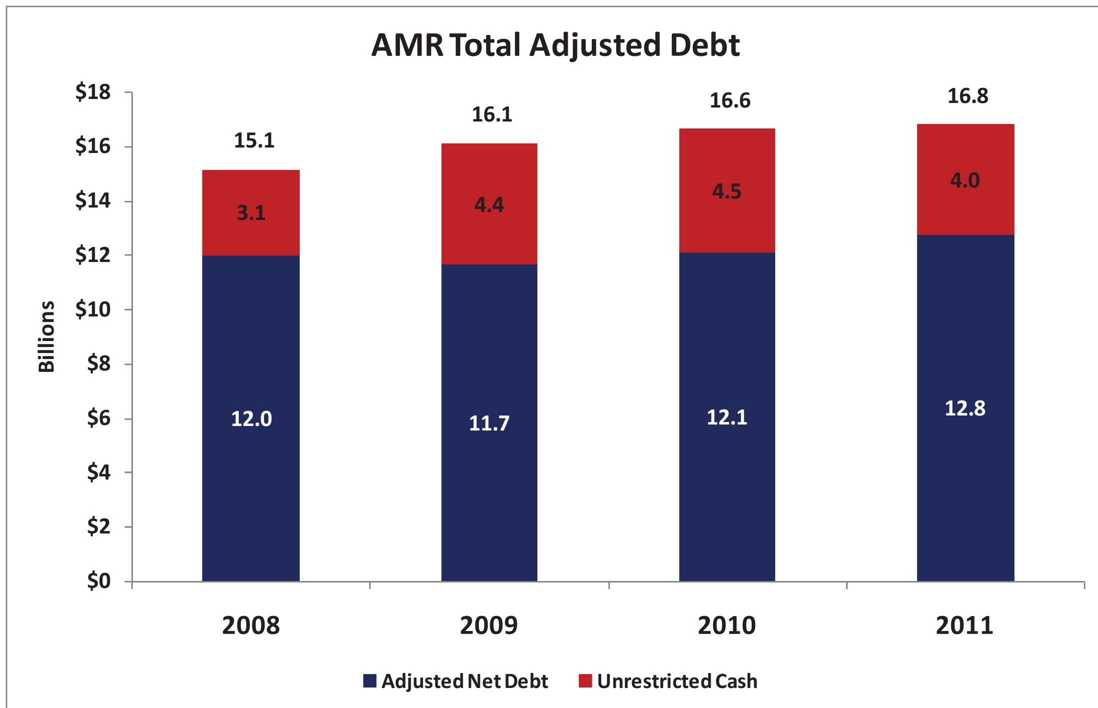
AA Ex. 123.

37. **American's Relative Operational Disadvantages.** American's competitive disadvantages stem not just from its direct labor costs, but also from significant legacy operational constraints that have been built into its collective bargaining agreements over a number of years—constraints that American's network competitors shed or dramatically reduced in bankruptcy. Key among these are significant restrictions, contained in the APA (pilot) and TWU (mechanics and related) agreements, that severely limit American's ability to operate large regional jets and to engage in an increased level of code-sharing with other domestic airlines, and to outsource functions to the degree already done by its competitors. These operational constraints have prevented American from "right sizing" its aircraft fleet to better fit demand on individual routes and have required American to spread its resources too thinly in order to fly routes that would be better operated by a regional carrier or code-sharing partner. As explained in the declaration of American's Chief Commercial Officer Virasb Vahidi ("**Vahidi Dec.**"), these restrictions have directly and negatively impacted American's ability to maximize its revenue opportunities. See Vahidi Dec. ¶¶ 16-19.

38. **Unacceptable Losses.** The impact on AMR of these relative cost and operational disadvantages has been dramatic. As illustrated in the chart at paragraph 7 above, AMR has

experienced cumulative losses of over $10 billion since the beginning of 2001, with losses exceeding $1 billion in three out of the last four years.

39. **Unhealthy Balance Sheet.** During the period from 2008-2011, AMR borrowed heavily to cover its losses, fund its pension plans and meet its debt obligations. Adjusted debt climbed to $16.8 billion in 2011, at which point AMR had virtually no unencumbered assets available to pledge as collateral for additional financing.



Source: SEC Filings, Company Data

AA Ex. 124.

