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

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

PART THREE: APFA—FLIGHT ATTENDANTS

* admitted *pro hac vice*

** *pro hac vice* admission pending

TABLE OF CONTENTS

I. INTRODUCTION 1

II. AMERICAN AND APFA HAVE FAILED TO REACH A CONSENSUAL AGREEMENT 4

 A. Pre-Petition Negotiations 4

 B. Section 1113 Negotiations 5

III. AMERICAN’S FINAL SECTION 1113 PROPOSALS ADDRESS A SIGNIFICANT COMPETITIVE DISADVANTAGE 8

IV. PROPOSED CHANGES TO FLIGHT ATTENDANT COMPENSATION 13

 A. How Flight Attendants are Paid 13

 B. Section 1113 Compensation Proposals 14

 1. Elimination of Incentive Pay 14

 2. Create a Single Base Rate Scale and International Override 15

 3. Clarify Pay Status on “Brake Release” Events 16

 4. Eliminate Domestic Coach Galley Pay 17

V. PROPOSED CHANGES TO FLIGHT ATTENDANT WORK RULES 18

 A. The Flight Attendant Workforce and Bases 18

 1. The Flight Attendant Seniority List Includes Active and Non-Active Flight Attendants 18

 2. Domestic and International Bases 18

 3. Training and Qualifications 19

 B. Scheduling Flight Attendants 19

 1. Regular Flight Attendants (“Lineholders”) 19

 2. Reserves 20

 C. The “Low-time Flier” Phenomenon 21

 D. Section 1113 Work Rule and Productivity Proposals 23

1.	Increase the Maximum Number of Scheduled Hours.....	23
2.	Increase Flexibility in Flight Time Scheduling	25
3.	Reform Pay and Credit “RIGs” and On-duty Limits	26
4.	Implement a Preferential Bidding System	28
5.	Permit Greater Company Discretion on Staffing Matters.....	31
6.	Establish a New Threshold for Sick and Vacation Time Benefits.....	33
7.	Change Vacation Pay to Hourly Rate; Cap “Personal Vacation Days”.....	34
8.	Modify Sick Leave Policy	36
9.	Institute Hours Minimum for Continued Employment.....	37
10.	Preference Airport Hotels for Layover Accommodations	38
VI.	PROPOSED MODIFICATIONS TO FLIGHT ATTENDANT BENEFITS	39
1.	Modifications to group life and health benefits	39
2.	Modifications to retirement plan.....	41
VII.	CONCLUSION.....	41

I. INTRODUCTION

American Airlines, Inc.’s (“**American**” or “**the Company**”) Memorandum in Support of Debtors’ Motion to Reject Collective Bargaining Agreements Pursuant to 11 U.S.C. § 1113 (“**Main Brief**”), filed simultaneously with this document, addresses the applicable legal standards under 11 U.S.C. § 1113 (“**Section 1113**”) and the broader issues of what level of labor cost reductions are necessary for a successful reorganization. *See generally* Main Brief. This memorandum supplements that brief in order to address subjects relating only to the flight attendant collective bargaining agreement, including American’s bargaining history with the Association of Professional Flight Attendants (“**APFA**” or the “**Union**”) and the terms of American’s Section 1113 proposals to APFA.¹

American’s Section 1113 proposals to APFA before this Court are summarized as follows, and are explained in detail in Sections IV, V, and VI below.

- **Compensation.** American proposes no reduction in its hourly pay rates for flight attendants—top of scale rates (which apply to more than 80% of American’s current flight attendants) would remain tied for second-highest among the large network carriers.² American does propose to establish its current domestic rate as the new base rate for both domestic and international operations, and to implement an hourly premium for international flying consistent with those in place at other large network carriers. American also proposes to eliminate its 15% incentive pay premium for hours over 70 per month (which none of its

¹ Much of the factual support for this memorandum is found in the Declaration of Taylor M. Vaughn (“Vaughn Decl.”), attached as AA Ex. 1000. The flight attendant collective bargaining agreement consists of an agreement dated September 12, 2001, as modified by a “Restructuring Participation Agreement” dated May 1, 2003; these two documents (collectively, the “**APFA CBA**”) are AA Exs. 1001 and 1002.

² The term “large network carriers” refers to American, Delta (recently merged with Northwest), United (recently merged with Continental) and US Airways. These airlines are the surviving set of large carriers, most of which were established long before deregulation, that operate on a “hub and spoke” traffic model, service a wide variety of both domestic and international destinations using multiple aircraft types, and have workforces relatively more senior than the newer entrants. Declaration of Daniel M. Kasper (“Kasper Decl.”), attached as AA Ex. 1, ¶ 6 n.7.

competitors' contracts provide), and eliminate a coach galley pay premium that was tied to work that is no longer performed.

- **Work Rules.** American proposes to alter its flight attendant work rules so as to enable it to increase flight attendant efficiency and productivity. Flight attendants may be required to fly more hours in a day or more days in a month, but their compensation would increase accordingly.
- **Medical Benefits.**³ American proposes to increase the amount that flight attendants contribute to the cost of their medical coverage, and eliminate the requirement that American provide medical coverage for its currently active flight attendants when they retire. These changes will align flight attendant benefits with those currently provided to American's non-union employees and more closely align them with benefits, and rates of contribution, applicable at the companies with which American competes.
- **Pension Benefits.** American proposes to freeze its flight attendant defined benefit pension plan—a benefit virtually unknown in the airline industry today—and to replace it with a defined-contribution plan.

American is also proposing to make the following changes to the APFA CBA that will become effective once the Company has reached a consensual agreement with the Union:

- **Profit Sharing.** American proposes a “first-dollar” profit sharing plan that will pay out 15% of profits to employees.
- **Salary Enhancement.** American proposes to increase the base rate of pay for flight attendants by 1.5% beginning 12 months after the date on which a consensual agreement is signed, followed by additional 1.5% increases each of the four years thereafter.
- **Defined Contribution Plan Match.** American proposes to match individual flight attendants' contributions to its defined contribution 401(k) plan up to 5.5% of their eligible wages.

American's labor cost restructuring must be long-lasting to be effective; temporary “holidays” from the terms of its current, uncompetitive agreements will not fix the structural problems the carrier faces. To accomplish this goal, American has proposed that its new

³ The medical benefits, pension benefits and profit-sharing portions of these Section 1113 Proposals are part of the Universal Benefit Changes described in detail elsewhere. *See generally* Declaration of Carolyn E. Wright (“Wright Decl.”), attached as AA Ex. 600, ¶¶ 3-49.

contracts remain in place for six years, a duration long enough to allow for a full recovery of American's financial strength. In order to secure an equity infusion on emergence from Chapter 11, viable competitive costs will be a major consideration. Declaration of Jeffrey J. Brundage ("Brundage Decl."), attached as AA Ex. 500, ¶ 25.

Additional portions of this brief describe how these proposals were presented to APFA on February 1, 2012; how the Company has made itself available for negotiations continuously since presenting its proposals, and in fact has significantly altered its proposals in response to input from the Union; and how the Company has responded to dozens of information requests from APFA. In short, American has made every effort to achieve a consensual agreement that would provide for the cost reductions necessary to successfully reorganize pursuant to its Business Plan.

APFA's approach to the Section 1113 negotiations is best described in its own words. In January 2012, APFA's president stated "I don't see that the flight attendants have anything left to give," and that "[i]n 2003 we went through a virtual bankruptcy. We gave then, and that was supposed to be enough." AA Ex. 1023. Subsequently, *before American's Section 1113 proposals were presented to APFA*, APFA's president told American's negotiators that the Company was being "unbelievably outrageous and disingenuous" and that there was "no way in hell" that APFA would agree to American's proposals. Vaughn Decl. ¶ 42. On the day the Section 1113 proposals were presented, APFA's president told the flight attendants that American's proposals were "extreme and despicable" and that "we have no intention of coming out of this with anything resembling this term-sheet." AA Ex. 1028. The Union's actions since that time have been consistent with those statements: they have elected to meet with Company representatives in negotiation sessions on just 21 days since February 1, for a grand total of less

than 22 hours. Vaughn Decl. ¶ 57. And, far from focusing on the job of achieving the cost savings needed by the Company to successfully reorganize, APFA continually rejected the premise that such savings were even needed, instead preferring to treat Section 1113 proceedings as a mere extension of pre-petition bargaining by making counterproposals that would *cost* the Company money. *See, e.g.*, Vaughn Decl. ¶¶ 48, 55.

The remainder of this brief is organized as follows. Section II describes American’s collective bargaining with APFA, both pre-petition and post-petition. Section III discusses American’s flight attendant labor costs and how those costs compare to those of its competitors. Section IV discusses how flight attendants are paid and the Company’s proposals to modify certain discrete contractual provisions impacting compensation. Section V describes how flight attendants are scheduled, how the APFA CBA constrains flight attendant productivity, and the contractual modifications sought by American to ameliorate those restrictions and increase productivity. Finally, Section VI addresses the health, welfare and retirement benefits currently received by flight attendants and the modifications to those benefits proposed by the Company.

II. AMERICAN AND APFA HAVE FAILED TO REACH A CONSENSUAL AGREEMENT

A. Pre-Petition Negotiations⁴

A consensual agreement with APFA has been the Company’s preferred course since 2008, when the parties began bargaining under Section 6 of the Railway Labor Act to amend the APFA CBA.⁵ *See* Vaughn Decl. ¶ 61. American’s bargaining objectives during Section 6

⁴ A detailed recounting of the pre-petition negotiations is presented in the Vaughn Decl. ¶¶ 23-36.

⁵ The terms of collective bargaining agreements that are negotiated pursuant to the Railway Labor Act, 45 U.S.C. § 151 *et seq.*, typically remain in force even past their stated duration until a successor agreement is negotiated; these recurring negotiations are generally called “Section 6”

bargaining were straightforward: 1) continue to provide compensation comparable to, and often higher than, its large network carrier competitors; 2) materially increase productivity through work rule changes requiring flight attendants to fly more hours; 3) reduce the ability of some flight attendants to take advantage of loopholes in the contract in ways that further eroded productivity, and 4) require flight attendants to share in the cost of their health insurance at a rate approaching the level common for companies of American's size. *Id.* ¶ 29.

