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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)
	:	
-----X		

**MEMORANDUM IN SUPPORT OF DEBTORS’
MOTION TO REJECT COLLECTIVE BARGAINING AGREEMENTS
PURSUANT TO 11 U.S.C. § 1113**

**PART FIVE: TWU—MECHANICS & RELATED EMPLOYEES,
STOCK CLERKS, AND MAINTENANCE CONTROL TECHNICIANS**

* admitted *pro hac vice*

** *pro hac vice* admission pending

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I. INTRODUCTION

The Transport Workers Union of America, AFL-CIO (“**TWU**”) represents seven employee groups at American Airlines, Inc. (“**American**” or “**the Company**”). Each of these TWU-represented work groups is covered by a separate collective bargaining agreement (“**CBA**”). American and TWU have traditionally negotiated these seven CBAs in two groups, one for three of the CBAs and one for the other four. For this reason, American has divided its brief as to TWU in support of Debtors’ Motion to Reject Collective Bargaining Agreements Pursuant to 11 U.S.C. § 1113 in the same way. This brief addresses Section 1113 issues specific to three of these employee groups:¹

- **Mechanics & Related (“M&R”) employees:** Over 14,000 M&R employees in a \$2.4 billion operation are responsible for the maintenance, repair, modification and support of American’s fleet. M&R employees include FAA licensed² Aviation Maintenance Technicians, who service aircraft at airports (line stations), at maintenance base hangars³ where aircraft receive periodic heavy maintenance checks and overhauls, and in support shops where components are maintained, including Avionics Technicians who are a sub-set of AMTs skilled in electrical maintenance; and (ii) Overhaul Support Mechanics, whose work does not require that they hold FAA licenses. M&R employees also include Parts Washers, Aircraft Cleaners, Plant Maintenance Mechanics, Plant Maintenance Men, Utilitymen, Building Cleaners, and Cabin Cleaners. In layman’s terms, M&R employees include skilled and unskilled mechanics and maintenance persons who perform maintenance and modification work on American’s aircrafts and

¹ The headcount figures cited are as of December 2011, because those are the figures used for the Company’s cost outs of its proposals to TWU during Section 1113 negotiations. These figures are approximate, because in a large workforce such as American’s, employee headcount fluctuates daily.

² The FAA issues licenses for mechanics who work on the airframe and the engine, called the powerplant. Collectively, these two licenses are referred to as “A&P” licenses. Some AMTs hold other licenses, such as the Federal Communications Commission’s General Radio Telephone Operator license. *See generally*, 14 C.F.R. Part 65 (2011).

³ American has three maintenance bases: one in Tulsa (“**TULE**”) and two in Ft. Worth—at Alliance Airport (“**Alliance**” or “**AFW**”) and a separate hangar at the Dallas-Ft. Worth Airport (“**DWH**”).

facilities. Declaration of Mark L. Burdette (“Burdette Decl.”), attached as AA Ex. 1200, ¶ 6.

- **Stock Clerks:** Approximately 1300 Stock Clerks are responsible for receiving, shipping, and storing aircraft parts, materials and equipment used in aircraft maintenance functions. Stock Clerks support the M&R employees on the line and at the maintenance bases. Burdette Decl. ¶ 6.
- **Maintenance Control Technicians (“MCTs”):** Approximately 87 MCTs with substantial experience and expertise give technical advice to mechanics and pilots regarding aircraft structural, mechanical, electrical, electronic, avionics and power plant system problems, and make recommendations for corrective actions. Burdette Decl. ¶ 6.

The M&R and Stock Clerk CBAs became effective on April 15, 2003 and were amendable on April 30, 2008.⁴ Declaration of James B. Weel (“Weel Decl.”), attached as AA Ex. 1100, ¶ 5. American’s CBA with the MCTs also became amendable in 2008, and was superseded by a new MCT CBA, effective on May 5, 2010 and amendable on May 5, 2013. Weel Decl. ¶ 5.

The remainder of this brief is organized as follows. Section II discusses American’s and TWU’s attempts to negotiate new CBAs prior to American’s Chapter 11 filings. Section III summarizes the parties’ negotiations following American’s filing for Chapter 11 and provides an overview of the Company’s Section 1113 Proposals. Sections IV-VI explain the details of each of American’s Section 1113 Proposals to the M&R, Stock Clerk and MCT groups. Section VII summarizes those terms that are common to all TWU groups. Finally, Section VIII explains why American has met the standard for rejection under Section 1113.

⁴ By operation of the Railway Labor Act, the terms of these agreements remain in place as the “status quo” until the parties either reach agreement or exhaust the bargaining procedures of the Act. *See Detroit & Toledo Shore Line R.R. Co. v. United Transp. Union*, 396 U.S. 142, 150 (1969); *Northwest Airlines v. Ass’n Flight Attendants*, 483 F.3d 160, 167 (2d Cir. 2007).

II. PRE-PETITION NEGOTIATIONS

The background facts regarding American's financial distress and Business Plan are set forth in the Memorandum of Law in Support of Debtors' Motion to Reject Collective Bargaining Agreements Pursuant to 11 U.S.C. § 1113 ("**Main Brief**") and supporting declarations and will not be repeated here. This brief is limited to facts and issues related directly to these three CBAs.

During the negotiation of its 2003 CBAs with TWU, American proposed the total dollar amount of labor cost reductions that were necessary for the Company to avoid filing for Chapter 11, but allowed TWU to decide how to take the necessary labor cost reductions. TWU decided to make changes in areas such as pay, holidays, vacation, sick time, and overtime, where the Union presumably, and understandably, assumed it would later be able to negotiate a restoration of these concessions when the airline industry returned to "normalcy." Now, however, it has become clear that day will never come. Weel Decl. ¶ 9.

On August 27, 2007, TWU served the company with notice exercising the "early opener" provisions of all of the 2003 CBAs. Weel Decl. ¶ 16. From that date forward, American and TWU have engaged in more than four years of direct negotiations and mediations pursuant to Section 6.⁵ While they reached Tentative Agreements ("**TAs**")⁶ for all TWU groups, only two of the smaller groups (MCTs and Instructors) actually ratified new agreements. The bargaining

⁵ "Section 6" refers to Section 156 of the Railway Labor Act, which sets forth the requirements for an employer to bargain with a union with regard to pay, work rules, and working conditions. 45 U.S.C. § 156 (2006). Section 6 negotiations are those in which the Company and TWU engaged in an attempt to reach consensual agreements prior to American's invocation of the Section 1113 process.

⁶ Once TWU and American reach a TA as to a particular employee group, the membership of that employee group must vote to ratify the TA before it becomes effective. Burdette Decl. ¶ 8 n.9.

history is set forth in detail in the Declaration of James Weel, American's lead negotiator for TWU CBAs. *See id.* ¶¶ 16-31.

From the outset of its negotiations with TWU in 2007, American was aware of its competitive labor cost disadvantage, but it was also aware—and made more aware by TWU leadership—that the rank and file employees expected wage increases. In response, American offered proposals to TWU that would exchange wage and related improvements for other contract changes that would, over time, reduce labor costs by allowing American greater efficiency and allow work to be performed at more competitive costs. Weel Decl. ¶ 17.

When direct negotiations proved unsuccessful, in January 2009, TWU invoked the mediation services of the National Mediation Board (“NMB”) pursuant to Section 5 of the Railway Labor Act with regard to the M&R, Stock Clerk and MCT groups.⁷ As a result of mediated sessions in May 2010, American and TWU reached TAs with each of these three work groups. The M&R employees and Stock Clerks rejected their TAs, so their respective 2003 CBAs remain in effect today. Weel Decl. ¶¶ 25-26. The MCTs ratified their CBA on May 5, 2010. AA Ex. 1110.

American's proposals in pre-petition negotiations focused on securing greater flexibility in outsourcing work on par with other airlines, moving from a defined benefit retirement plan of the kind eliminated at every other major airline to a 401(k) option for new hire employees with a 5.5 % company match, instituting a new annual profit sharing plan, increasing the opportunities

⁷ The NMB is an independent agency created under the Railway Labor Act and charged with facilitating harmonious labor-management relations in the railroads and airlines. 45 U.S.C. § 153 (2006). The Railway Labor Act authorizes the NMB to provide mediation services to help a carrier and a union reach a new collective bargaining agreement. 45 U.S.C. § 155 (2006).

to outsource particular work, and lifting the “ASM⁸ cap” that limits the size of regional airline operations in support of American’s mainline flights. In an effort to obtain agreement to the needed work rule changes and outsourcing, American proposed to increase compensation in a variety of ways across the different groups, increase vacation time for less senior employees and, for some groups, increase the rate of pay by 33% for hours worked on holidays. Weel Decl. ¶ 23.