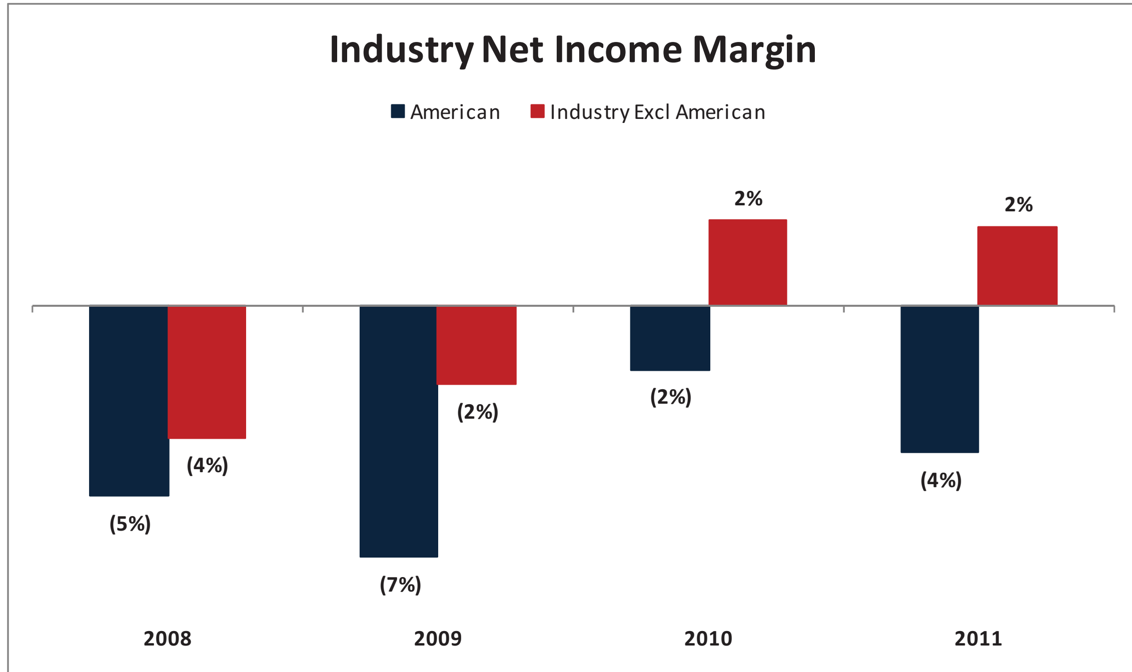
40. In the year preceding its Chapter 11 filing, AMR expended enormous efforts to try to reverse its losses and to position itself for a competitive future. American's efforts

included ultimately unsuccessful labor negotiations and continuation of its fleet renewal program.[20]

D. The Inevitable Result: With A Widening Cost Gap And Incurring Substantial Losses, American Had No Choice But To Seek Relief Under Chapter 11

41. **American is the Only Major Airline Losing Money.** Significantly, AMR has continued to incur losses even as the industry returned to profitability in 2010 and 2011:

[20] Despite its poor economic health, AMR accelerated its fleet renewal efforts to address growing customer dissatisfaction with the aging American fleet and to garner the fuel and other operation efficiencies associated with new aircraft. In 2011 American placed firm orders for 130 Airbus current-generation A320-family narrowbody aircraft and an additional 100 Boeing B737-800 aircraft. To fund this transaction, American secured $13 billion in lease financing from the aircraft manufacturers. These aircraft will be delivered between 2013 and 2017. Under this same transaction, American also placed firm orders for 130 Airbus NEO narrowbody aircraft, to be delivered between 2017 and 2022, and, subject to agreement on terms and conditions, 100 Boeing MAX narrowbody aircraft for delivery between 2018 and 2022. *See* Vahidi Dec. ¶ 40 and AA Ex. 210. These next-generation aircraft will feature enhanced engine technology and airframe enhancements which will provide significant fuel savings over the current generation A320-family and B737-800 aircraft. Additionally, American has orders for 16 Boeing B777 aircraft which, together with the B787-9 aircraft, will be used to replace its widebody fleet beginning in 2012. *Id.*



Source: SEC Filings
Note: Excludes special items
Industry includes: United, Continental, Delta, Northwest, US Airways, America West

AA Ex. 125.

42. **American Filed For Bankruptcy.** With continuing losses, its assets virtually fully leveraged, unable to make critical investments, and without agreements to further reduce its unionized labor costs or achieve the operational flexibility needed to meet its competition, American sought relief under Chapter 11 of the Bankruptcy Code on November 29, 2011.