During Section 6 bargaining, APFA was focused on a single goal: recouping the “concessions” that the Company obtained in its 2003 out-of-court restructuring.⁶ In April 2008, APFA president Laura Glading explained the Union's approach to bargaining as follows: “We will be asking management to restore, with interest, all that we gave. It is imperative we send the message that we have sacrificed enough.” AA Ex 1021. After more than two years of bargaining failed to produce an agreement, Ms. Glading told the flight attendants that negotiations scheduled for January 2011 would “give the company one last chance to present a contract that recognizes the Flight Attendants' sacrifices. . . . It is time for real money to be put on the table or for the NMB to release the parties.” AA Ex. 1022. Not surprisingly, the parties did not reach an agreement and the NMB recessed its mediation.

B. Section 1113 Negotiations

American presented its initial Section 1113 proposals to APFA on February 1, 2012. Vaughn Decl. ¶ 39. On that day, the Company made a large-group presentation to all of the Unions in which it presented an overview of its Business Plan for a successful reorganization,

negotiations because they occur under the procedures established by Section 6 of the Railway Labor Act, *id.* at § 156.

⁶ Background on the 2003 cost reductions obtained by American is provided in the Declaration of Jeffery J. Brundage. Brundage Decl. ¶¶ 7-10.

including the total cost reductions it would be seeking to obtain from each labor group.

American proposed at that meeting to reduce its flight attendant costs by \$230 million per year,⁷ net of compounding,⁸ a reduction of 20% from its current flight attendant costs. *Id.* Later that day, American held smaller meetings with the individual Unions to discuss the specific modifications to the collective bargaining agreements American proposed to make in order to achieve those cost reductions. It was at the individual meeting held with APFA that Ms. Glading—without benefit of having seen American’s proposed changes to the APFA CBA—categorically rejected American’s proposals as “unbelievably outrageous and disingenuous” and told Company representatives that there was “no way in hell” the Union would agree to whatever American was about to put on the table. *See supra*; Vaughn Decl. ¶ 42.

In the days and weeks that followed, the Company followed up with a series of presentations on the details of its Business Plan, technical aspects of the various computer models which were used in developing the Business Plan, costing methodologies, and similar topics. American also responded to dozens of information requests and document requests from

⁷ All of American’s labor proposals to the Unions representing its employees were valued on an average annual basis over a six-year period. *See, e.g.*, AA Ex. 1004. All references to valuation herein are on the same basis, unless otherwise indicated.

⁸ Compounding recognizes that the proposed changes to work rules, benefits, compensation and headcount cannot be achieved in a vacuum. In evaluating the proposed changes to the APFA CBA, American evaluated each proposed change independently on the current population of employees, but also accounted for the interaction of proposed changes to avoid misstating the collective impact of the proposed changes. For example, reductions in headcount will also impact overall benefits costs (*i.e.*, because there are fewer employees receiving these benefits). Similarly, reductions from both a wage decrease and a reduction in vacation time would be somewhat less than the sum of the reductions from each individual change. For this reason, after determining the projected value of a contract change on a stand-alone basis, the Labor Model utilized to value American’s proposals adjusted for interactions to avoid double counting the projected cost reductions. Accordingly, the sum of the individual changes proposed by American, in its past and current Section 1113 proposals, is greater than \$230 million. This

APFA. The information-sharing process with APFA and the other Unions is described in detail in the Declaration of Denise Lynn (“Lynn Decl.”), attached as AA Ex. 1500.

Negotiations with APFA continued on an intermittent basis from February 1 through March 22, 2012.⁹ During these negotiations, the Company made a number of compromises to its proposals in response to concerns expressed by APFA, including: (1) substantially modifying a proposal to eliminate certain pay guarantees (known as “RIGs,” or “ratios in guarantee”); (2) modifying the Company proposal to terminate the flight attendants’ defined benefit retirement plan in favor of a pension “freeze”; (3) modifying the proposal on sick pay for reserve flight attendants; (4) modifying its proposed health care plan for active employees; and (5) modifying its proposal on the use of an automated scheduling system so as to permit the Union greater input into vendor selection and implementation. Vaughn Decl. ¶¶ 59-61; AA Exs. 1030, 1037-39. These concessions were not enough, however, to result in agreement with APFA.¹⁰

APFA’s primary focus in negotiations was instead on their “early out” counter-proposal whereby American would pay flight attendants an average of \$40,000 to leave the Company. Vaughn Decl. ¶ 48; AA Ex. 1029. Over time, APFA eventually did conditionally agree to certain terms proposed by American and came forward with counter-proposals as to others. In

process is discussed in more detail in the Declaration of Brian J. McMenemy (“McMenemy Decl.”), attached as AA Ex. 700, ¶ 12.

⁹ While Company negotiators indicated their availability “24/7” from February 1 forward, APFA representatives were only sporadically available for bargaining. Since February 1, only 21 actual bargaining sessions have occurred, lasting a total of less than 22 hours. Vaughn Decl. ¶ 57.

¹⁰ After American changed its proposal on RIGs, APFA originally acknowledged that the Company was willing to move from its original proposals, telling its membership that “American agreed with [APFA’s consultant] that it had to recalculate its terms sheet. Simply put, the Company recognized that it was demanding too much from the Flight Attendants.” AA Ex. 1035. Just a few days later, however, the Union made an abrupt about-face, and advised its membership that “[i]n response to APFA’s proposals AA has just said ‘no’ and not made a single counter-offer.” AA Ex. 1036.

total, however, those conditional agreements and counterproposals came nowhere near the level of cost reductions required by the Company. On March 22, 2012, the Union presented what it characterized as a proposal that would achieve the cost reductions needed by American. AA Ex. 1031. The net result of APFA's March 22 proposal, however, would have been a reduction in flight attendant labor costs far short of the \$230 million needed by the Company. Vaughn Decl. ¶ 56.

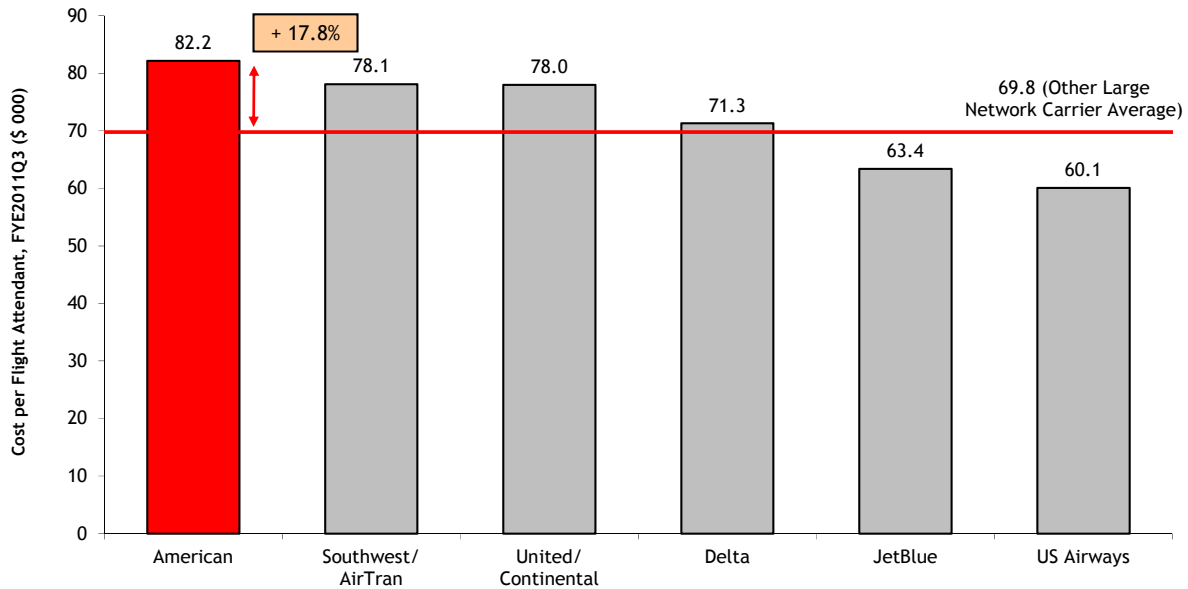
Despite APFA's harsh rhetoric and reluctance to participate at the bargaining table, a consensual agreement that meets the Company's critical business needs remains American's preferred course, and American remains eager to meet with APFA at any time to bargain. American will provide an updated report on the status of negotiations to the Court prior to the commencement of a hearing in this matter.

III. AMERICAN'S FINAL SECTION 1113 PROPOSALS ADDRESS A SIGNIFICANT COMPETITIVE DISADVANTAGE

American's total labor cost for flight attendants is now \$1.1 billion per year, some 18% of American's total labor cost. Brundage Decl. ¶ 26; AA Ex. 508. As is detailed in the attached Declarations of Daniel Kasper (AA Ex. 1), Beverly Goulet (AA Ex. 100), Virasb Vahidi (AA Ex. 200), David Resnick (AA Ex. 300), and Alex Dichter (AA Ex. 400), American's labor costs are unsustainable if the Company is to successfully reorganize. This is specifically true with respect to flight attendants, whose contractual labor costs are among the highest of all the large network carriers. *See, e.g.*, Kasper Decl. ¶ 96. As demonstrated by AA Ex. 58, American's average salaries and benefits per flight attendant are, using the most recent data available, 17.8% above the average of the other large network carriers:¹¹

¹¹ Additional detail regarding AA Exs. 58-61 is found at Kasper Decl. ¶¶ 96-100.