Rather than continue to bargain for realistic provisions in the new industry reality, in 2010 TWU asked the NMB to release it from the obligation to continue bargaining. TWU and American resumed bargaining, and tentatively agreed with the Union on a number of issues, but reached no overall agreement with M&R employees or Stock Clerks. In August 2011, the parties exchanged comprehensive proposals, but negotiations stalled. Because there had been insufficient progress, the NMB mediator told the parties that it would not schedule further mediation sessions. The parties continued to meet informally through September and October 2011, but TWU was unable to come to terms with American’s deepening financial crisis before American filed these Chapter 11 proceedings. Weel Decl. ¶ 24-31.

The 2003 M&R and Stock Clerk CBAs hamper American from competing effectively, and from restructuring. Likewise, while the current MCT CBA was negotiated more recently and embodies some cost reductions compared to the 2003 CBA it replaced, additional modifications are needed to achieve the necessary cost reductions in American’s current

⁸ “ASM” refers to the term Available Seat Miles, the measure of a flight’s passenger-carrying capacity, calculated by multiplying the number of seats available for sale on a flight by the number of miles flown. For example, an aircraft with a 300-seat capacity flying 1,000 miles generates 300,000 ASMs for that flight. Weel Decl. ¶ 14 n.21.

Business Plan and to be fair and equitable with American's treatment of other employee groups, especially as to employee benefits. Weel Decl. ¶ 13.

III. OVERVIEW OF SECTION 1113 PROPOSALS

American presented its opening Section 1113 Proposals to TWU on February 1, 2012. Since that date, TWU and American have been engaged in negotiations for each of these work groups, but without agreement to date. Burdette Decl. ¶ 18. To expedite negotiations, American retained the services of its former Vice President of Employee Relations, Mark Burdette, as lead negotiator for these three TWU groups. *Id.* ¶ 12. American's proposals to the M&R employees, Stock Clerks, and MCTs seek approximately \$235 million in annual cost reduction. *See AA Exs. 1205, 1206, 1207.* The Company allocated this amount among the three groups in a manner it felt was fair and equitable and invited TWU to offer a different allocation if it felt otherwise. Brundage Decl. ¶ 28.

At the conclusion of the February 1 meeting, American shared with the Unions copies of the presentation and offered to provide to their advisors on an expedited basis any financial or operating information necessary to their understanding of the Company's analysis of the need for labor cost reductions. Burdette Decl. ¶ 11. The following day, Brian McMenemy, American's Vice-President and Controller, gave a comprehensive presentation regarding American's costing methodologies for collective bargaining—the same computer models and protocols with which each Union was familiar through prior collective bargaining. *Id.* ¶ 14. Then, on February 3, 2012, Company representatives met with the financial advisors for each of the Unions in order to provide them with detailed information and data on the computer model used in preparation of the Company business plan. *Id.* ¶ 15.

Burdette presented copies of American's Section 1113 Proposals for each of these three TWU-represented groups and described the terms of the proposals in a page-by-page “walk-

through” and provided TWU with cost-out summaries for each item in the proposals. Burdette Decl. ¶ 14. TWU was provided access to the Company’s full economic models that the Company used to value its proposal through a secure access platform called *Intralinks*. *Id.* ¶ 13.

Since these initial informational sessions, American has promptly responded to voluminous formal and informal information requests from TWU. American has made its representatives available since the Section 1113 Proposals were presented on February 1, 2012, including having meetings and responding to requests on weekends, early mornings and into the night. Since providing the Section 1113 Proposals on February 1, the Company has met with the TWU M&R negotiating team in 49 negotiating sessions over 26 days—a total of 308 man hours on behalf of the Company. AA Exs. 1201 and 1208. The Company has met with the TWU Stock Clerk negotiating team in 27 negotiating sessions over 18 days—a total of 166 man hours on behalf of the Company. *Id.* And, the Company has met with the TWU MCT negotiating team in 34 sessions over 23 days—a total of 178 man hours on behalf of the Company. *Id.*

AA EX. 1208: AMERICAN HAS SPENT HUNDREDS OF MANAGEMENT HOURS IN SECTION 1113 NEGOTIATIONS WITH TWU REGARDING M&R EMPLOYEES, STOCK CLERKS AND MCTS SINCE FEBRUARY 1, 2012

TWU Negotiating Group	Number of Bargaining Sessions	Number of Days on Which Bargaining Took Place	Total Time Spent Bargaining	Total AA Management Hours Spent Bargaining
M&R	49 sessions	26 days	37 hours, 31 minutes	308 hours, 56 minutes
Stock Clerks	27 sessions	18 days	20 hours, 27 minutes	166 hours, 45 minutes
MCTs	34 sessions	23 days	22 hours, 14 minutes	178 hours, 56 minutes

In addition to formal negotiation sessions in Dallas, representatives of American's base maintenance management met with representatives of TWU in Tulsa over the course of four days, and in separate meetings in Dallas over the course of three days, to discuss the Company's outsourcing proposals with respect to the base maintenance operations. During those meetings, American worked collaboratively with TWU to identify alternative work rules and work flow processes that could increase the efficiency of the base maintenance operations, and to evaluate the cost reductions that could be achieved via those alternatives. Burdette Decl. ¶ 18.

Some progress was made in negotiations, including tentative agreement on some on particular provisions, but ultimately TWU did not accept American's comprehensive proposals. Weel Decl. ¶ 58. American's most recent Section 1113 Proposals to TWU with respect to M&R employees, Stock Clerks and MCTs as of March 22, 2012 are attached as AA Exhibits 1209, 1210 and 1211. American expects that the parties will continue negotiations until the date of the hearing in this matter.⁹ The cost-out documents provided to TWU in conjunction with these proposals are attached as AA Exs. 1212, 1213 and 1214.

In assessing American's proposed changes, it is important to note what is untouched. American is *not* proposing to reduce basic pay rates. Rather, the necessary cost reductions would be achieved through (1) work rule changes that lead to greater efficiency and productivity; (2) new benefit programs, uniform for all American employees;¹⁰ and (3) outsourcing to vendors

⁹ Section 1113 requires the parties to continue to confer in good faith in an attempt to reach mutual agreement until the date of the hearing. *See* 11 U.S.C. § 1113(b)(2) (2006). It is the Company's final proposal before the start of the hearing that should be considered by the Court. *See Teamsters Airline Div. v. Frontier Airlines, Inc.*, No. 09-CIV-343, 2009 U.S. Dist. LEXIS 61699, at *25-*32 (S.D.N.Y. July 20, 2009). The parties have agreed to file updated reports with the Court on the day before the hearing begins.

¹⁰ American's proposed changes in benefits are not described in detail here, but are discussed in

who perform maintenance at substantially lower cost. Although American's restructuring plan will result in furloughs, contracting out maintenance work has become an economic imperative throughout the airline industry. *See* Glass Decl. ¶ 185. Although approximately 4000 jobs will be lost under American's proposal, approximately 10,000 American M&R jobs will remain—and they would still be well-paid jobs with good benefits, comparable to the pay and benefits of maintenance employees at other airlines, and considerably better than terms for employees of vendors who supply aircraft maintenance on a contract basis.

American must reduce labor costs in order to meet its Business Plan objectives—including reductions of \$212 million annually¹¹ in labor costs from M&R employees, \$20 million annually in labor costs from Stock Clerks, and \$3.4 million annually in labor costs from MCTs. Declaration of Brian J. McMenemy ("McMenemy Decl."), AA Ex. 700, ¶ 12; AA Exs. 1212, 1213 and 1214.

IV. PROPOSED CHANGES TO THE M&R CBA

American's Section 1113 Proposal to the M&R employees is expected to realize a cost reduction of \$212 million annually. AA Ex. 1212. The proposal includes increased outsourcing

the accompanying Main Brief and the Declaration of Carol Wright ("Wright Decl."), because they apply to all American employees. American proposes a health care plan that includes an aggregate employee contribution of 21% of the premium cost, while at the same time replacing its current three-tiered coverage options with a more flexible four-tiered model. American also proposes changes to retiree health benefits for current employees.

¹¹ All annual cost reductions discussed herein are based on a calculation of the change's effect taken on a six-year average. Burdette Decl. ¶ 19 n.15. In addition, these cost reduction estimates do not take into account compounding. Compounding recognizes that the proposed changes to work rules, benefits, compensation and headcount cannot be achieved in a vacuum. In order to address the fact that, for example, reductions in headcount will also impact overall benefits costs (*e.g.*, because there are fewer employees), after the projected cost reductions were determined for each category of cost reduction (such as benefits and work rules), American's Finance Department conducted an additional series of calculations to adjust the total direct labor cost reductions to avoid double counting the projected cost reductions. This process is discussed in

of maintenance-related functions, the reclassification of certain job titles, and the modification of certain work rules. The proposal will result in a reduction in headcount of approximately 4,200 M&R employees. Burdette Decl. ¶ 19.