III. AMR'S RESTRUCTURING BUSINESS PLAN

43. AMR announced its business plan for a reorganized American Airlines in a presentation to its Union leaders on February 1, 2012. As AMR CEO Tom Horton stated in a letter to employees on that date:

> The key to [American's] successful restructuring is a business plan with a clear objective. And that is to make American a world-class global airline – America's flag carrier – that is competitive, profitable, and growing. To do this, we must consistently deliver: [1] A superior customer experience that earns loyalty and drives revenue [2] A work environment that recognizes excellence and

> rewards success [3] Attractive financial returns for our investors and stakeholders.

AA Ex. 126. Mr. Horton told Union leaders that this was his plan, and that he was totally committed to making the plan work and returning American to its rightful place at the top of the industry.

44. In consultation with its restructuring financial advisor, Rothschild, Inc., AMR determined that it should have an independent advisor involved in the development of American's restructuring business plan, to challenge its underlying assumptions and test American's projections, to ensure that American formulated a plan that fully addressed all of its business challenges and maximized value for all of its stakeholders. Accordingly, in mid-December 2011 AMR retained McKinsey Recovery & Transformation Services, U.S. LLC ("**McKinsey**"). AMR worked intensively with the McKinsey team to build a detailed driver-based revenue forecasting model. This encompassed a comprehensive examination and analysis of market and other assumptions on which the model was premised as well as an independent assessment of AMR's revenue and cost forecasting. This intensive process helped AMR to develop and refine the strategy reflected in the Plan for Success, and provided a robust model for projecting its revenues.

45. AMR also scoured the Company for additional savings by (i) identifying vendor and other third-party contracts that could be renegotiated or rejected (including unfavorable aircraft and facilities leases); (ii) further reducing budgeted operational expenses; (iii) identifying unsecured debt that can be compromised in the Chapter 11 process; and (iv) setting cost reduction levels for its management and non-union employees. Finally, AMR developed and presented proposals to the Unions to address the barriers to success imposed by the

uncompetitive costs and operational restrictions imposed by the terms of its collective bargaining agreements.

46. **Key Strategies.** Mr. Vahidi's declaration provides additional descriptions and explanations of the key strategies underlying AMR's Plan for Success, but the fundamental tenets can be summarized as follows:

- concentrate on five key hub markets (Dallas Fort Worth, Miami, Chicago, Los Angeles and New York), each of which has a good mix of customers;
- expand American's international presence by increasing its proportion of international versus domestic operations and broadening American's alliance relationships (through joint business agreements and codesharing);
- increase passenger feed to American's hubs and across the network through codesharing with domestic air carriers and increased use of large regional jets, while also better matching aircraft size to size of market;
- implement a long-term fleet plan sufficient for both replacement and growth;
- create a capital structure that allows AMR to make the investments needed to grow and compete, attract capital at favorable rates and withstand extraneous shocks to the business; and
- set in place a sustainable cost structure to drive profitable growth and assure long-term viability.

47. The result of this plan is mainline growth of [redacted]% and AMR growth of [redacted]% between 2011 and 2017, [redacted].

48. A significant portion of this growth will come from increased international flying.

49. **Strong Revenue Growth.** The Plan is expected to result in strong growth in AMR's unit revenue over the next six years, from [redacted] cents per available seat mile in 2012 to [redacted] cents by 2017:

50. **Need For Significant Fleet Investments.** This growth in capacity and unit revenue will require significant investments. American currently operates an aging MD80, B757, B767 and regional aircraft fleet that is not optimally sized for its network. Investing in newer aircraft and "right-sizing" the fleet will increase fuel efficiency, lower maintenance expenses and improve customer perception, helping American to boost revenues and lower costs while reducing the average age of its mainline fleet by six years:

51. Total maintenance and fuel savings from this investment will exceed $[redacted] by 2017, as new aircraft require less maintenance in the earlier years of their lifecycles (vastly improving utilization and productivity over the network), are more fuel efficient, and allow American to avoid expenditures on older aircraft:

52. **Need for Significant Product Investments.** AMR's business plan also calls for critical new investment in products and services important to the high value customer, including technology; premium service enhancements; and modernization of the fleet.

53. **American's Employees Will Share in Our Success.** American's employees (including its unionized employees) will share in its success with first dollar profit sharing of ■% of American Airlines' pre-tax income. Profit sharing amounts are projected in every year of the plan, and are expected to exceed $■ million annually by 2014.