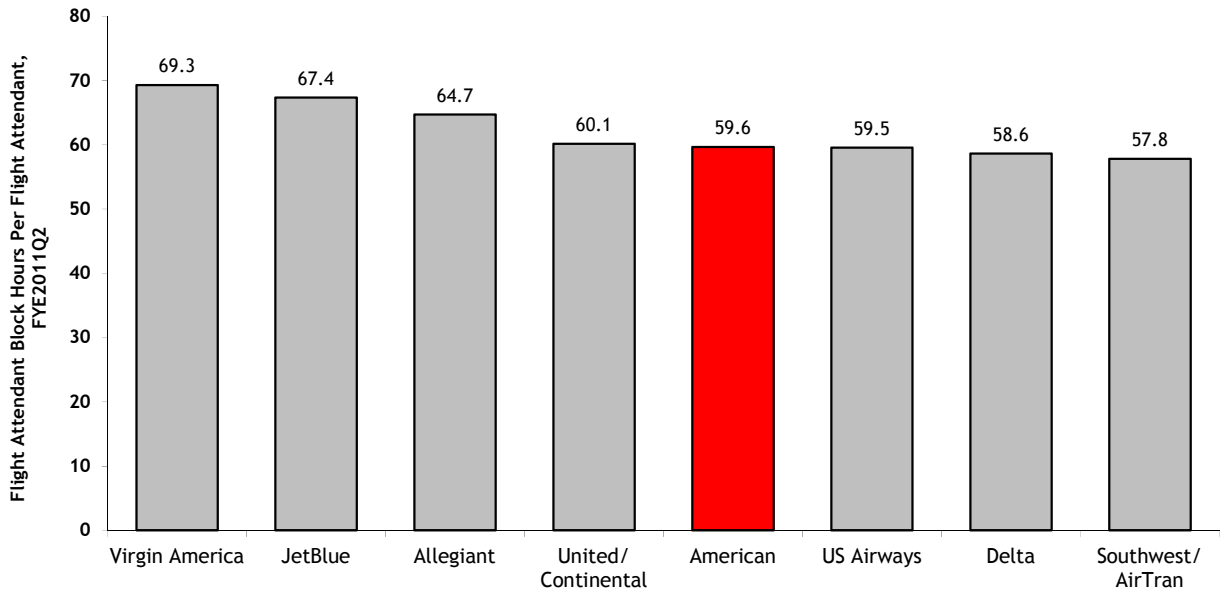
EXHIBIT 58: FYE 2011Q3 COSTS PER FLIGHT ATTENDANT



Unfortunately, American’s high flight attendant costs are not offset by high levels of productivity. As demonstrated by AA Ex. 59 below, American’s flight attendants fly an average of 59.6 block hours¹² per month, on par with the other large network carriers but substantially fewer hours per month than attendants at many low-cost carriers:

¹² “Block hours,” a standard measurement in the airline industry, refer to the time between when an aircraft begins to move for the purpose of flight and the time it comes to a halt at its destination gate. Vaughn Decl. ¶ 13 & n.8.

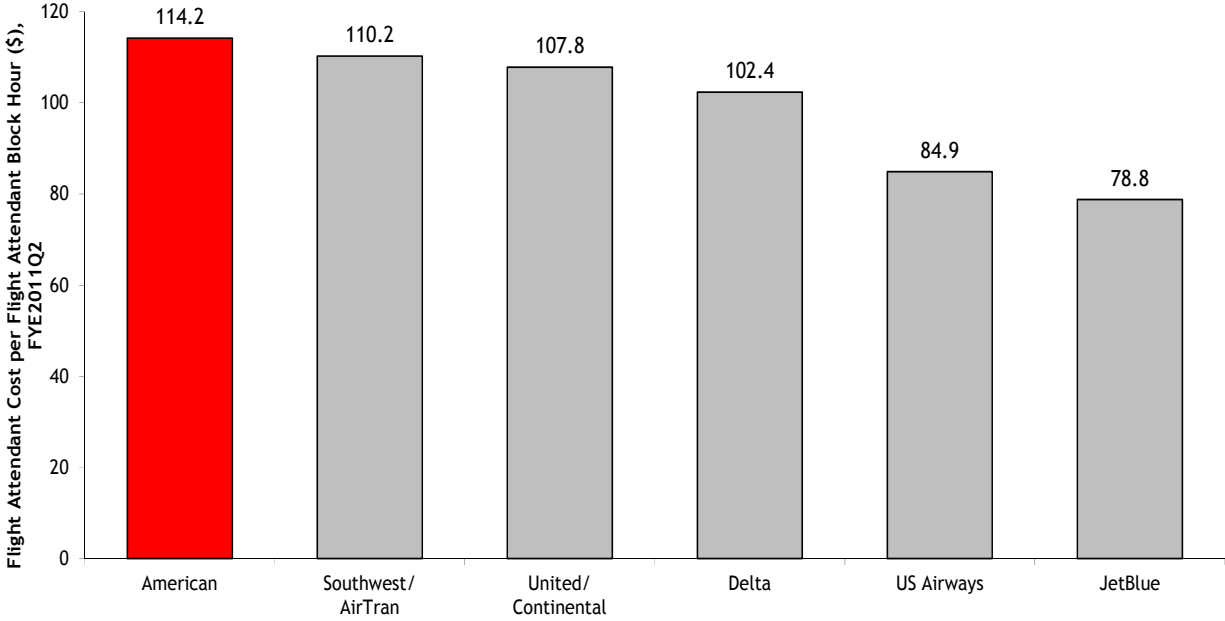
EXHIBIT 59: FYE 2011Q2 ESTIMATED BLOCK HOURS PER FLIGHT ATTENDANT



The combination of (1) flight attendant salaries and benefits that are among the highest in industry and (2) merely average levels of block hours per flight attendant means that American's flight attendant costs per flight attendant block hour are the highest in the industry.¹³

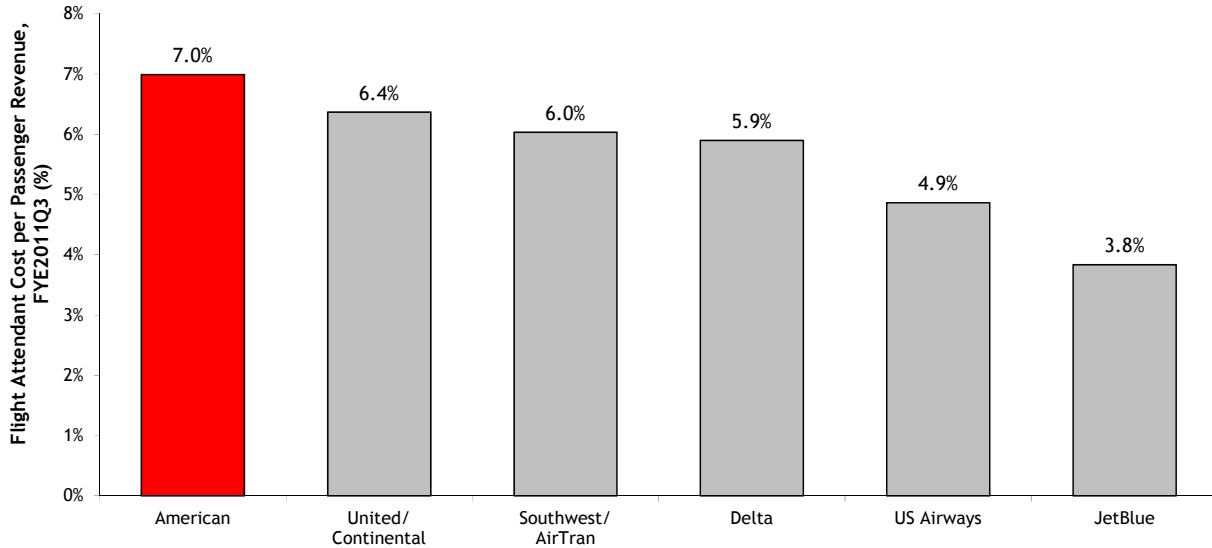
¹³Because flight attendants (unlike pilots) are paid the same hourly rate regardless of the type of equipment on which they fly, and because some carriers elect to use more than the minimum FAA-required flight attendant-to-seat ratio of one flight attendant per 50 seats, a standard way to compare flight attendant costs across carriers is on a per flight attendant (rather than aircraft) block hour basis. Kasper Decl. ¶ 98 & n.111.

EXHIBIT 60: FYE 2011Q2 COSTS PER FLIGHT ATTENDANT BLOCK HOUR



Moreover, American's high flight attendant costs are not offset by higher revenues. As demonstrated by Exhibit 61 below, American's flight attendant costs as a percentage of revenue are also the highest in the industry:

EXHIBIT 61: FYE 2011Q3 FLIGHT ATTENDANT COSTS AS A PERCENTAGE OF REVENUES



In sum, American’s high flight attendant labor costs are not offset by either higher levels of productivity or higher unit revenues. Because American has little control over its revenues, it is critical that American’s flight attendant labor costs be reduced to more competitive levels in order to successfully reorganize and become a viable long-run competitor both domestically and abroad.

American, notwithstanding its highly competitive wage rates, is operating under an antiquated and inefficient pay system. Declaration of Jerrold A. Glass (“Glass Decl.”), attached as AA Ex. 800, ¶¶ 21-22, 128-145. Under that system, the unit cost of a flight attendant block hour *increases* when a flight attendant reaches a certain level of productivity. *See* Vaughn Decl. ¶ 67. In addition, the APFA CBA includes a number of significant work rules that severely limit the Company’s ability to increase flight attendant efficiency regardless of unit cost. Finally, the APFA CBA requires active and retiree medical insurance, and retirement benefits, that are far more costly than those provided by its competitors.

IV. PROPOSED CHANGES TO FLIGHT ATTENDANT COMPENSATION

A. How Flight Attendants are Paid

American's flight attendants are paid an hourly wage for each "credit" hour, as specified in the APFA CBA, at a rate tied to their length of service as a flight attendant with American. Vaughn Decl. ¶ 12. Under the APFA CBA, a flight attendant at the top of the wage scale (i.e., one who has at least 15 years of service as a flight attendant with American, a benchmark that has been reached by more than 80% of American's flight attendants) is paid a base rate of \$46.00 per credit hour for domestic trips. *Id.*; APFA CBA at Article 3.A. A flight attendant at the top of the scale who is assigned to international operations is paid a base rate of \$49.14 per credit hour. Vaughn Decl. ¶ 12; APFA CBA at App'x I, Article 3.A.

Flight attendant "credit hours" include both time spent actually flying on an airplane (known as "block hours" or "hard hours"), plus additional "credit" time created pursuant to formulae set forth in the APFA CBA (known as "soft hours"). Vaughn Decl. ¶ 13. Under the APFA CBA, credit hours start when a flight attendant signs in (normally one hour prior to departure) and end following the "debrief period" (15 minutes for domestic flights and 30 minutes for international flights) after arrival on the final leg of the day. In addition, the "RIGs" provide minimum levels of pay credit in various situations; the "duty RIGs," for example, provide that flight attendants will receive a minimum of 3 hours of credit for every day they work, and an average of 5 hours of credit for every day they work on a multi-day trip. APFA CBA at Article 8.A. If the actual flying time produces sufficient credit to satisfy the RIG provisions, then the RIGs have no impact; if the actual flying time does not produce the minimum level of credit, then the RIGs require the Company to pay the flight attendant as if the flight attendant's schedule had more hard time flying in it. For international flight attendants, the

RIGs pay out at the higher international hourly rate even though no actual flying—let alone international flying—is taking place. Vaughn Decl. ¶ 15.