A. Outsourcing

In recent years, a very competitive and much lower-cost industry of aircraft Maintenance and Repair Organizations (“MROs”) has grown to conduct aircraft maintenance work, both in the U.S. and abroad. In addition, a similarly robust network of vendors has emerged at airports across the country (and the world) that perform services such as fueling, lavatory servicing, aircraft cleaning and facilities maintenance at costs materially lower than the cost to the air carriers of performing such work in-house. Glass Decl. ¶¶ 192-97. As a result of their own restructurings in bankruptcy, American’s major competitors have taken advantage of these materially lower-cost vendors for such work, but American has not—placing American at a huge competitive disadvantage. As a result, American has a much larger workforce in relation to the size of its fleet than any of its competitors. Burdette Decl. ¶ 20. The cost disadvantage to American is thus exacerbated because the Company performs a much larger percentage of its aircraft maintenance work in-house than any of its competitors. *Id.*

In order to achieve even a minimum level of cost-competitiveness, American simply must remove these labor contract restrictions on outsourcing. American is quite aware that such changes are by far the most significant, and most difficult from TWU standpoint, for understandable reasons. In light of its current cost disadvantage, however, American simply has no choice if it is to be able to reorganize and compete successfully. In order to replace the

more detail in the McMenemy Declaration. *See* AA Ex. 700.

existing in-house maintenance capability with more cost-effective outside vendors, several additional elements of the existing M&R CBA must be modified; these are described below.

1. Remove Furlough Restrictions

First, Article 42(a) provides that American must guarantee employment for certain protected employees who were hired prior to September 24, 1998 or March 1, 2001, depending on their classification.¹² Article 42(b) similarly protects against furlough those employees at the maintenance bases and many line stations employed as of February 11, 1983.¹³ AA Ex. 1103. The effect of this Article is that most employees cannot simply be separated from the Company if their services are no longer needed due to outsourcing or other changes to the business. First, these protected employees are allowed to “bump” more junior employees out of their positions, rather than facing furlough. *Id.*, Art. 15(b). Even if an employee is junior enough to be “bumped” out of active service himself, he remains on a “furlough list” (also called a “recall list”) and must be recalled to work at American—at the same pay and seniority rights with which he or she left the active workforce—in the event that any openings become available in the future. *Id.*, Art. 16. Thus, American is prevented from hiring new, lower-wage, entry-level employees so long as there is a former employee on the recall list who could be recalled to work.

¹² “The Company will guarantee employment (full time/part time status based on employee’s status on September 24, 1998, for Title Group I and March 01, 2001, for Title Group II) and pay to any employee covered by this Agreement who was hired under this Agreement by the Company prior to September 24, 1998, for Title Group I and March 01, 2001, for Title Group II, and who was on the Company’s active payroll on September 24, 1998, for Title Group I and March 01, 2001, for Title Group II, or on a Union leave of absence, or an approved leave of absence for other reasons” AA Ex. 1103, Art. 42(a).

¹³ A limited force majeure exception is available, encompassing only (a) acts of God, (b) strikes, (c) national war emergency, (d) revocation of the Company’s operating certificate, (e) grounding of a substantial number of aircraft for safety reasons, and (f) a reduction in flight operations caused by unavailability of fuel or other essential material. AA Ex. 1103, Art. 42(c).

American's reorganization simply cannot succeed without the ability to reduce its labor costs through reductions in force. Weel Decl. ¶¶ 49-52.

American must be able to right-size its workforce to match the operations of the reorganized carrier. These layoff-protection provisions prevent the Company from matching its labor resources to the labor needed for its operations. Employers in Chapter 11 must make hard decisions about the deployment of capital and the basic scope of the enterprise—that these structural changes mean the elimination of jobs does not make the Section 1113 Proposal unfair or inequitable. *See In re Karykeion, Inc.* 435 B.R. 663 (Bankr. C.D. Cal 2010) (hospital's Section 1113 Proposal to eliminate successorship clause, so that a purchaser would not be required to hire existing employees, does not fail fair and equitable prong of 1113 test: "The fact that the workers who have put their heart and soul into saving this hospital for the past 18 months are not guaranteed jobs in a sale is undoubtedly an unfair result. That reality must, however, be tempered by an understanding of all the parties and interests in evaluating this prong of the analysis as well as the realities of this case. . . ."). American must eliminate this prohibition of layoffs in order to right-size the operation to protect the jobs of approximately 10,000 M&R employees who will be left.

2. Remove Restrictions on Outsourcing

Article 1(e) of the M&R CBA contains a blanket restriction on American's ability to outsource that has remained unchanged since 1950.¹⁴ American proposes to eliminate this

¹⁴ [T]he Company will perform aircraft and aircraft component maintenance and overhaul, and other related work, as its present employees have the normal time and skills to perform, and for which the Company can reasonably make available the necessary facilities. (1) Additionally, it is agreed that *the Company may continue to contract out work not exceeding the scope of its present contracting out practices*. AA Ex. 1103 at Art. 1(e) (emphasis added). Article 11 includes detailed job descriptions setting forth the tasks covered by the contract, and some of the letter agreements attached to Article 11 purport to require that American utilize TWU workers

restriction, which limits the range of American's business decisions, leaving the Company unable to adapt to changing financial circumstances or to take advantage of immediate cost reduction opportunities.

American pays more to conduct these operations itself than it would pay to have them done by a vendor. Vendors can perform base maintenance and component maintenance operations at a much lower cost. *See* Glass Decl. ¶ 188-89. TWU has recognized that American does more maintenance in-house than any other major U.S.-based airline. This is the reason that maintenance subcontracting has become standard in the airline industry; it is an economic imperative. For example, just weeks before Northwest's Chapter 11 filing, Northwest implemented subcontracting proposals that outsourced the vast majority of its M&R work and reduced its mechanic workforce by more than half. Glass Decl. ¶ 53. United also shrank its maintenance operations dramatically as it restructured and subcontracted work—sending heavy maintenance of the 737 and 777 fleets overseas. *Id.* ¶¶ 49-50. Delta also outsources their heavy maintenance checks. *Id.* ¶ 193.

There is no business need for American to retain this work in-house and it is uneconomic to do so. The contractual restrictions on outsourcing limit the range of American's business decisions, leaving the Company unable to adapt to changing financial circumstances or to take advantage of immediate cost-saving opportunities. Accordingly, American needs relief from each of the provisions that limit its ability to outsource work.

for specific tasks. *See* AA Ex. 1103 at Art. 11.

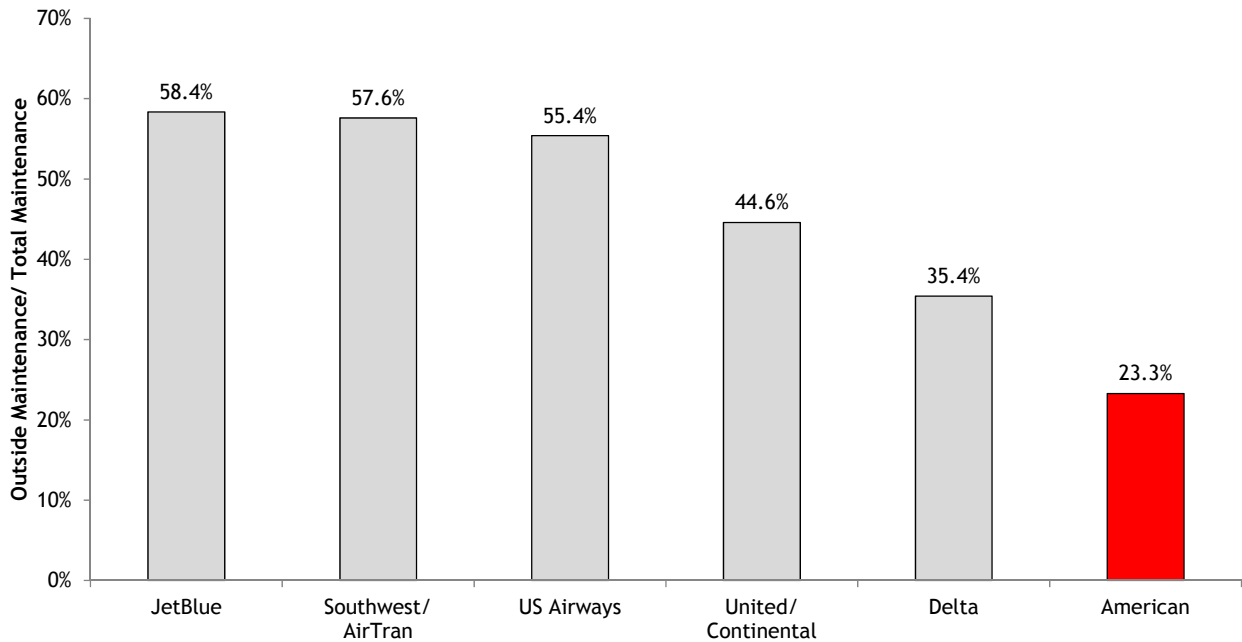
a. Aircraft Maintenance Outsourcing

American proposes to be able to outsource aircraft-related maintenance functions (“**Title I**” functions)¹⁵, subject to an overall outsourcing cap of 40% of aircraft-related maintenance man hours of work currently done “in house.” *See* AA Ex. 1209.