54. **AMR Must Achieve Revenue Enhancements And Cost Reductions.**

American's Plan for Success requires that the airline achieve $3.1 billion in annual cash improvements (revenue enhancements and cost reductions) by 2017, broken down as follows:

- $1.0 billion to be realized annually through revenue and network improvements.
- $600 million in annual savings to be achieved in restructuring.
- $1.5 billion in annual employee cost savings, including reductions in benefits costs and accruals going forward, and productivity savings affecting both unionized and non-unionized employee groups (including management).[21]

[21] This $1.5 billion represents the amount of annual cash savings over current annual costs, to be achieved by 2017, and includes retiree medical cost reductions, as well as labor cost savings at American Eagle. The figure, excluding retiree medical costs, translates to $1.25 billion in average (six-year) annual direct labor cost reductions at American, including $990 million in annual direct labor cost reductions sought in this motion from the unionized employees

These goals were established based on the financial metrics (including EBITDAR and EBITDAR margin), that AMR, working with Rothschild, established as both reasonable and necessary for a successful reorganization.

55. **Collective Bargaining Agreement Changes are Critical.** The changes to the APA, APFA and TWU collective bargaining agreements proposed in the 1113 Motion are absolutely critical if American is to achieve the revenue goals and cost structure on which in its business plan is premised and emerge from these Chapter 11 cases as a viable and successful airline. Indeed, the essential elements of American's Plan for Success cannot even be put into place without them. For example, as noted above, without relief from the limitations of the "scope" clause in the pilot agreement, American would continue to be hamstrung by restrictions against operating the large (greater than 50 seat) regional jets that are a key to "right-gauging" its fleet plan. Failure to better match aircraft with demand could cost American hundreds of millions in annual revenues by 2017. Similarly, failure to revise the pilot scope clause to permit expanded codesharing with domestic partners would negatively impact annual revenue.

56. The direct labor cost reductions built into American's proposals are critical to the success of the business plan. Simply put, American experienced huge losses and was required to seek relief under Chapter 11 precisely because costs (including primarily labor costs) have exceeded the airline's ability to generate revenue. American simply must address its high unit labor costs to be a viable operation.

57. **American's Proposals Seek Competitive Unit Labor Costs.** With the changes contemplated by the business plan and its proposals to the Unions, American can bring its unit costs down to competitive levels. As the following chart shows, if the cost reductions American

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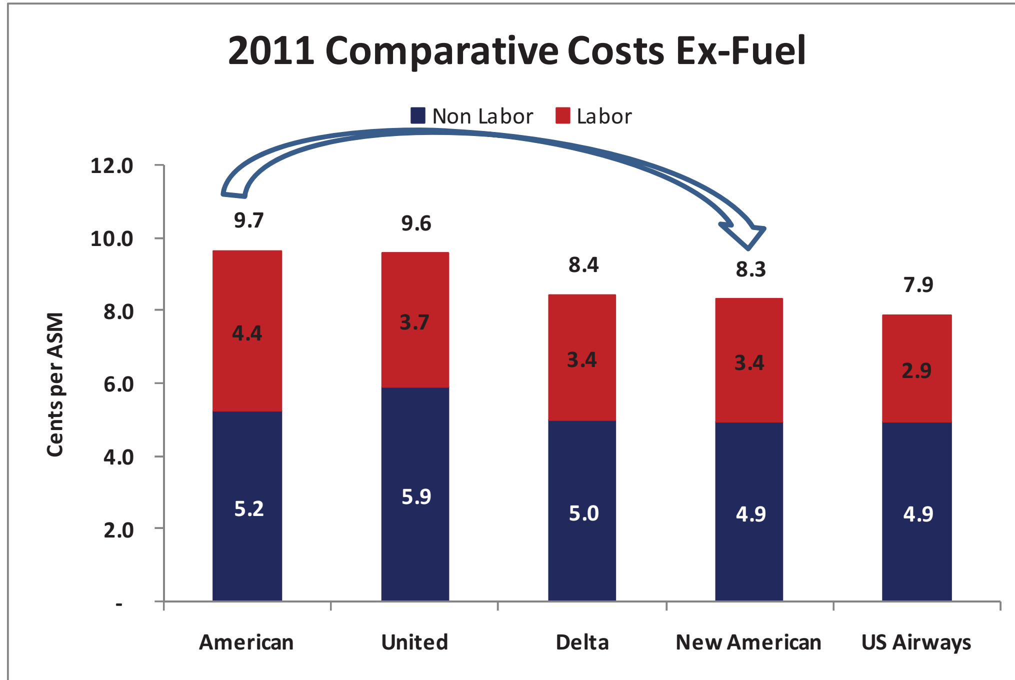
represented by APA, APFA and TWU. In addition, in a separate motion under Section 1114 of the Code, American will ask the Court for permission to eliminate company-paid retiree medical benefits for former employees who retired prior to the Petition Date.

proposes were implemented today, American's mainline costs per available seat mile (excluding fuel) would fall from the highest in the industry to levels much more in line with its mainline competitors:



Source: SEC Filings, OAG, US DOT Form 41, Company Data
Note: Stage length adjusted, mainline only - excluding special items
American stage length methodology - using e-seat stage length
United includes Continental
"New American" includes annual labor cost reduction of \$1.5 billion and \$425 million in non-labor cost reductions, does not include interest savings and revenue enhancements

AA Ex. 133.