B. Section 1113 Compensation Proposals

At the top of the scale, American's pay scale for both domestic and international flight attendants is second-highest among the large network carriers, even taking into account the recent flight attendant agreement ratified at United Airlines and the one pending ratification at US Airways. Vaughn Decl. ¶ 12; Glass Decl. ¶¶ 129-30, 135.

American has not proposed to reduce flight attendant base pay rates.¹⁴ Rather, American's philosophy in seeking a cost reduction from its flight attendants has been to propose modifications to the APFA CBA that *increase* the number of hours worked by its flight attendants on a *per capita* basis, while decreasing the credit hours associated with non-flying time. This approach not only reduces total costs to the Company, but permits flight attendants to maintain their take home pay. *See* AA Ex. 1042. Following implementation of these proposals, American's flight attendant compensation practices will be similar to those of its large network competitors. Glass Decl. ¶ 22.

1. Elimination of Incentive Pay

American does propose to eliminate a 15% per hour incentive premium currently paid for credit hours over 70 per month. Such a premium is costly and counterproductive in the current economic climate, and similar provisions at other large network carriers have been eliminated.¹⁵ Moreover, many of the cost reductions that American proposes to achieve through changes to the

¹⁴ By way of comparison, the other large network carriers all cut flight attendant wage rates significantly during their restructurings. Glass Decl. ¶ 132 & n.104.

¹⁵ The most recent agreements signed between Northwest, United, and US Airways and their flight attendants do not have incentive pay scales. *See* Glass Decl. ¶ 139.

APFA CBA's work rules *depend* on the elimination of the incentive pay scale. For example, unless the incentive premium is eliminated, American will not realize a cost reduction from increasing the monthly schedule maximum, because it would be paying for a flight attendant's additional scheduled hours at premium rates.¹⁶ Eliminating the incentive pay premium will save the Company approximately \$17 million per year.¹⁷

2. Create a Single Base Rate Scale and International Override

Under the APFA CBA, there are separate physical bases and pay scales for American's "domestic" and "international" flight attendants. Vaughn Decl. ¶¶ 6, 12. This creates significant operational inefficiencies as the result of the Company's need to maintain separate bases and reserve lists for each division. American proposes to combine its domestic and international flight attendant operations, and to create a single base rate scale that applies to all flight attendants. Flight attendants who work on international flight segments would then receive an "international override" of up to \$3.14 per hour, depending on seniority, for those flight segments. *Id.* ¶ 40.

Consistent with American's desire to protect flight attendants' take-home pay, American's proposed overrides would apply in such a way that the impact on current flight

¹⁶ As discussed in the Section 1113 bargaining history section of the Vaughn Declaration, APFA expressly rejected American's proposal to eliminate incentive pay *after* it had generally accepted the Company's proposal to increase the schedule maximum. Vaughn Decl. ¶ 67 & n.35. Refusing to eliminate incentive pay effectively negates the cost reductions generated by increased the maximum scheduled flight hours. *Id.* ¶ 67.

¹⁷ The methodology by which American has calculated the cost reductions associated with specific changes to the APFA CBA is explained in the Declaration of Brian McMenemy. McMenemy Decl. ¶¶ 51-70.

attendants' take-home pay will be minimized.¹⁸ Vaughn Decl. ¶ 66. Just as American's pay scales increase with seniority, the differentiation with respect to the override reasonably distinguishes between senior flight attendants and their junior counterparts. This approach is also consistent with that in place at American's competitors. Glass Decl. ¶¶ 134, 137. This change is projected to result in cost reductions of \$1 million per year.

3. Clarify Pay Status on "Brake Release" Events

Currently, American has "brake release agreements" with both its pilots' union and APFA in order to provide an incentive for pilots to conserve fuel. Vaughn Decl. ¶ 69. Because pilots and flight attendants are paid, in part, for block hours (which begin when the aircraft has pushed back from the departure gate), they are motivated to leave the gate as soon as the aircraft is ready for departure. Ramp congestion or air traffic control delays, however, can mean that the aircraft will only sit on the tarmac burning fuel after push-back. The brake release agreement, then, provides that the "pay clock" for pilots and flight attendants will begin when the aircraft is ready for departure, even though the aircraft has not pushed back from the gate. As a result, pilots and flight attendants are paid to remain at the gate (attached to an auxiliary power unit rather than burning fuel) until the delay is over. Over time, however, the activities covered with these agreements have expanded to include, for example, de-icing time away from the gate, then de-icing time at the gate. American seeks to limit the creeping expansion of this definition and to provide pilot and flight attendant brake release pay only for delays due to air traffic control and de-icing at locations away from the gate.

¹⁸ Under the current CBA, flight attendants who work trips containing a mixture of domestic and international flight segments are paid at international rates for the entire trip. Vaughn Decl. ¶ 66. Under the proposal, the override would apply only to international flight segments.

American's proposal is reasonable, because when an aircraft must remain at the gate due to de-icing the aircraft cannot, by definition, push back from the gate. American therefore does not need to provide incentives for the flight crew to remain at the gate in order to save on fuel costs, and the purpose of the CBA is not served by extending flight pay status to include those situations. American would continue to pay flight attendants in the same way as pilots, for delays caused by air traffic control and other holds that are consistent with the spirit of the CBA, but would save \$1 million per year due to the proposed clarification.

4. Eliminate Domestic Coach Galley Pay

American's flight attendants presently receive a premium of \$0.63 per hour for working certain "galley" positions—*i.e.*, those that nominally involve food and/or beverage service. APFA CBA at Article 3.S. American proposes to eliminate that premium in the coach cabin on domestic flights, while keeping it in place in the first class cabin and on international flights in all cabins.

The current premium is a throwback to a time when food and beverage service was much more extensive and significantly more burdensome on flight attendants. *See* Vaughn Decl. ¶ 68. In recent years, airlines have drastically cut these services on domestic flights, particularly in coach class; now, none of American's network competitors provide premium pay for the domestic coach galley position.¹⁹ Glass Decl. ¶ 144. Because international flights still require significant additional duties from galley positions, the premium would remain intact for those trips as fair compensation for work actually performed. Elimination of domestic coach galley

¹⁹ APFA refused to agree to the Company's proposal to eliminate coach galley pay—pay for work that flight attendants no longer even perform. Vaughn Decl. ¶ 68.

pay, by contrast, merely reflects an adjustment to match the lesser duties required of a flight attendant on domestic flight segments, and would save the Company \$0.4 million per year.

V. PROPOSED CHANGES TO FLIGHT ATTENDANT WORK RULES

A. The Flight Attendant Workforce and Bases

1. The Flight Attendant Seniority List Includes Active and Non-Active Flight Attendants

There are currently approximately 16,400 flight attendants on the American Airlines flight attendant seniority list, but only 15,500 of these flight attendants are “active,” meaning that they are available for flight duty. Vaughn Decl. ¶ 5. The remainder of the flight attendants on the seniority list are inactive due to either (a) various forms of leave (such as disability leaves, personal leaves, or voluntary overage leaves) or (b) furlough status. Two hundred and seventeen flight attendants are on the Company’s “recall list,” meaning that they have been involuntarily furloughed from active service, though they retain recall rights to return to active service as opportunities occur due to growth of the flight operations or attrition of other flight attendants. *Id.*

2. Domestic and International Bases

Each flight attendant is assigned to one of the Company’s flight attendant bases, which are located at Boston’s Logan International Airport (“**BOS**”), Ronald Reagan Washington National Airport (“**DCA**”), Dallas-Fort Worth International Airport (“**DFW**”), Los Angeles International Airport (“**LAX**”), New York’s LaGuardia (“**LGA**”) and John F. Kennedy International (“**JFK**”) Airports, Miami International Airport (“**MIA**”), Chicago’s O’Hare International Airport (“**ORD**”), Raleigh-Durham International Airport (“**RDU**”), San Francisco International Airport (“**SFO**”), and Lambert-St. Louis International Airport (“**STL**”). American’s bases at BOS, DFW, LAX, MIA, and ORD are separated into domestic and

international operations,²⁰ DCA, LGA, SFO and STL are domestic-only bases, and JFK and RDU are international-only bases. Vaughn Decl. ¶ 6.

3. Training and Qualifications

Unlike pilots, flight attendants can be trained on multiple aircraft types relatively quickly, and hence a given flight attendant can be assigned to almost any aircraft in American's fleet. Vaughn Decl. ¶ 6. At present, individual flight attendants are designated as "domestic" or "international." Domestic flight attendants work only on trips that are operated entirely in American's domestic operations. International flight attendants work primarily on trips that are assigned to American's international operations. As explained below, American's complement of "reserve flight attendants" is likewise designated as either domestic reserves or international reserves.

B. Scheduling Flight Attendants

1. Regular Flight Attendants ("Lineholders")

Assigning work schedules to flight attendants is a complex process. On any given day, American operates thousands of flights with hundreds of aircraft. Vaughn Decl. ¶ 7. Multiple individual flights are combined by American into "trips" of one to three days in duration for domestic operations and one to six days for international operations. *Id.* Each trip normally begins and ends at the same flight attendant base, and the same flight attendant crew is normally scheduled to work a given trip from start to finish. In between the beginning and end of a trip, a flight attendant's schedule may have a number of intermediary stops and one or more nights away from home, called "layovers." *Id.*

²⁰ American's domestic operations include all flights operating exclusively within the contiguous 48 states, Canada, and Alaska, and flights to and from certain destinations in Mexico; international operations include any flight that operates outside of those boundaries.