Other major network carriers use independent vendor operations to perform the same aircraft and component maintenance work that American currently performs in-house at its overhaul bases, enabling American’s competitors to obtain the same work at a much lower cost. American, by contrast, spends the least on outsourced maintenance among network carriers:

¹⁵ TWU work groups are separated into the following occupational title groups: Title I consists of Base AMT, Line AMT, OSM, Aircraft Cleaner and Parts Washer; Title II consists of Plant Maintenance Mechanic, Building Cleaner, Plant Maintenance Man, Utilityman, and Cabin Cleaner; Title III consists of Fleet Service Clerk; Title IV consists of Ground Service Person; and Title V consists of Stock Clerks. Burdette Decl. ¶ 5 n.2.

AA Ex.72: SPENDING ON OUTSIDE MAINTENANCE AS A PERCENT OF TOTAL MAINTENANCE¹⁶



Although American’s Section 1113 Proposal seeks the flexibility to determine what functions or work should be outsourced, the Company and TWU have had numerous meetings regarding various outsourcing scenarios that could be implemented under the proposed cap. Burdette Decl. ¶ 28. These included meetings between the full bargaining committees of TWU and American, as well as meetings between a smaller contingent of TWU and American representatives who met separately in Tulsa and Dallas. *Id.* American expects to realize an annual cost reduction of \$109.7 million in the M&R group by outsourcing up to 40% of its maintenance work currently performed in-house. *Id.*

¹⁶ Sources: U.S. DOT Form 41

Notes: Outside Maintenance is from Schedule P-6 “Services Purchased – Outside Flight Equipment Maintenance” and includes: Aircraft engine repairs, Aircraft interchange charges, Airframe repairs, Flight equipment repairs (Group I carriers), General interchange charges, Other flight equipment repairs, Other services. Total Maintenance is from Schedule 1.2 “Operating Expenses – Maintenance.”

b. Plant Maintenance Outsourcing

In addition to the highly skilled AMTs who perform specialized aircraft or avionics maintenance, the M&R CBA covers a number of employees who perform automotive and facility maintenance work. These Title II employees work in plant maintenance operations, such as Mechanic (automotive/facilities), Plant Maintenance Man (automotive/facilities), Utility Man, Building Cleaner and Cabin Cleaner.¹⁷ American proposes to lower its costs for the Title II work by the outsourcing described in more detail below. This will enable American to pay market rates rather than high costs of the same work under the M&R CBA. American proposes to outsource the following Title II plant maintenance functions currently performed “in house” at American, but commonly outsourced at other carriers:

- Cabin cleaning (including eliminating the Cabin Cleaner classification in the contract);¹⁸
- Building cleaning (including eliminating the Building Cleaner classification in the contract);
- Ground Service Equipment work at Bases;
- High Voltage Electrical Maintenance at Bases;
- Fire Extinguisher Maintenance at Bases;
- Central Plant Operation and Maintenance at Bases;
- Waste Water Treatment Operation and Maintenance at Bases;
- All painting, concrete, fencing and carpentry projects at Bases;

¹⁷ Over time, most cabin cleaners have been moved into positions under the Fleet Service Agreement; only 18 cabin cleaners remain under the M&R CBA.

¹⁸ This proposal is consistent with the Company’s proposal regarding the Fleet Service contract, in which all dayline cabin cleaning work (*i.e.*, the work of cleaning the cabins after each flight during the day) will be outsourced as well. *See* Weel Decl. ¶ 43. The overnight cabin cleaning functions (*e.g.*, deep cleaning of lavatories, carpets, seats, etc.) were already outsourced as part of the 2003 Fleet Service contract. *See* AA Ex. 1104.

- Ground Service Equipment work on non-powered equipment at Line Stations (airports);
- Lock and Key functions;
- Ground Service Equipment and Facility Maintenance work related to Cargo facilities;¹⁹
- Facilities maintenance work at American’s headquarters, American’s training facility—Flagship University, The Flight Academy, AFW, and Systems Operations Control²⁰; and
- Terminal and Hangar Facilities Maintenance work (except bag systems, carousels and jetbridges). AA Ex. 1209.

Outsourcing these functions will eliminate approximately 879 positions and result in \$18.1 million in annual cost reductions. Burdette Decl. ¶ 29.

3. Ongoing Review for Cost-Competitive Maintenance Operations

American also proposes to be able to review its other Aviation Maintenance operations on an ongoing basis to determine whether to outsource additional functions, subject only to the overall cap of 40% of aircraft-related work currently performed in-house on a man-hour basis. In this way, American can identify and take advantage of less expensive alternatives wherever they arise. Burdette Decl. ¶ 32.

B. Reductions in Station Staffing

Article 1(d) of the M&R CBA requires American to staff TWU-represented Title II maintenance employees at all currently-existing stations with 1,460 or more annual departures (4

¹⁹ This proposal is consistent with the Company’s proposal with regard to the Fleet Service contract, in which all cargo work will be outsourced. *See* Weel Decl. ¶ 42.

²⁰ SOC in Fort Worth, Texas is a 50,000 square foot “command center” to orchestrate all the front-line, minute-to-minute aspects of operating more than 1,800 daily flights worldwide. Over 400 dedicated professionals work 24/7 on the center floor, safely executing functions critical to aircraft flight operations including Flight Dispatch, Air Traffic Control System Management, Crew Schedule, Weight and Balance, Meteorology, Navigation Data, and Radio and Communication Systems.

per day) and at any newly-added stations with 3,650 or more annual departures (10 per day). AA Ex. 1103. This requirement results in Title II maintenance employees currently staffing 43 American stations throughout the country. By contrast, American is the only airline among its network competitors to include staffing requirements in its CBAs. Glass Decl. ¶¶ 200-202. Indeed, other airlines use a much higher departure threshold for staffing their own Title II maintenance employees at line stations. *See id.*; Weel Decl. ¶ 49.

Consistent with industry practice, American seeks to modify Article 1(d) to provide for staffing Title II maintenance employees only at stations with 7,300 or more annual AA departures (20 per day). This change would eliminate TWU-represented Title II maintenance employees at 33 stations, reflecting a headcount reduction of 99. Burdette Decl. ¶ 34. As a result, American would realize \$2.5 million in annual cost reductions. AA Ex. 1212.

C. Changes to Classifications and Qualifications

Several provisions of the M&R CBA preserve work to the higher-paid Aircraft Maintenance Technician (“AMT”) classification, or to AMTs with A&P licenses, preventing use of lower-paid employees who are fully qualified to do the job. American proposes the following changes to classifications and qualifications.

1. Increase Flexibility In Assigning Work To Lower Cost TWU Workers Under the Same CBA

A series of related provisions in the current M&R CBA reserve far more work for the highly paid AMTs than is the case at other major airlines. *See* Glass Decl. ¶ 185. Overhaul Shop Mechanics (“OSMs”), who are also TWU-represented mechanics under the same CBA, are fully qualified to perform much of this work, at far less cost. OSMs are aircraft mechanics who refurbish aircraft components and undertake other mechanic tasks that do not require FAA licenses or the higher skill level of AMTs. American proposes to move Base AMTs to the OSM

classification and to use OSMs to perform current work for which they are qualified. Doing so will result in a labor cost reduction equivalent to 701 employees and annual cost reductions of \$8.7 million, without eliminating jobs. To accomplish these changes to current practice, several provisions in the M&R CBA must be modified.

2. Remove Restrictions on Locations and Duties of OSMs

First, Article 11 of the current M&R CBA provides that OSMs cannot work in any *location* where work requiring A&P licenses is performed, nor can they work in any *shop* reserved for AMTs:

Overhaul Support Mechanics will be excluded from *Shops and areas* requiring an A&P license or the skills necessary for an Aviation Maintenance Technician and areas that require a high skill premium as outlined in Article 4.

AA Ex. 1103, at Art. 11 (emphasis added).²¹ This provision is far more restrictive than the relevant Federal Aviation Regulations, which do not restrict the presence or assistance of non-licensed mechanics, but require only that an FAA-licensed mechanic either perform certain work or inspect and sign-off on such work. 14 C.F.R. § 43.1 *et seq.* (2011). In contrast, this provision not only prevents the use of OSMs to assist, but keeps the OSMs from even being present in certain work areas. Burdette Decl. ¶ 36.