58. **American's Proposals Are Necessary to Enable Sufficient Capital Investments in the Business.** To achieve these results, AMR must be able to make capital investments that are more in line with its historical levels. The Plan for Success envisions that AMR will make investments of $[redacted] billion over a 6-year period from 2012-2017, and has been structured to achieve the financial results that will enable AMR to attract this capital.

59. **AMR Will Repair Its Balance Sheet, But Will Continue to Face Challenges.** American will also need sufficient liquidity to continue to fund its current pension liabilities.

During Section 1113 negotiations, American agreed to freeze, rather than terminate, three of its four defined benefit pension plans.[22] This means that AMR will continue to carry significant pension funding obligations that will require AMR to raise additional capital to address this liability on its balance sheet. Even with the defined benefit plans frozen and additional capital, American faces a serious, unresolved pension funding situation beginning in 2019, with the expiration of legislation that has given airlines more "breathing room" by allowing pension obligations to be funded over longer time periods using favorable assumptions.[23] When these rules expire in 2019, American's pension funding requirements will jump to new levels:

[22] AMR is also working with the APA and the Pension Benefit Guaranty Corporation to accomplish the same goal for the pilots' defined benefit plan. Declaration of Jeffrey Brundage ¶ 43 and n.26.

[23] Pension Protection Act of 2006, Pub. L. No. 109-280, Sec. 402, *as amended by* The U.S. Troop Readiness, Veterans' Care, Katrina Recovery, and Iraq Accountability Appropriations Act, 2007, Pub. L. No. 110–28, Sec. 6615

60. **Liquidity Necessary To Sustain the Business.** The business plan has also been structured to ensure that AMR maintains a sufficient amount of liquidity to fund its obligations as they come due. As noted, in the past decade, AMR borrowed heavily to fund losses, finance aircraft acquisitions and contribute to its pension plans, to the point that nearly all of its assets are encumbered. Additionally, to make the investments that are necessary to its reorganization, AMR will remain leveraged at relatively high levels.[24] AMR's liquidity will thus continue to be maintained primarily in the form of cash. AMR must also maintain sufficient cash flows to service its debt and pay its obligations as they come due.

61. Labor costs at American are by far the largest of AMR's costs that are actually within the control of the business. Unless American can bring these costs down to sustainable

[24] *See* Declaration of David L. Resnick in Support of Motion to Reject Collective Bargaining Agreements, ¶ 13-14 ("**Resnick Decl.**").

levels, AMR will not be able to maintain liquidity levels appropriate to sustain its business. American's viability would be especially vulnerable to the short-term shocks that invariably affect the airline industry, including spikes in fuel prices and exogenous events that can depress demand (i.e., war, terrorism, disease, economic downturns or natural disasters) and quickly affect revenues. Resnick Dec. ¶¶ 21-23. Put another way, without a competitive and sustainable labor cost structure at American, AMR cannot emerge from Chapter 11 and survive as a competitive, thriving company in the current business environment.

62. **American Projects a Return to Profitability.** With the relief sought in this motion,[25] AMR expects to return to profitability in 2012 and, by 2014, to realize earnings and positive margins necessary for a successful and sustainable operation.

IV. CONCLUSION

63. American, with the assistance of its financial advisors and industry experts, has formulated a sound business and strategic plan based on a capital and cost structure that will

[25] As revised during our Section 1113 negotiations, the business plan assumes that all labor cost reductions are approved (or ratified), effective and in place prior to July 1, 2012 and that a freeze of our four defined benefit plans becomes effective on the same date.

maximize value and, most importantly, assure American's long term viability in an increasingly competitive market. If, however, American cannot modify its collective bargaining agreements as requested in the 1113 Motion, it will not be in a position to realize the revenues, maintain the liquidity and generate the profitability to achieve the business plan and successfully reorganize.

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

Executed this 11th day of April, 2012.

/s/ Beverly K. Goulet
BEVERLY K. GOULET
AMR Corporation

AA Exhibit 0129A
Filed Under Seal

AA Exhibit 0132A
Filed Under Seal

AA Exhibit 0135A
Filed Under Seal