Within each flight attendant base, active flight attendants bid each month for their choice among the next month's work schedules, also known as "lines of time," with bids being awarded on the basis of seniority. Vaughn Decl. ¶ 8. Lines of time are a month's worth of trips bundled together by the Company's scheduling department so as to utilize a flight attendant as efficiently as possible while remaining within certain parameters established by the Federal Aviation Administration and/or the APFA CBA.²¹ Lines of time vary in many meaningful respects, including the length of the individual trips contained therein, the number of working hours scheduled, the destinations, and the number of days off between trips. Flight attendants who are scheduled to fly a line of time during a given month are called "lineholders." *Id.*

2. Reserves

Variables such as sickness, operating delays, and other issues make it necessary for every airline to maintain a complement of flight attendants available to cover trips that have unexpected flight attendant vacancies. The members of this complement are referred to as "reserves." Pursuant to the APFA CBA, American requires each one of the juniormost 50% or so of its currently active flight attendants to spend one out of every four months on "reserve duty."²² Vaughn Decl. ¶ 9. Reserve flight attendants also bid on monthly schedules, but the reserve schedules do not include specific trips—only the days when a reserve will be on call to work a trip that has unexpectedly been left uncovered. As with a lineholder's monthly schedule,

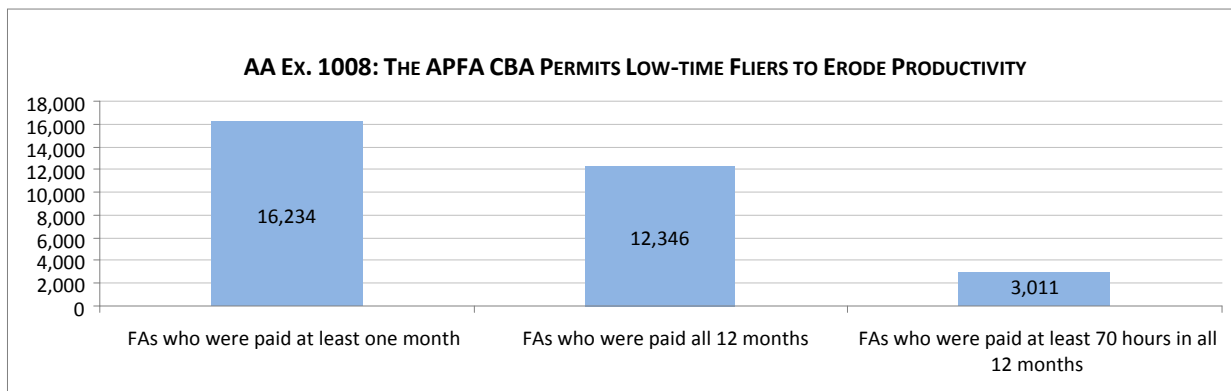
²¹ The last trip in any given line of time often begins in one month and ends in the next. Hence a flight attendant might bid in October for a November line of time that includes, among other trips, one that begins in late November and ends in early December.

²² The APFA CBA requires that newly hired flight attendants spend one out of every two months on reserve duty for their first three years of employment. APFA CBA at Article 10.S.1.a. This provision is largely academic, however, because the Company has not hired a new flight attendant in 11 years.

the Company constructs groupings of reserve days that conform to restrictions contained in the APFA CBA. *Id.*

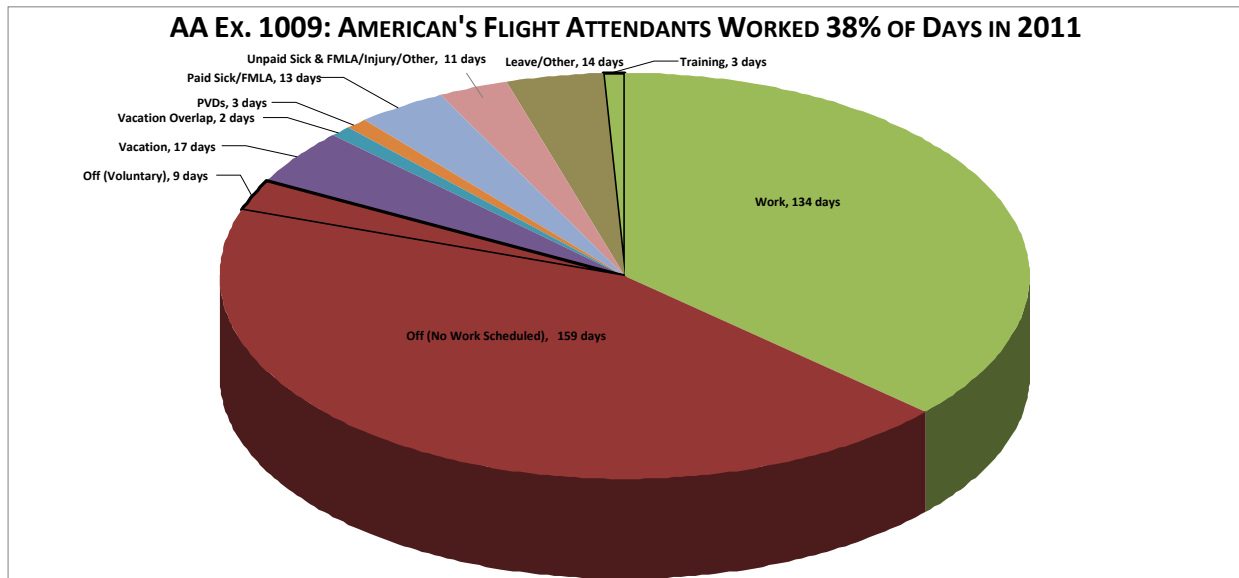
C. The “Low-time Flier” Phenomenon

The fact that a flight attendant is listed as active does not mean they are necessarily in active service or working a “full” monthly schedule. Under the APFA CBA, flight attendants are not required to work any minimum number of hours to remain actively employed at American. The minimum number of credit hours they are required to work in order to retain their “fixed benefits”—Company-subsidized health benefits, vacation pay, and sick pay—is just 420 per year,²³ and flight attendants receive travel pass privileges even if they work no hours at all. Vaughn Decl. ¶ 21. Therefore, while there are many hardworking flight attendants who fly as often as they can, many others fly only as much as is required for them to obtain benefits, and no more. Unfortunately, American pays just as much in fixed benefits for one of these “low-time fliers” as it does for a more productive worker, making them far less cost-effective to keep on the active roster. AA Ex. 1008 below illustrates the extent to which low-time fliers predominate in American’s flight attendant workforce:



²³ Flight attendants who are inactive for any part of the year are required to work an average of 35 hours per active month to qualify for their fixed benefits.

Of the 16,234 flight attendants who received pay in at least one month of 2011, only 76% actually received pay in each month during 2011, while just 19% were paid for more than 70 hours in each month of the year. Viewed another way, the average flight attendant worked (or was in training) only 137 days in 2011, or 38% of the year:



Meanwhile, the typical flight attendant receives about \$45,000 in salary, \$3,100 in *per diem* payments, a health plan more than 90% subsidized by American, a defined-benefit pension plan, 23 days of vacation, and 36 hours of sick time accrual, as well as travel pass privileges. Vaughn Decl. ¶ 21. Moreover, because the APFA CBA does not currently have a minimum hours threshold for a flight attendant to remain active, flight attendants are free to bid on lines of time or reserve days, give them away or sell them, and fly no hours whatsoever secure in the knowledge that, if they want to fly in future years, they can do so at their option. Thus the low-time flier phenomenon is a direct result of contractual provisions that provide little or no deterrents to such behavior, and requires American to carry far more flight attendants than necessary.

D. Section 1113 Work Rule and Productivity Proposals

American's work rule and productivity proposals are critical to achieving the cost reductions it needs. Nevertheless, even after implementation of these proposals, American's flight attendant work rule and productivity practices will be similar to those of its large network competitors. Glass Decl. ¶ 24.

1. Increase the Maximum Number of Scheduled Hours

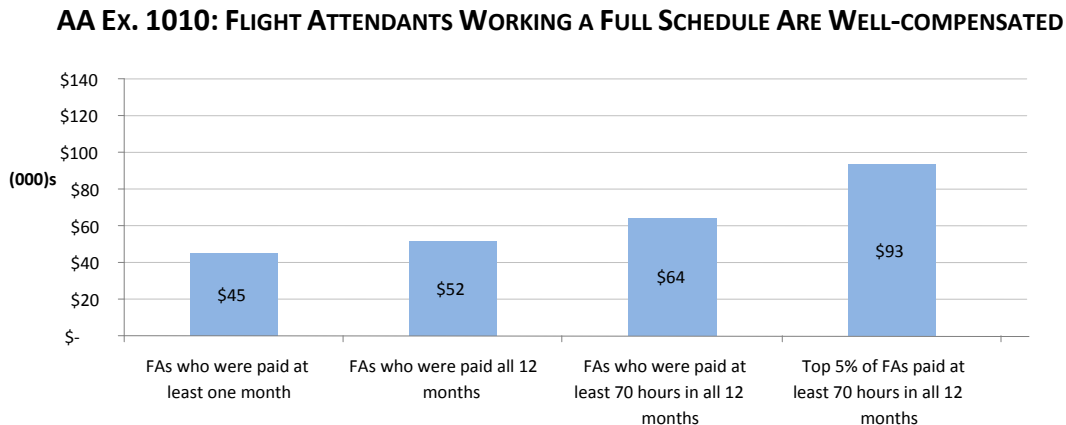
Articles 7.A and 7.B of the CBA govern the maximum number of hours that a flight attendant can be scheduled in any given month and the number of "actual" hours that the flight attendant can work in a month, respectively. Currently, the Company cannot schedule a domestic lineholder flight attendant for more than 77 hours per month (82 in some limited circumstances), and the maximum number of "actual" hours that the company can require a flight attendant to work is 80. The maximum scheduled and actual hours for international lineholders, set forth at Appendix I, Articles 7.A and 7.B of the APFA CBA, are 82 (87 in some limited circumstances) and 85, respectively. American proposes to change the scheduled and actual monthly maximum hours for both domestic and international lineholders to 100. This would allow the Company to build far more efficient lines of time and make it possible for a flight attendant to earn more if they choose to do so. *See* Vaughn Decl. ¶ 71; AA Ex. 1042.

The contractual monthly limitation on a flight attendant's scheduled hours needlessly complicates scheduling and restricts the Company from utilizing flight attendants who want to fly more hours and can do so safely. This limitation forces American to artificially shorten lines of time and keep more flight attendants on the payroll than would otherwise be necessary. Vaughn Decl. ¶ 72. By increasing the monthly hours limit, American's proposal would permit it

to staff its current network with up to 1,600 fewer flight attendants. *Id.* This will enable the company to realize cost reduction in the amount of \$32 million per year.²⁴

The increase in the number of hours being built into scheduled lines of time is consistent with American's goal of maintaining flight attendant take-home pay. Although American is not decreasing its flight attendants' hourly rate, its proposed changes to incentive pay and benefits might, if not counteracted by additional hours of pay, lower the actual amount paid to individual flight attendants. American cannot, of course, force flight attendants to take advantage of the opportunities these longer lines of time represent. But for those flight attendants who are willing to work more, the opportunities will be there. And again, even after the proposed increase, American's scheduled hours provision would be within industry norms. Glass Decl. ¶ 150.