As a result of these restrictions, OSMs are not permitted to perform any work on aircraft that are inside hangars for heavy maintenance checks or where the aircraft is parked at a “maintenance dock.” Burdette Decl. ¶ 37. For example, OSMs are fully capable of repairing and installing aircraft seats. *Id.* ¶ 38. Nonetheless, after an OSM repairs an aircraft seat in the

²¹ Attachment 11.5 to the M&R Agreement contains a parallel provision: Shop Repairpersons, who are OSMs, “will not be utilized in *areas* requiring an A&P license, or shops and areas that receive a high skill premium as outlined in Article 4.” AA Ex. 1103 at Att. 11.5 (emphasis added).

seat shop, he or she cannot install it in the aircraft cabin or fix any problems that arise with the seat while the aircraft is in a maintenance dock, because the docks are reserved to the AMTs. *Id.* Instead, American must have a highly paid AMT install the seat and fix any seat problems that arise on the dock, even though the OSM Shop Repairperson may well be more familiar with the seat than the AMT. *Id.*

American proposes that OSMs be permitted to perform any work for which they are qualified. It makes no economic sense to preserve work for higher-paid employees that can be done efficiently and safely by other employees.

3. Remove Limits On Number of OSMs

The M&R CBA also limits the number of OSMs to 25% of the number of mechanics at its largest base maintenance operations. “[I]n no event will the number of Shop Repairpersons [OSMs] at either TUL or AFW exceed 25% of the total population of Title I employees at each base.” AA Ex. 1103 at Att. 11.6. American proposes that this restriction be removed.

OSMs are paid approximately \$10 per hour less than AMTs under the M&R CBA. AA Ex. 1103 at Art. 4. The limitations on OSM work prevent American from using less expensive OSMs for work they are fully qualified to do. This restriction does not turn on the work being done, but rather *where* it is being done; OSMs do much of the same work as AMTs, but are not allowed to do it on the aircraft dock. Elimination of these restrictions would enable American to have the work done by fully qualified employees at a lower pay rate. Burdette Decl. ¶ 40.

4. Remove Limits on Use of AMTs Who Do Not Possess or Do Not Need FAA Licenses.

The M&R CBA further increases costs and restricts American’s flexibility by imposing limits on the use of AMTs who do not have A&P licenses to perform work for which A&P licenses are not necessary. Pursuant to American’s Qualifications Administration Manual

(“**QAM**”), only AMTs holding A&P licenses are allowed to perform many tasks even though FAA does not require the licenses for the tasks, and A&P license skills are not necessary for them. AMTs with A&P licenses are paid a premium of \$5.00 per hour. AA Ex.1103, Art. 4(f). However, Articles 11(e) and (f) of the M&R CBA prohibits American from making changes to the QAM without TWU’s consent or through an arbitration before a System Board of Adjustment. *Id.*, Arts. 11(e) and (f). AMTs without these licenses are capable of performing many of these tasks, because AMTs without A&P licenses did them in past years. Indeed, some older AMTs who do not have A&P licenses continue to do these tasks to this day under “grandfathering” provisions elsewhere in the CBA. Burdette Decl. ¶ 41.

5. Eliminate Avionics Crew Chief and Avionics AMT

American proposes to eliminate the Avionics Crew Chief and Avionics AMT position at the Line Stations, resulting in a reduction of 115 employees for an annual cost reduction of \$10.1 million. Currently, Avionics AMTs and Crew Chiefs are specialized sub-sets of General AMTs and Crew Chiefs, who are dedicated to performing only electrical-type mechanic work. Having a separate classification dedicated to these tasks creates frequent inefficiencies. For instance, if non-electrical work—such as opening an electrical panel—is performed as a first step before an Avionics AMT performs electrical work, the Avionics AMT will call over a General AMT to open the panel, while the Avionics AMT waits. If, as American proposes, a General AMT were instead trained on avionics, then the same employee could open the panel, perform the necessary electrical work, and close the panel. In addition, because the occurrence of avionics maintenance work is less frequent than the non-avionics work traditionally handled by General AMTs, an avionics-trained General AMT would be more fully occupied, performing non-avionics work when no avionics work is available. Burdette Decl. ¶ 42.

6. Greater Assistance from Tech Crew Chief and Crew Chief

American seeks to clarify that Tech Crew Chiefs and Crew Chiefs may assist aircraft maintenance crews as necessary to insure that assignments are completed, and that Tech Crew Chiefs may perform the duties of a regular Crew Chief on an as-needed (“**non-regular**”) basis. American believes that the CBA currently grants these rights, but seeks clarification to avoid the expense of incurring future grievances by using these procedures. Burdette Decl. ¶ 43.

7. Consolidate Aircraft Cleaners and Parts Washers Classifications

American proposes to consolidate these two classifications into a single group to be identified as “Cleaners.” The aircraft cleaning and parts washing work involves sufficient similarities of work and qualifications that combining the classes results in a more efficient cross-utilization of these employees. In addition, the change will simplify the “bump and roll” effect of the Company’s other outsourcing and workforce reduction proposals by combining two separate categories into which higher-classification employees could bump into one classification, eliminating any bumping between Aircraft Cleaners and Parts Washers. Burdette Decl. ¶ 44.

D. Changes to Work Rules

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

1. Promotions and Filling Vacancies

Article 12 of the M&R CBA currently requires American to use a system-wide job bidding process to fill each long-term job vacancy—any employee at any base or station across the United States may bid on any vacancy. AA Ex.1103. Usually when a job is filled using the bidding process, the successful bidder leaves behind a second vacancy that must also be filled

through the same nationwide bidding process. Burdette Decl. ¶ 54. The result is a cascade—termed the “bump and roll”—that often takes months and involves significant moving costs and expenses. *Id.* Moreover, by requiring American to fill a vacancy only by system-wide bidding process, the CBA effectively prevents American from filling available jobs with local individuals who are available and familiar with local operations, or with other local employees who may be underutilized in their current jobs. *Id.* Rather than proposing to eliminate the bidding system completely, however, American proposes to use the bidding process only to fill the first vacancy; follow-on vacancies would be filled by administratively or through assignment (*i.e.*, employees do not bid for it). *Id.*

The Tentative Agreement American reached with TWU leadership in October 2010 contained several changes to Article 12, which relate to promotions and job postings. Burdette Decl. ¶ 55; AA Ex. 1119. American proposes to adopt Article 12 of the Tentative Agreement with five changes described below.

First, American proposes adding a process for selection of Crew Chiefs similar to the Tech Crew Chief process. Crew Chiefs are TWU-represented non-management employees who have some responsibilities for assigning and directing the work of other TWU-represented employees. Currently, Crew Chiefs are subject to some qualification standards, but are otherwise selected entirely by seniority. As a result, employees can be selected for a Crew Chief position, undergo extensive training at the expense of the Company, and then ultimately not be successful in the position. This process results in wasted training costs for the Company as well as disruptions in the operations when new Crew Chiefs have to be brought in. Instead, the Company proposes instituting more focused selection procedures. Burdette Decl. ¶ 56.

Second, American would not adopt the portion of the 2010 failed Tentative Agreement that would have created a new Support Mechanic Airframe (“SMA”) classification for up to 20% of AMTs. Instead, as described above, American has proposed modifying the use of the OSM classification, making the SMA classification unnecessary. Burdette Decl. ¶ 57.

Third, American seeks to modify the language on transfers to state that once a transfer has been accepted, it cannot be refused by the employee or rescinded by the Company. Article 12(l) currently permits employees to transfer to another station to fill a regular full-time or part-time vacancy not subject to bidding, but there is nothing in the provision that prohibits that employee from refusing the transfer after it is awarded. AA Ex. 1103. When the employee refuses the transfer, the Company experiences lost productivity and unnecessary costs associated with moving the employee from one station to another. Burdette Decl. ¶ 58.

Fourth, American seeks to modify Article 12(m) to provide that when an employee seeks to transfer to a lateral or higher-classification position, the employee must pass a qualifications test before the employee is moved and reports to the new position. In the past, employees have bid for and been awarded a transfer only for the Company to learn after significant expense that the employee cannot qualify for the new position. American seeks to avoid incurring these unnecessary costs. Burdette Decl. ¶ 59.

Fifth, American seeks to modify Attachment 12.1 regarding labor loaning to provide a broader definition of a business unit, allowing for greater flexibility in using employees on assignments or work areas other than their regular assignments. In conjunction with this change, American will eliminate all letters of agreement concerning labor loans and manning. The essence of this proposal is that instead of being required to observe the labor loaning restrictions and to utilize a formal process for moving employees from one work area to another to complete

the required work American will have greater flexibility to move employees to perform available work. As a result, maintenance will be completed more efficiently and maintenance employees will be more fully utilized during their work hours. The change to this provision alone will result in an annual cost reduction of \$1.3 million. Burdette Decl. ¶ 60.

2. Reductions in Force Process and Recall Rights

To effectuate the necessary outsourcing measures described above, American must secure changes to Articles 14-16, which relate to reductions in force and recall rights.