Moreover, flight attendants who do choose to work a full schedule are well compensated for their efforts:



²⁴ Significantly, American has calculated that an increase in the monthly maximum will result in an *average* line of time of around 85 hours per month, as compared to the current line average of 75 hours per month. Vaughn Decl. ¶ 71. Hence opportunities will remain for flight attendants to bid on lines that are well under 100 hours per month if they so choose.

As AA Ex. 1010 above indicates, flight attendants who choose to work at least 70 hours in every month of the year make an average of \$64,000 annually. Vaughn Decl. ¶ 22. Because American is not proposing to change the base rate at which it compensates flight attendants, an increase in the monthly maximum (and corresponding increase in the amount of flying per capita that flight attendants do) will serve to *increase* flight attendant wages, offsetting the proposed elimination of incentive rates and the proposed increase in health insurance rates.

2. Increase Flexibility in Flight Time Scheduling

Article 7 of the APFA CBA also provides that domestic flight attendants may not be scheduled to fly more than 30 hours of actual flight time in any seven consecutive days, and may not be scheduled for duty aloft for more than eight hours and 59 minutes in any duty period.²⁵ When combined with all of the other scheduling restrictions contained in the APFA CBA, these limitations force American to employ more flight attendants than it would otherwise need in order to staff its flights adequately. The limitations construct an elaborate series of hoops through which the Company must pass, for reasons that have nothing to do with safety or adequate customer service—as is demonstrated by the fact that American’s *international* flight attendants are not subject to the “30 in seven” requirement at all, and have duty aloft limitations several hours higher than their domestic counterparts.²⁶ Vaughn Decl. ¶ 73.

²⁵ A flight attendant’s “duty period” begins at the time the flight attendant reports for duty prior to flight or the reporting time established by the Company (usually one hour before scheduled departure), whichever is later, and ends after a post-flight period specified by the Company (usually 15 minutes for domestic operations and 30 minutes for international operations). Vaughn Decl. ¶ 13. American’s proposal to change the APFA CBA’s requirements as to the maximum length of duty periods is discussed *infra* at Section V.D.3. “Duty aloft” refers to the time during which a flight attendant is assigned as a member of an airplane crew during actual flight time. Vaughn Decl. ¶ 74.

²⁶ Appendix I, Article 7.K of the APFA CBA provides that international flight attendants engaged in “non-long-range flying” may be scheduled for up to 12 hours of duty aloft. Those

Additionally, these restrictions are in many ways redundant. American's flight attendants are already guaranteed minimum break/layover times between duty periods, at least one 24-hour break in every seven-day period, and at least five separate periods of 48 consecutive hours free from all duty at his or her home base during each contractual month.²⁷ APFA CBA at Article 7.L, 7.I, 7.N. The ultimate result of the domestic "30 in 7" and duty aloft restrictions is merely to needlessly complicate American's scheduling process and force it to carry additional flight attendants. Removal of the "30 in 7" restriction will reduce American's costs by \$5 million per year, whereas removal of the duty aloft restriction will reduce American's costs by \$3 million per year.

3. Reform Pay and Credit "RIGs" and On-duty Limits

American proposes to revise the following "RIGs" that generate pay and flight time credit for flight attendants in circumstances where they are not actually working:

- **Minimum Day RIG.** Article 8.A of the APFA CBA provides that a flight attendant must receive at least three hours of pay and credit for each individual duty period within a two-day or longer trip, even if he or she does not actually work those hours.
- **Average Day RIG.** Similarly, Article 8.A of the APFA CBA also provides that a flight attendant must receive an average of at least five hours of pay and credit for each individual duty period within a two-day or longer trip, even if he or she does not actually work those hours.

By requiring the Company to pay flight attendants for time they are not actually working, RIGs contribute significantly to the Company's flight attendant cost per block hour. *See* Vaughn Decl. ¶ 15. American proposes to reduce the RIGs found in Article 8.A—the minimum day and

who engage in "long-range flying" or "extended long-range flying" may be scheduled for more than 12 hours of duty aloft.

²⁷ American has proposed to alter the latter of these so that the five 48-hour duty-free periods would change to ten 24-hour periods.

average day RIGs—to two hours and four-and-a-half hours, respectively.²⁸ Because American is alone among the large network carriers in having both an “average day” and a “minimum day” RIG, and because its “average day” RIG is currently among the highest of the large network carriers, its proposed changes so not significantly undercut industry practice. *See* Glass Decl. ¶¶ 154-55.

Article 7.K of the APFA CBA sets forth maximums for scheduled and actual duty periods for flight attendants on domestic trips, which fluctuate depending on when the duty period starts:

Departure	Scheduled On-duty Maximum	Actual On-duty Maximum
0600—1759	13 hours	15 hours
1800—2059	11 hours	13 hours
2100—0559	10 hours	12 hours

These on-duty maximums unnecessarily cap American’s utilization of its flight attendants and, along with restrictions on duty aloft, limit the Company’s ability to build certain lines of time—particularly so-called “high-time turns” between, for example, Miami and Los Angeles. Vaughn Decl. ¶ 74. American’s proposal increases these maximums:

Departure	Scheduled On-duty Maximum	Actual On-duty Maximum
0600—2059	14 hours	16 hours
2100—0559	12 hours	14 hours

²⁸ The Company’s original proposals called for the elimination of the minimum day and average day RIGs; however, in response to analysis provided by APFA, the Company agreed that a more modest cutback on the ratios would suffice to achieve the cost reductions it needed. Vaughn Decl. ¶ 59.

The ability to construct “high-time turns” is, essentially, the ability to return a flight crew to its base during the same duty period in which it departed, resulting in a cost reduction for hotel and *per diem* costs. Vaughn Decl. ¶ 74. Moreover, like the changes proposed to duty aloft, this proposal does not affect safety, and in fact the new limits would be well below the limits that now apply to many international flights.

American’s competitors have similar provisions in place; its proposed scheduled and actual duty period maximums would be identical to those applicable to flight attendants covered by the Delta and Continental agreements. Glass Decl. ¶¶ 158-59.

American estimates that, by eliminating RIGs and modifying the on-duty maximums as described above, it will reduce its costs by \$9 million per year.

4. Implement a Preferential Bidding System

American proposes to implement a new “preferential bidding system” (“**PBS**”) through which flight attendants would select the amount of flying they would like to do each month and the kinds of trips for which they would be scheduled. The flight attendant would determine the features of his or her preferred schedule—such as international or domestic, weekend flying, a heavier or lighter workload, operations to or through various city pairs—and the computerized system would award a schedule based on those criteria and the flight attendant’s relative seniority. Vaughn Decl. ¶ 83. This would replace the outdated system currently in place, where the lines or time or reserve schedules are built without individual preferences in mind, and individual flight attendants are obliged to search for schedules that approximate their desires.

A PBS also solves a related problem. Under the current scheduling system, flight attendants bid for a month’s worth of time several days before the beginning of that month, with full knowledge of the trips they are scheduled to work in the interim between their bid day and the start of the new bid month. Vaughn Decl. ¶ 10. By taking their remaining current month’s

schedule into account, some flight attendants can (and do) “bid into conflict” for trips that start at the beginning of the next month. That is, they deliberately bid on lines of time that include trips at the beginning of the month that they know they will be unable to fly—either because they are already committed to fly a different trip on some of those days (e.g., a previously scheduled trip that begins in the current month and carries over into the start of the next), or because their first trip of the month, when combined with a trip scheduled for the end of the previous month, creates a violation of federal regulations and/or contractual provisions. Although the Company creates lines of time to avoid such conflicts within a particular month, the month-by-month nature of the scheduling and bidding process creates opportunities for flight attendants to strategically bid into conflicts:

**AA Ex. 1005: FLIGHT ATTENDANTS CAN SHORTEN LINES OF TIME
BY “BIDDING INTO CONFLICT”**

December 2011

SUN	MON	TUE	WED	THU	FRI	SAT
			Nov 30 Trip Originates 3:58 hours flight time	Dec 1 Trip Continues 3:48 hours flight time	2 Trip Terminates 9:40 hours flight time	3
4	5 Trip Originates 3:05 hours scheduled flight time	6 Trip Continues 6:15 hours scheduled flight time	7 Trip Terminates 7:55 hours scheduled flight time	8	9	10

In the above example, taken from an actual flight attendant schedule, the flight attendant scheduled in October a trip that began on November 30, ended on December 2, and totaled 17 hours and 26 minutes of flight time—13:28 of which were on December 1 and 2. Knowing that trip was on his or her schedule, in November the same flight attendant bid for a line of time for

December that began with a trip scheduled for a total of 17:15 of flight time from December 5-7. Because the total flight time scheduled for the seven-day period from December 1-7 exceeded 30 hours, the completely predictable result of the flight attendant's scheduling choice was the removal of that flight attendant from the second trip, resulting in a need for another flight attendant to take his or her place. See APFA CBA at Article 7.I (prohibiting the Company from scheduling a flight attendant to fly more than 30 hours of time in any seven consecutive days), 9.I.3 (requiring the Company to automatically drop a flight attendant from a conflicting trip 48 hours prior to the beginning of a contractual month if the flight attendant has not voluntarily resolved the conflict by trading or dropping one of the conflicting trips).²⁹

A PBS ensures that the Company can best accommodate the individual preferences of flight attendants and its business needs, while at the same time satisfying the complex restrictions imposed by the APFA CBA. In other words, the preferential bidding system is not in and of itself a substantive work rule, but rather a mechanism for complying with the CBA's work rules in the most cost-effective manner by building and awarding bids for lines of time that take individual flight attendant preferences into account to the extent that they do *not* result in conflicts. Delta currently utilizes a PBS, and the right to implement such a system is part of the most recent agreements between United and US Airways and their respective flight attendant unions. Glass Decl. ¶ 165.

American also proposes changes to certain work rules that are designed to facilitate the more efficient utilization of the PBS, including the following:

²⁹ The "30-in-seven" limitation is frequently used as a mechanism to bid into conflicts, but any scheduled trip that creates a violation of any of the other provisions of Article 7 of the APFA CBA is similarly dropped pursuant to Article 9.I.3.