American makes two proposals that will eliminate the “bump and roll” problem. First, American proposes that employees affected by a reduction in force will have 15 days to select another position, if there is one for which he or she is eligible. Then, to avoid the continuous “bump and roll” problem, the reduction in force will be conducted “virtually” until it has been determined where all of the affected employees ultimately will be placed. Employees will be notified of their final positions, and will be given 14 days to report. Second, American proposes to surplus Crew Chief, Tech Crew Chief, and Inspector positions back to the basic classification at their particular work location, if affected by the reduction in force. This will avoid the “bump and roll” effect of Crew Chiefs and Inspectors bumping each other among those classifications, eventually displacing another Crew Chief or Inspector back to the basic classification. Burdette Decl. ¶ 62.

Next, American proposes that when an AMT or Plant Maintenance Mechanic elects to fill a job in a lower classification—either as a result of a reduction in force or under any other circumstances—the employee will not carry his previous classification or pay rate into the new lower-classified position. Instead, a former AMT or Plant Maintenance Mechanic will adopt the pay rate of the position into which he or she has moved. This change will save American \$11.2 million. Burdette Decl. ¶ 63.

American proposes to reduce recall rights from 10 years to 5 years. This is consistent with recall rights in the industry and will allow American an earlier opportunity to avail itself of lower wage rates. If there is a need for additional heads in the workforce, American will be able to hire new employees at the lowest wage rates rather than being forced to recall higher-seniority and higher paid employees off of the recall list for a decade. Burdette Decl. ¶ 64.

3. Vacations

American proposes to save \$5.1 million per year by modifying the vacation provisions of Article 8 in three important respects. Burdette Decl. ¶ 50. First, American proposes that Personal Vacation days be eliminated. *Id.* ¶ 51. Article 8(k) of the M&R Agreement allows employees to borrow up to 5 days of vacation (referred to as personal vacation days) from a subsequent year's vacation accrual. AA Ex. 1103. Because employees may take these Personal Vacation days with little notice, when an employee is absent on a personal vacation day, his or her work is typically covered by another employee at an overtime rate instead of at the vacationing employee's regular straight time wage. Burdette Decl. ¶ 50. American proposes to eliminate this practice for an expected labor cost reduction is \$3.5 million annually. *Id.*

Second, American proposes to modify Article 8(a) to reduce the maximum number of vacation days that employees can accrue in a year from 30 days to 25 days. This change is being proposed across all of TWU-represented work groups and will more closely align American's vacation benefits with those of other airlines. Glass Decl. ¶ 210. With regard to the M&R employees alone, this change will save American \$1.6 million annually. Burdette Decl. ¶ 52; AA Ex. 1212.

Third, American proposes modifying Article 8(c) and Attachment 8.3 to change the timing of employee bids on Flex Vacation days. AA Ex. 1209. Flex Vacation days are additional vacation days that employees can purchase from the Company to supplement their

paid vacation. Burdette Decl. ¶ 53. Because it is up to the employee whether to purchase Flex Vacation, and in what amount (subject to limits), it is difficult for the Company to plan for coverage needed while employees are on Flex Vacation time. *Id.* This is true because currently, the Flex Vacation purchase is not finalized before the vacation bid is completed. Therefore, at the time of the vacation bid, American does not know how much Flex Vacation will be used or in which weeks of the year it will be used. Once regular vacation and Flex Vacation bidding is complete under the current contract language, there is a likelihood that there will be insufficient employee coverage for certain weeks of the year. As a result, overtime hours must be paid to cover this need for man-hours. *Id.* American proposes changing the bidding deadline and specifying that Flex Vacation must be bid after regular vacation weeks are bid. *Id.* These changes will result in approximately \$100,000 annual cost reduction in overtime payments by permitting the Company to better cover for employees on Flex Vacation without resorting to the use of overtime hours. *Id.*

4. Overtime and “Field Trips”

Article 6 provides detailed procedures for distributing overtime that result in inefficiencies. American proposes to modify Article 6 to permit the Company to distribute overtime within the crew or work group as equitably as practicable, provide for overtime after an employee has worked 40 hours in a week (rather than the current provisions that require payment of overtime after 8 hours in a day), and eliminate all local agreements connected to overtime. The local agreements contain complex procedures for the distribution of overtime, which can lead to frequent “bypass” grievances—where employees claim they should have been selected for an overtime assignment, and should receive overtime pay, even though they did not perform the work. By employing a standardized procedure across the system for distributing overtime, including working from a signup list, the expense of bypass grievances will be greatly reduced.

Burdette Decl. ¶ 47. For example, the Company paid over \$1 million in bypass grievances in calendar year 2011. *Id.*

Article 26 of the M&R CBA covers compensation for time and expenses while an employee is assigned to perform work away from his or her base station (known as “**Field Trips**”). AA Ex. 1103, Art. 26. Subparagraph (f) provides that “[a]t a station where there is no existing procedure governing the assignment and administration of field trips, a [local] procedure will be established.” *Id.*, Art. 26(f). American proposes to modify Article 26 to permit management to develop Field Trip procedures to include uniform distribution and utilization procedures, and to eliminate all local agreements in place. The local agreements that have developed over time are inefficient and costly. Burdette Decl. ¶ 48. For example, some of them require the Company to schedule local mechanics, who are not qualified in the particular operation and are usually working overtime, to “stand by” while the AMTs on the Field trip actually accomplish the work. *Id.* The proposed changes to the overtime and Field Trip policies would save American \$5.8 million annually, attributable to overtime grievances paid due to the inconsistent application of the varied overtime and Field Trip policies currently in place and to savings generated from paying less overtime hours. *Id.*

5. Seven-Day Workweek

American’s fleet of commercial jet aircraft represent a huge capital investment—an investment that generates revenue and return on investment only when it is available for use in revenue airline service. Burdette Decl. ¶ 45. Unfortunately, one key work rule provision in the M&R CBA results in delays in aircraft maintenance. *Id.* Article 3 limits the Company’s ability to schedule more than 1/7th of the workforce at its aircraft overhaul bases for work on a Saturday or Sunday. AA Ex. 1103, Art. 3. This restriction requires the Company to schedule most maintenance during the week when there are sufficient employees to perform the work. Burdette

Decl. ¶ 45. As a result, maintenance work on an aircraft that is not finished by Friday must wait until Monday of the next week, thus the Company loses the service of the aircraft for two full days. *Id.* The Company proposes to eliminate the restrictions on weekend scheduling in Articles 3(i)(5) and (6), which will result in efficiencies and revenue savings by allowing the Company to take aircraft out of service during weekends when travel traffic is light and put aircraft back in service faster for peak week-day travel. *Id.* Recognizing the Company's need to achieve seven-day staffing, TWU agreed as part of the failed 2010 M&R Tentative Agreement that the Company would determine weekend coverage at maintenance bases based on the requirements of the operations. *See* AA Ex. 1119.

6. Fixed Schedules

American proposes to modify the M&R CBA to reduce the frequency of shift bids and to make bids for shift schedules consistent nationally. Articles 3(f) and 21(b) of the M&R CBA provide that days off at the Company's maintenance bases are either "fixed or rotated in accordance with the preference of a majority of the employees involved, consistent with the requirements of service." AA Ex 1103, Arts. 3(f) and 21(b). The Company proposes to modify these provisions to establish fixed schedules and to limit the frequency of shift bids to twice per year. These changes will eliminate the administrative burden associated with ever-changing schedules in which work days and days off rotate through the calendar. Each shift bid results in approximately 4 hours of lost productivity as employees change and readjust to shifts. Shifts are bid every 28 days at the TULE maintenance base, resulting in 4 lost hours for every maintenance employee there every single month. As a result, American will realize cost reductions of approximately \$600,000 annually. Burdette Decl. ¶ 46.

7. Training

American believes that under the current CBA, it has the right to assign training in a manner consistent with the needs of the business and that seniority may, but need not be, the basis of those assignments. Article 23 provides:

When the Company provides training on a new or existing type of equipment, including Automotive/Facilities, or new or existing aircraft or its component parts, employees at the station regularly performing the type of work involved will be assigned to the training, to the extent of the number required, where the training is deemed necessary for their regular work assignments.

An employee selected for training under these procedures may be designated in the order of his occupational seniority, subject to his availability. When the training is applicable only to certain shifts, work locations, shops, or types of work, those employees, up to the number required, will be provided the training

AA Ex. 1103, Art. 23(d).

TWU has repeatedly insisted that these provisions require that all training be offered based on occupational seniority, even if the most senior employee will never perform the type of work for which the training is being provided. Burdette Decl. ¶ 66. For example, a new aircraft type introduced into service may be serviced at a particular station only on the twilight or midnight shift. Because these shifts are considered less desirable, they are typically staffed with more junior employees who bid for shifts after the senior employees. Thus senior employees working the day shift would not service the new airplane type. In the past, there have been occasions in which TWU nevertheless insisted that the more senior day shift employee be trained on the airplane before the junior employee who is more likely to actually service that plane. *Id.* This results in unnecessary expenses and delays in training the individuals who will actually perform the work. *Id.* American seeks clarification that pursuant to Article 23, training will be assigned to those who will perform the work, without regard to occupational seniority. *Id.*

8. One Station Agreements

One station agreements treat geographically proximate airports or work locations as a single location for the purposes of reductions in force and bidding for vacancies. The DWH maintenance hangar in Dallas is currently one station with the DFW airport. There is frequent turnover at DWH because employees from around the system bid into DWH and then transfer to DFW at the first opportunity. American proposes eliminating the “DFW 5 (DWH) and DWH Title II License/Testing Requirement” letter, which would permit DWH to be a stand-alone maintenance base, either in its current location or another location at DFW airport. By eliminating the one station configuration, DWH would be staffed independently of DFW, reducing lost productivity and overtime due to vacancies caused by the frequent turnover. Burdette Decl. ¶ 67.