- Combining its domestic and international flight attendant operations. Currently, an appendix to the APFA CBA covers the terms and conditions applicable to flight attendants who work international routes, creating a need for separate scheduling and preventing American from combining domestic and international trips in the lines of time it creates. *See* APFA CBA at App'x I. Under the proposal, the Company would train all reserve flight attendants for overwater flight (the primary qualification for international flight attendant service), and be able to use qualified flight attendants for domestic *and* international operations instead of classifying them as one or the other. Combining its domestic and international operations and reserve pools would bring American into line with its competitors, nearly all of which have already done likewise. Glass Decl. ¶ 168-69.
- Modifying Article 7.N to permit the Company to provide ten separate periods of 24 duty-free hours to each flight attendant per month, rather than the current requirement of five periods of 48 hours. This change will permit increased scheduling flexibility while maintaining the total number of duty-free hours that each flight attendant is guaranteed.
- Restructuring the way in which flight attendants are assigned to reserve duty. Under the current CBA, the juniormost 50% or so of flight attendants spends one month out of every four on reserve duty. American has proposed to change that system so that the same 50% of flight attendants would work blocks of three to six reserve days each month (and fly a line of time during the rest of the month), which would permit the company to schedule and utilize them in a much more efficiently targeted manner. Accordingly, the Company would alter its current guarantee to reserves of at least 75 hours of pay per month, instead guaranteeing at least 14 hours and 15 minutes' pay for each three-day block of reserve time.

Implementation of the PBS and these related changes benefits the Company without reducing the base wage rates received by flight attendants or materially changing the conditions under which they work. By scheduling more efficiently and reducing the need for surplus headcount, implementation of the PBS and related measures will save American \$22 million per year.

5. Permit Greater Company Discretion on Staffing Matters

Article 9.B.2.b of the APFA CBA recognizes that the Company has the discretion to tailor staffing and service levels according to its business needs, but undercuts that discretion by providing that the APFA “shall have the right to file a Presidential grievance if the Company

abuses its discretion by assigning an unreasonable workload to Flight Attendants.” Although this language may seem reasonable on its face, in practice the Union has utilized the threat of costly and time-consuming grievances to prevent the Company from making much-needed changes to staffing levels on its aircraft, such as implementing new services and amenities designed to compete for a greater share of the first-class-flier market. Vaughn Decl. ¶ 86. Historically, many proposed changes in staffing or service have triggered such grievances, even when those changes would have been relatively minor. For example, the Company recently attempted to strengthen its appeal to first-class fliers by implementing a “turn down service” in first class on some international flights, which would have required flight attendants to distribute quilted bed toppers to customers and, if requested, recline the seat and lay out the bed topper and a duvet; the APFA announced within a week that it would file a grievance. *Id.* Hence the language in question has served to force the Company into the Hobson’s choice of either giving in to APFA demands for concessions in other areas of the contract, or largely fossilizing its staffing and service levels.

American seeks only to eliminate ambiguous language that generates costly grievances. To that end, the Company’s new proposed language provides that potential changes to staffing and service will still be communicated to the Union, and that the Company will still meet with Union representatives to hear their recommendations. The Company will also expeditiously investigate allegations that staffing and service levels are resulting in situations where flight attendants cannot complete their work assignments, and either remediate the situation or provide specific reasons why it disagrees with the Union’s assessment of the problem—and, in the latter case, the Union will have the right to request a review of that determination by American’s Vice President of Flight Service.

American has no incentive to impose an unreasonable workload on its flight attendants; if flight attendants cannot perform their duties in the time allotted, American sees no benefit whatsoever because the expectations of its customers are unmet. The proposal simply disconnects the mechanism by which the Union has historically tied the exercise of Company discretion in staffing and service matters to unrelated changes that increase flight attendant costs. The new language more than adequately assures that the Union will be able to voice its concerns about potentially problematic changes, and bring to the Company's attention those situations that legitimately overburden flight attendants.

The Company has calculated that it can safely alter staffing levels on many flights, resulting in an overall reduction to the flight attendant population of 267 and a cost reduction of \$16 million per year.

6. Establish a New Threshold for Sick and Vacation Time Benefits

Article 6.A of the APFA CBA provides that American's flight attendants will accrue vacation and sick time if they work 420 hours in a calendar year—an average of just 35 hours per active month. American's proposal would increase the threshold hours-worked requirement for vacation and sick time accrual from 420 hours per calendar year to 540 hours per calendar year (or, if an attendant is in unpaid status during any part of the year, an average of 45 hours per active month during the calendar year).

The increase in the minimum hours threshold ensures that flight attendants who accrue vacation and sick time are working a reasonable amount of time to earn those benefits. Article 6.A of the APFA CBA provides that flight attendants at the top of the vacation accrual ladder earn 28 days of vacation. Even after replacing its "trips missed" system with one that pays a fixed amount for vacation days, as American has proposed, a flight attendant could effectively receive 20% of his or her wages in the form of vacation pay if the cutoff for accrual remained at

420 hours.³⁰ A flight attendant who accrues sick leave, meanwhile, does so at a rate of 36 hours per year—more than a month’s worth of time for someone who works to the 420-hour minimum.³¹

The Company has calculated that its flight attendant headcount will be reduced by 46 due to this change, because it will (1) incentivize some flight attendants who currently work below the new threshold to work more, and (2) reduce its need for reserve flight attendants to cover the vacation time of flight attendants who will work between 420 and 540 hours. The company will also save the sick pay costs that it would have otherwise paid to flight attendants who work between 420 and 540 hours. In total, increasing the sick and vacation benefits threshold is expected to reduce costs by \$3 million per year.

**7. Change Vacation Pay to Hourly Rate; Cap
“Personal Vacation Days”**

American’s flight attendants bid for and are awarded their vacation schedules every March for period beginning May 1 and ending April 30 (e.g., vacations for May 2011 through April 2012 were bid on in March 2011). Vaughn Decl. ¶ 19. Although they know in advance when they have vacation scheduled in an upcoming month, they nevertheless may bid for a line containing trips that conflict with their scheduled vacation. After their monthly bids are awarded, flight attendants are removed from all trips that overlap even a single day of their previously awarded vacation periods. Flight attendants are paid for the full value of these trips,

³⁰ American’s flight attendants can receive up to 28 days of vacation per year. If paid at American’s proposed rate of 3:00 hours per vacation day, that allotment would be worth 84 hours per year, or 20% of 420.

³¹ Both sick time and vacation time utilized in a given year are credited toward that year’s 420 paid hours threshold.

no matter whether that trip was missed because it fell entirely within a vacation period or just overlapped by one day. *Id.* ¶ 19.

As illustrated in AA Exhibits 1006 and 1007, a flight attendant who is scheduled for a multi-day trip can schedule his or her vacation to begin on the last day of that trip, causing him or her to miss (and be paid for) all trip days while still only using one day's vacation. *See also* Vaughn Decl. ¶ 92. Although the APFA CBA does prevent flight attendants from using vacation days (but not, as explained below, "personal vacation days") one at a time, a savvy flight attendant can effectively leverage a fourteen-day vacation period into a month off work, with full pay and benefits.

Similarly, American's flight attendants are also permitted by Article 6.N of the APFA CBA to take "personal vacation days" ("**PVDs**"), which are vacation days "borrowed" against their next year's allotment. Currently, a flight attendant may take all of his or her anticipated vacation days for the next year in the form of PVDs. Unlike regular vacation days, PVDs can be taken one at a time. As a result, every PVD occurs on a day on which the flight attendant taking the PVD would have worked a trip, making American's cost per PVD much higher than its cost per vacation day.³² Vaughn Decl. ¶ 93.

Under American's proposal, the current system would be replaced with one in which a flight attendant would receive three hours of pay for each day of vacation, including personal vacation days. In its place American would substitute an entirely rational system, one that

³² Under the APFA CBA, a flight attendant who misses a trip that he or she is scheduled to work through the use of PVDs receives pay and credit only for the days on which PVDs are taken; if, for example, a flight attendant uses a PVD on the first day of a three-day trip, he or she is removed from the trip but is only paid for the hours missed on that first day (the flight attendant could then, of course, use remaining PVD days to cover either, both, or none of the other two days). Vaughn Decl. ¶ 93.

extends the same concept of fixed-value vacation days that is now in place for flight attendant reserves and is the norm at most of the other network carriers.³³ The new system would also permit American to pay out accrued vacation when flight attendants terminate their employment for maternity leave, occupational leave, or other reasons. American will reduce its costs by \$30 million per year by changing to this system.

8. Modify Sick Leave Policy

American's proposals include revisions to the rules governing the use of flight attendant sick time. The sick leave proposal creates two sets of rules, one applicable to flight attendants who are sick for seven or fewer days (incidental sick) and the other to flight attendants with illnesses lasting longer than seven days (managed care sick). Vaughn Decl. ¶ 91. For the first two occurrences of sick leave usage each year a flight attendant takes—or 24 hours, whichever occurs first—flight attendants will be paid at 100% of their hourly base rate. For additional sick occurrences lasting fewer than eight days, the flight attendant will be paid at 60% of his or her hourly base rate.

Different rules will apply to sick occurrences greater than seven days. After the first 24 hours (or two occurrences) and through the seventh day, leave is paid at 60% of pay—so long as it is medically substantiated and approved by an “Absence Management Vendor” (“AMV”) approved by American. Beginning on day eight and continuing, the flight attendant will be paid from his or her available sick bank at 100%, if he or she medically substantiates his or her illness and complies fully with managed care program administered by the AMV. If a flight attendant

³³ American's proposed vacation pay rate is three hours' pay per vacation day used, which would be well within the range paid by the other large network carriers. Glass Decl. ¶ 173-74. Under American's current “trips missed” system, a vacation day is worth an average of 3.67 hours of pay. Vaughn Decl. ¶ 92.

uses all the sick leave he or she has accrued, he or she will be placed on unpaid sick leave of absence for up to three years. To remain on leave the flight attendant must continue to submit medical substantiation, and failure to return to work within three years will result in administrative termination. By reducing the rate at which some sick hours are paid, American has calculated that it would reduce its costs by \$10 million per year.³⁴

Relatedly, American has proposed to establish 12:00 noon, rather than 4:00 p.m., as the sick “clearance time”—that is, the time by which a sick flight attendant must inform American that he or she will be available for duty the next day—so as to permit the Company to more effectively allocate its reserve flight attendants on any given day. That change has been calculated as an additional cost reduction of \$1 million per year.