9. Holidays

American proposes eliminating all local letters of agreement regarding holidays, so that the actual contractual language in the current 2003 CBA will control holidays for the M&R work group. In particular, the local letter in Chicago (ORD) requires a certain number of employees to be off on the holiday regardless of the needs of the operation. American continues to operate on holidays, however, and therefore regularly needs to call in employees to work holidays at overtime or holiday pay rates in order to cover the work. AA Ex. 1215.

E. Changes To Pay

1. Plant Maintenance Mechanic Pay Scale

As noted above, American does **not** propose any reduction in basic pay rates for current employees. American does propose adjusting the Plant Maintenance Mechanic pay scale in Article 4(b) of the M&R CBA from five years to nine years for new employees. AA Ex. 1209. Currently, Plant Maintenance Mechanics reach the maximum pay rate after five years of

seniority. Pursuant to American's proposal, the pay scale for current employees would not be disturbed, but any newly hired employees would reach the same existing maximum pay rate more gradually, after nine years. This change would make the Plant Maintenance Mechanic pay scale comparable to that at other airlines. Burdette Decl. ¶ 68.

As a result, there would be no cost reduction to the Company during the six-year term of the proposed contract. However, when American has cause to hire new employees due to projected future growth, changing this provision will allow American to realize future savings because new employees would reach the maximum pay scale after nine years rather than five. Burdette Decl. ¶ 68.

2. Midnight Skill Retention Premium

American currently pays a premium called the Midnight Skill Retention Premium, which was initiated to ensure that the Company had adequate numbers of skilled employees willing to work on shifts that begin between 5 p.m. and 6 a.m. American believed at the time that a \$.50 per hour premium was necessary to attract and retain qualified employees. This is no longer the case. Eliminating this premium will result in an annual cost reduction of \$1.5 million. Burdette Decl. ¶ 69; AA Ex. 1212.

V. PROPOSED CHANGES TO THE STOCK CLERK CBA

American's Proposal to the Stock Clerks is expected to realize a cost reduction of \$20 million annually and result in a reduction in headcount of approximately 270 employees. AA Ex. 1213. Because the work of the Stock Clerks is closely tied to the work of the mechanics, the reduction in the number of Stock Clerks needed under American's new business plan follows from, in large part, the changes American is proposing in the M&R work group. As with M&R employees, American proposes to leave the basic pay scale intact. Burdette Decl. ¶ 70; AA Ex. 1210.

A. Removal of Outsourcing Restrictions

American’s ability to outsource Stock Clerk work is severely limited by Article 1 of the Stock Clerk CBA and a letter agreement from 1950. AA Ex. 1107, Art. 1 and Att. 1.1. Article 1 requires the Company to maintain “the present volume of work” as set forth in the C.R. Smith letter. *Id.*, Arts. 1(d) and 1(e). Over the years, this letter has been relied on by TWU to require the Company to maintain 1950s levels of staffing and 1950s levels of outsourcing. Burdette Decl. ¶ 71. By removing these outdated restrictions, American expects to save on average \$13 million a year. AA Ex. 1213. This will be done by outsourcing or eliminating certain Stock Clerk work associated with the following maintenance work to be outsourced under the M&R CBA:

Work to be outsourced	Labor cost reduction	Headcount Reduction
Heavy checks of wide-body aircraft at AFW	\$5.3 million	96 employees
Heavy checks of narrow-body aircraft at TUL	\$2.3 million	42 employees
Light checks of narrow-body aircraft at TUL	\$3.2 million	64 employees
Modification work on narrow-body aircraft at TUL	\$0.7 million	16 employees
Int/Ext Shop Support	\$1.3 million	30 employees
Line maintenance work	\$0.2 million	10 employees

AA Ex. 1213.

Because American outsources far less of this work than other network carriers, and because other network carriers are not constrained to maintain their current outsourcing levels, the restrictive provisions in the Stock Clerk CBA constitute a serious restraint on American’s ability to operate its business competitively.

B. Changes to Work Rules

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

1. Vacations

To be consistent across all employee work groups, American proposes to reduce the maximum annual vacation accrual for Stock Clerks from 30 days to 25 days. AA Ex. 1210. The labor cost reduction associated this Proposal for Stock Clerks would be \$100,000 annually. AA Ex. 1213. As with M&R employees, under the Stock Clerk CBA, employees may borrow up to 5 days of vacation (referred to as Personal Vacation days) from a subsequent year's vacation accrual (*see* AA Ex. 1107, Art. 8(k)), and may buy even more vacation from the Company (referred to as Flex Vacation) through payroll deduction (*see id.*, Art. 8(c)). Because employees may take these vacation days with little notice, the absences caused by these additional vacation days must be covered by extending the work week of employees who were already scheduled to work that week—thus resulting in the payment of overtime premiums to those employees—instead of paying the vacationing employee the regular straight time wages he would have earned if he were working and not on vacation. American proposes to eliminate this practice for an expected labor cost reduction of \$14,000 annually. Burdette Decl. ¶ 78; AA Ex. 1213.

2. Work Schedules

American proposes to modify Articles 3 and 21 to permit management to establish fixed shift cycles and to determine the frequency of shift bids. Article 3(d) provides that, “[a]t stockrooms or warehouses where employees are required to maintain continuous operation of departments or assignments, days off or shifts may either be fixed, bid or rotated in accordance with the preference of a majority of the employees involved, consistent with the requirements of

the service.”²² AA Ex. 1107, Art. 3(d); *see also id.*, Art. 21(a). Historically, the Stock Clerks have preferred rotating bids and shifts, which decreases productivity and creates inefficiencies. For example, employees who rotate bids change jobs frequently (from every 28 days for Base employees to every four months for Line employees). Burdette Decl. ¶ 72. This results in lost productivity due to the need for retraining and lost efficiency. Similarly, rotating shifts cause inefficiency in the Line and Base environments. In the Line environment, employees rotate days off every four weeks. If an employee schedules a vacation spanning a shift rotation, the employee maintains the original day off, although their day off has changed with the shift rotation. This causes manpower shortages (incurring overtime to cover the shortfall) and overages in employee scheduling (incurring wage payments to employees who are not needed for staffing purposes). *Id.* ¶ 73.

At the Bases, certain tasks require specialized training that leads to inefficiency when employees performing these tasks rotate frequently. For example, employees working in the tool room must be trained to maintain the calibration dates on tools on a daily basis; employees in the records office must be able to perform out of the ordinary transactions using special keywords; employees in receiving must be trained to understand what information and repairs are required and have been accomplished. Rotating employees every three to four months leads to lower productivity and efficiency. Burdette Decl. ¶ 74. In addition, rotating undesirable afternoon and midnight shifts must be done manually by supervisors based on the amount of time each employee has worked those shifts. Further, management cannot assign a Stock Clerk to an off

²² Although the language of Article 3(d) provides for management override of employee preferences “consistent with the requirements of the service,” the Company has never established work schedules inconsistent with employee choice. AA Ex. 1107, Art. 3(d). American expects it would face strong grievance and labor relations opposition from TWU if it were to unilaterally establish fixed shifts.

shift without seven days' notice, unless it pays time and a half for the first day of the new shift.

Id. ¶ 75.

Additionally, Article 3(i) prohibits the Company from “establish[ing] five-day work schedules that include Saturday and Sunday work for employees totaling more than one-seventh of the employees subject to these rules,” at American’s large maintenance and overhaul bases. AA Ex. 1107, Art. 3(i). In this modern age, and to be competitive with the industry, American needs to run a 7-day-a-week operation. Limiting the number of employees that can be scheduled for Saturday and Sunday work prohibits American from servicing its aircrafts efficiently so they can be returned to service. Removing these scheduling restrictions will result in a reduction in force of 6 employees at a labor cost reduction of \$334,000 annually. AA Ex. 1213. Because Stock Clerks support AMTs, with a shift to a seven-day workweek and the elimination of the 1/7th rule (described in ¶ IV.D.5. above), American must have flexibility to assign OT work to Stock Clerks in an efficient way. *Id.*

3. Overtime Distribution

American proposes to modify Article 6(c) to confirm management discretion in distributing overtime work within a crew or appropriate work group as equitably as practicable, and eliminate all local agreements regarding the assignment of overtime. AA Ex. 1107, Art. 6(c). Article 6(c) and local agreements force American to select individuals for overtime work based purely on the number of overtime hours they have worked, regardless of that employee’s qualification for the work to be performed. For instance, if the overtime work needed to be done requires HAZ MAT training, American must pay overtime to every employee who has lower overtime hours than the Stock Clerk with HAZ MAT training. Additionally, if there are fluctuations in the day-to-day workload, management is not allowed to cross assign work to Stock Clerks in other areas who are not busy. Burdette Decl. ¶ 77. Allowing the Company to

equitably distribute overtime work within a crew or appropriate work group is expected to yield \$100,000 in annual labor cost reduction. AA Ex. 1213.

4. Job Transfers

As with the M&R CBA, American proposes to modify Article 12(l) of the Stock Clerk CBA with respect to job transfers. Article 12(l) permits employees to transfer to another station to fill a regular full-time or part-time vacancy not subject to bidding. AA Ex. 1107, Art. 12(l). The transfers are either lateral transfers or upgrades. After accepting the transfer, approximately 50% of the employees who have accepted a lateral transfer and 40% of the employees who have accepted an upgrade transfer in fact refuse the transfer. The Company must then re-post the position and find another transfer candidate through bid or hire a new candidate externally. The delay in filling the position caused by the rescinded transfer requires the Company to cover the position with overtime. Burdette Decl. ¶ 80. American proposes to modify Article 12(l) to state that once a transfer has been accepted the employee cannot refuse, nor can the Company rescind, the transfer. This modification will result in a labor cost reduction of approximately \$65,000. AA Ex. 1213.

5. One Station Agreements

For the reasons discussed with respect to the M&R CBA, American seeks to eliminate the DFW Hangar 5 letter and confirm that DFW is a stand-alone base, whether in its current location or at another location at DFW airport. Burdette Decl. ¶ 81.

C. Modify the Qualification Administration Manual (“QAM”)

To be consistent with its Proposals to other TWU-represented work groups and for the reasons discussed above with respect to the M&R CBA, American seeks to modify Articles 11(d) and (e) to permit management to establish qualifications and implement changes to the QAM. Burdette Decl. ¶ 82; AA Ex. 1107, Art. 11(d).

VI. PROPOSED CHANGES TO THE MCT CBA

American's Proposal to the MCTs is expected to realize a cost reduction of approximately \$3.4 million a year. AA Ex. 1214. The Proposal requires a reduction in headcount of approximately 14 employees. Because there are only 87 employees in the MCT work group, the labor cost reduction associated with American's proposed modifications are relatively small when compared with the larger work groups. That does not mean that the proposed changes are less necessary to American's business plan. American has striven to identify cost reduction in every possible aspect of its operations, and to spread the burden fairly among all work groups. Burdette Decl. ¶ 83.

A. Modification of Scope of Work

Article 1 of the MCT CBA provides that MCTs are to provide certain technical advice regarding aircraft maintenance and repair to American's mechanics and pilots. AA Ex. 1110. American proposes to modify Article 1 to clarify that other qualified employees may perform MCT work, in other words, that certain of the MCT work is not exclusive to MCTs. This change will allow American to handle its maintenance work more efficiently. Burdette Decl. ¶ 84. It is crucial for the Company to have the flexibility to put the right people with the right jobs and allow management to utilize other employees, such as engineers, who have similar skill sets across the system.

B. Modification of Overtime Rate

Article 6 of the MCT CBA provides that employees will receive twice their hourly rate for each hour worked in excess of 12 hours in a day, for all hours worked in excess of 8 hours on an employee's first day off, and for all hours worked on an employee's second day off. AA Ex. 1110, Arts. 6(a)(2) & 6(b)(1). American proposes setting all overtime rates at one and one-half times the employee's regular rate of pay. This modification is necessary for fair and equitable

treatment of MCTs vis-à-vis AMTs, whose overtime rate is time and a half. Burdette Decl. ¶ 85. This modification to the overtime rate will save American \$265,000 annually. AA Ex. 1214.

C. Reduction of Paid Holidays and Holiday Pay Rate

The current MCT CBA is unique when it comes to holidays. Under the current CBA, MCTs have 8 paid holidays and receive twice their regular rate of pay for all work performed on a holiday. AA Ex. 110, Art. 7. Employees in other TWU work groups have five paid holidays and are paid one and one-half times their regular rate of pay for work performed on a holiday. AA Exs. 1103, 1104, 1107 and 1108 at Art. 7. American proposes to modify Article 7 of the MCT CBA to reduce the number of paid holidays to five and provide holiday pay at one and one-half times the employee's regular rate of pay to be consistent with the number of paid holidays and the holiday pay rate of other TWU-represented employees at American. Burdette Decl. ¶ 86. These changes will result in \$232,200 in labor cost reduction annually. *Id.*; AA Ex. 1214.

D. Changes to Work Rules

1. Work Schedules

As discussed above for Stock Clerks, American proposes modifying Articles 3 and 21 and Attachment 3.1 of the MCT CBA to permit the Company to establish fixed work schedules at its discretion to match the needs of the business. Article 3(b) provides that the regular work schedule is five days on followed by two days off. AA Ex. 1110 Art. 3(b). Articles 3(d) and 21(b) provide that shifts will be rotated and bid according to the preference of the employees. *Id.* Art. 3(d) & 21(b). Attachment 3.1 currently allows the Company to set alternative work schedules of four ten-hour days only upon mutual agreement with the Union, and a change to a work schedule requires 30 days' advance notice. The Company needs the discretion to establish alternative work schedules of four ten-hour days or six days on and three days off to match the

needs of the business. Burdette Decl. ¶ 87. Eliminating the current restrictions on the Company's ability to set work schedules at its discretion will provide American labor cost reduction totaling \$1.7 million. AA Ex. 1214.

2. Relocation of MOC to SOC

American seeks to modify Article 15 to allow it to relocate MCTs and additional support staff related to the Maintenance Operations Center (“MOC”) in Tulsa to Systems Operations Control (“SOC”) in Fort Worth. There is no current provision in the MCT CBA that would allow the Company to relocate the entire operation as it exists. The current process would require the Company to furlough the employees based in Tulsa at MOC, while concurrently opening vacancies in Fort Worth at SOC. This process would result in significant training/retraining costs, and more importantly, would be very disruptive to the ongoing operations. Locating the MOC and SOC together will improve communications between the two as well as increase productivity, reliability and enhance customer service by focusing on on-time performance. Notably, American's competitors all use this integrated approach. The one-time savings associated with this move would be \$612,000. Burdette Decl. ¶ 89; AA Ex. 1214.

3. Vacations

As discussed above for Stock Clerks, American proposes to modify Article 8(a) to reduce the maximum vacation accrual from 30 days to 25 days and to eliminate paid personal vacation days. AA Ex. 1110, Art. 8(a). American will annually realize labor cost reduction of \$16,000 and \$29,800 respectively for these changes. Burdette Decl. ¶ 88; AA Ex. 1214.

VII. PROPOSED CHANGES COMMON TO ALL TWU EMPLOYEES

American is proposing additional uniform changes across all TWU-represented work groups, including: (1) the duration of TWU CBAs; (2) elimination of the ASM cap; (3) elimination of system and station job protection provisions; (4) elimination of the special moving

allowance; (5) modification of recall rights; and (6) elimination of the “**Baker letter**” regarding Union Business Paid time. *See* Weel Decl. ¶¶ 93-97. The elimination of the Baker letters alone results in annual cost reductions of \$2.4 million for the M&R employees, \$124,000 for Stock Clerks, and \$193,000 for the MCTs. *Burdette Decl.* ¶ 90.

As discussed more fully in the accompanying Main Brief, American is also proposing uniform benefits changes across all employee groups, including modifications to: (1) leaves of absence; (2) sick leave; (3) pensions; (4) active employee medical and life benefits; and (5) retiree medical benefits. *See* Weel Decl. ¶¶ 98-102.

VIII. CONCLUSION

As is set forth in American’s accompanying Main Brief, pursuant to Section 1113(c) of the Bankruptcy Code, American is entitled to reject these CBAs, because (1) American has made proposals to the Unions that are “necessary to permit the reorganization of the debtor” and are “fair and equitable” to all affected parties, and it has provided the Unions with relevant information necessary to evaluate the proposals (11 U.S.C. § 1113(b)(1)); (2) the Unions have refused the proposals without good cause; and (3) the balance of the equities favors rejection. 11 U.S.C. § 1113(c). Since filing its Chapter 11 petition on November 29, 2011, American has engaged in intensive negotiations with TWU regarding its imperative to effect labor cost reductions.

American’s proposal to TWU regarding the M&R, Stock Clerk and MCT CBAs contain changes that are necessary for reorganization while at the same time being fair and equitable. For the reasons set forth herein, and in the accompanying Declarations, we respectfully request that the Court grant American’s Motion to reject the M&R, Stock Clerk and MCT CBAs.

Dated: March 27, 2012

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