9. Institute Hours Minimum for Continued Employment

American’s flight attendants have the ability to trade—or even to buy or sell—the scheduled lines of time to which they are assigned. Vaughn Decl. ¶ 97. Consequently, flight attendants can work as much or as little as they want, subject to federal regulations and provisions of the APFA CBA that impose *maximums*. Nevertheless, even flight attendants who work relatively few hours (or no hours at all) remain on the flight attendant seniority list and

³⁴ American recognizes that its sick leave proposal differs from those in place at its large network carrier competitors. The philosophy that guided the Company’s Section 1113 proposals was to maintain its hourly pay rates and to protect, as much as possible, flight attendant take home pay. As a result, the Company had to develop proposals that would meet the \$230 million in targeted cost reductions from the other provisions in the APFA CBA. The Company repeatedly told the Union that it would consider alternatives, including reductions in the hourly pay rates, so long as the alternatives generated the same over all amount of cost reductions.

move up the pay scale every year. American proposes to institute a requirement that all flight attendants receive pay for at least 200 hours annually in order to maintain employment.³⁵

American estimates that by instituting this hours minimum for continued employment will reduce its costs by \$1 million each year.

10. Preference Airport Hotels for Layover Accommodations

Article 21.H of the APFA CBA deals with the hotels and motels at which flight attendants stay when away from their home base. It provides guidelines tied to the safety, cleanliness, quietness, and proximity to adequate eating facilities of a given hotel or motel. Beyond those guidelines, however, American's current practice is to permit flight attendants to overnight at more-expensive downtown lodgings, rather than at hotels near the airport, when their layover is relatively lengthy. Vaughn Decl. ¶ 96. Although no specific provision in the APFA CBA currently restricts the Company from requiring flight attendants to stay at hotels near the airport, given the current practice, American has proposed adding language to the APFA CBA that would specify that hotel and motel accommodations would be booked based on cost and proximity to the airport regardless of the length of the layover, subject only to their being adequately safe, clean, quiet, and near eating facilities.

A switch to lodging flight attendants at airport properties would reduce costs to the Company by \$7 million per year.³⁶

³⁵ Flight attendants who were otherwise on inactive status for any part of the year would be required to earn an average of 16 hours and 40 minutes' pay for each month they were active to maintain employment.

³⁶ Because pilots and flight attendants are generally scheduled for the same trip sequences, the same modifications to the hotel policy are being made to the pilots and flight attendants. The combined pilot and flight attendant cost reductions from this provision are \$11 million per year.

VI. PROPOSED MODIFICATIONS TO FLIGHT ATTENDANT BENEFITS

American pays more than 90% of the aggregate premium amount on its active flight attendants' health care insurance, permits flight attendants to "pre-fund" retirement health benefits at just 11% of cost, and funds more than \$100 million annually for flight attendants who participate in its last-of-its-kind defined-benefit pension plan. The details of the medical and retirement benefits currently provided pursuant to the APFA CBA, as well as the Section 1113 modifications to those benefits, are discussed in the Declaration of Carolyn Wright, attached as AA Ex. 600.

Following implementation of these proposals, American's benefits will be similar to those of its large network competitors. Glass Decl. ¶¶ 273, 277-79; 281-82; 284.

1. Modifications to group life and health benefits

The life and health benefits American provides its flight attendants are governed by Article 35 of the APFA CBA (which, in turn, incorporates certain terms set forth at Appendix SS). Pursuant to those provisions, American's flight attendants currently contribute less than 10% of the cost of the health insurance that covers them while they are actively employed. APFA CBA at Article 35; Vaughn Decl. ¶ 101. American has proposed a health care plan that continues to offer three plan designs, but calculates employee monthly contributions for its Core Plan and Standard Plan differently than the monthly contribution for its Value Plan. Wright Decl. ¶ 27. The proposal offers participation in the Standard Plan and Core Plan at an aggregate employee monthly premium equivalent of 21%, with a 17% employee-only cost share and a 22% employee-plus-family cost share. *Id.* Employee monthly contributions rates for the Value Plan will be set at 27%, with a 22% employee-only cost share and a 29% employee-plus-family cost

share.³⁷ *Id.* The plan also replaces its current three-tiered coverage options with a more flexible four-tiered model.³⁸ *Id.* ¶ 30. The Company calculates that these changes would save the Company \$41 million per year.

Additionally, the Company proposes to eliminate its post-retirement health care benefit, currently pre-funded by active employees at 11% of cost, though the Company would still offer access to medical insurance for those employees who are retired and between the ages of 55 and 64 at 100% employee cost (including administrative costs), and would offer access to a guaranteed-issue Medicare supplement plan for retirees 65 and older.³⁹ Wright Decl. ¶¶ 34-40. These changes would reduce American's costs by \$35 million per year.

Finally, the Company would raise the minimum annual paid hours needed to qualify for participation in the health care plan from 420 to 540 (or, if the flight attendant has been inactive during any part of the year, an average of 45 hours per active month), keeping that threshold aligned with the cutoff for accrual of vacation and sick benefits. American has calculated that raising the health care plan participation threshold to 540 paid hours would result in a cost reduction of \$5 million per year.⁴⁰

³⁷ American proposed this active medical plan in response to Union concerns with the Company's initial health care proposal that offered only a three tiered model with aggregate employee monthly contributions at 23% of the total premium equivalent for all three plans.

³⁸ American's current three-tier enrollment structure includes tiers for employee-only, employee plus one other person, and employee plus two or more, while the four-tier structure will include tiers for employee-only, employee plus spouse/domestic partner, employee plus children, or employee plus spouse/domestic partner and children. Wright Decl. ¶ 30.

³⁹ Flight attendants who have been "pre-funding" their retirement medical benefits will be refunded the amount they have already contributed. Wright Decl. ¶ 41.

⁴⁰ Whether a flight attendant meets the 540 hour threshold would be determined annually on July 31 of any given year. Flight attendants who do not meet the threshold would be given the option of retaining their life insurance and health benefits by paying 100% of the cost of coverage, including administrative costs.

2. Modifications to retirement plan

Article 36 of the APFA CBA requires the Company to establish, maintain, and contribute to a defined-benefit pension plan for its flight attendants. Unfortunately, recent downturns in the market have left the plan severely underfunded, with no guarantee or expectation that this gap will close. *See* Wright Decl. ¶ 44. Even were there no such shortfall, the defined benefit plan requires ongoing funding commitments that would, if unmodified, prove prohibitively expensive to the Company. American therefore proposes to eliminate the contractual provisions requiring it to maintain the defined-benefit plan, so that it may implement a plan “freeze.” *Id.* ¶ 47. In short, the Company would continue to meet all obligations pursuant to the plan as they exist on the effective date of the freeze, but incur no new obligations after that date. *Id.* Freezing American’s defined benefit plan would save the Company \$42 million per year.⁴¹

VII. CONCLUSION

American has engaged in extensive analysis and consideration in formulating the proposals it presents today. It has struggled to reach a consensual agreement with APFA, making multiple alterations to its initial Section 1113 term sheet in order to accommodate the analysis and expressed preferences brought to the table by the Union. It is only now, in its last extremity, that the Company reluctantly seeks to reject the APFA CBA and impose its most recent set of Section 1113 proposals.

⁴¹ American’s original term sheet proposed terminating the flight attendants’ defined-benefit pension plan. Unlike TWU and APA, APFA rejected the Company’s proposal to freeze the flight attendant defined benefit plan, insisting both that (1) the defined benefit plan remain fully effective for currently active flight attendants, and (2) newly hired flight attendants be eligible for a defined contribution plan, including a mandatory Company contribution of 5.5 to 9.5% of the employee’s salary regardless of whether the employee made any contributions at all. Vaughn Decl. ¶ 55.

Those proposals reflect American’s desire to present fair and equitable proposals that achieve the reduction it needs while remaining true to its status as a premium employer of flight attendants. The Company *is* asking its flight attendants to be more productive, and it *is* asking them to contribute more to their health benefits. But the Company has also sought to protect—and possibly even enhance—take-home wages:

AA EX. 1042: AMERICAN’S PROPOSAL PRESERVES FLIGHT ATTENDANT TAKE-HOME PAY FOR FLIGHT ATTENDANTS WORKING AN AVERAGE LINE OF TIME				
CONTRACTUAL PROVISION	CURRENT HOURLY RATE (Top of Scale)	PROPOSED HOURLY RATE (Year 1)	CURRENT MONTHLY SALARY AND BENEFITS	PROPOSED MONTHLY SALARY AND BENEFITS (Year 1)
BASE PAY HOURS: 70 (current) / 85 (proposed)	\$46.00	\$46.00	\$3,220	\$3,910
INCENTIVE PAY HOURS: 5 (current) / 0 (proposed)	\$52.90	N/A	\$265	\$0
PER DIEM PAY	\$1.50	\$1.50	\$270	\$293
MEDICAL INSURANCE PLAN & CONTRIBUTION	Employee Only	Employee Only	(\$39)	(\$68)
NET PAY			\$3,716	\$4,135

As Exhibit 1042 demonstrates, a lineholder flight attendant at the top of the pay scale who currently is scheduled for the line average of 75 hours per month could very well, post-implementation of the Section 1113 proposals, make hundreds of dollars *more* per month simply

by flying the new line average of 85 hours per month. The exact amount of the difference between any individual flight attendant’s old and new take-home pay will, of course, depend on his or her seniority, health plan, the number of hours he or she works, and other factors, but American’s overall philosophy of achieving a cost reduction while at the same time providing a realistic way for flight attendants to maintain or enhance their compensation is the lodestar of its proposals, and one that has been followed faithfully.

American’s proposals will also permit it to reorganize pursuant to its Business Plan. The chart below lists and provides the six year average annual cost reduction for each of American’s Section 1113 proposals to APFA:

Proposal	Six-year Average Annual Cost Reduction (in millions of dollars)
Compensation	
Base Rate Reductions	0
International Override	1
Incentive Pay Elimination	17
Brake Agreement Clarification	1
Eliminate Domestic Galley Pay	0.4
Work Rules and Productivity	
Revise Monthly Maximum	32
Eliminate 30-in-7 Restriction	5
Eliminate Duty Aloft Restriction	5
Revise Minimum Pay & Credit RIGs and On-duty Limits	9
Preferential Bidding System and Associated Changes	22
Staffing	16
Benefits Threshold for Sick/Vacation Time	3
Changes to Sick Time Use	11
Changes to Vacation Time Use	30
Changes to Hotel Accommodation Policy	7
Implementation of Minimum Hours Worked	1

Benefits	
Changes to Retirement Plan	42
Changes to Retiree Medical	35
Changes to Active Medical	41
Benefits Threshold for Active Medical	5
Subtotal of Individual Line Items	282
Compounding	(52)
TOTAL	\$230

American respectfully requests that this Court grant its motion for an order rejecting the flight attendant collective bargaining agreement pursuant to 11 U.S.C. Section 1113.

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/s/ Stephen Karotkin

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