SKADDEN, ARPS, SLATE, MEAGHER & FLOM LLP
Four Times Square
New York, New York 10036
Jay M. Goffman

- and -

SKADDEN, ARPS, SLATE, MEAGHER & FLOM LLP
155 North Wacker Drive
Chicago, Illinois 60606
John Wm. Butler, Jr.
John K. Lyons
Felicia Gerber Perlman

Attorneys for the Official Committee of Unsecured Creditors

UNITED STATES BANKRUPTCY COURT
SOUTHERN DISTRICT OF NEW YORK

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

STATEMENT OF THE OFFICIAL COMMITTEE OF UNSECURED CREDITORS WITH RESPECT TO RENEWED MOTION OF DEBTORS FOR ENTRY OF ORDER PURSUANT TO 11 U.S.C. § 1113 AUTHORIZING REJECTION OF COLLECTIVE BARGAINING AGREEMENT WITH THE ALLIED PILOTS ASSOCIATION

("UCC'S STATEMENT REGARDING RENEWED SECTION 1113 MOTION")

The Official Committee of Unsecured Creditors (the "Committee") hereby submits this statement (the "Statement") regarding the Renewed Motion of Debtors for Entry of Order Pursuant to 11 U.S.C. § 1113 Authorizing Rejection of Collective Bargaining Agreement with the Allied Pilots Association (Docket No. 4084) (the "Renewed 1113 Motion"). With respect to the Renewed 1113 Motion, the Committee respectfully represents as follows:

Statement

1. American has successfully reached agreements to modify eight of its nine collective bargaining agreements (the "CBAs"). Pursuant to certain "me too" agreements contemporaneously negotiated with each of American's labor organizations, however, American may not realize any of the cost savings associated with these renegotiated agreements as to any of American's labor organizations unless and until the Debtors either (1) abrogate or (2) reach a consensual agreement to modify the APA's CBA. A consensual deal with the APA or abrogation of its CBA is therefore necessary to American's successful reorganization and will allow the Debtors to validate the assumptions in its standalone business plan and continue to explore strategic alternatives in close collaboration with the Committee.

2. On August 16, 2012, immediately following this Court's ruling on the Debtors' initial motion to reject the APA's CBA, the Labor Subcommittee of the Committee concluded that the Committee would reluctantly support the equity stakes negotiated by American's labor organizations, but only to the extent that consensual agreements are reached promptly.[1] Because of the dilutive effect these equity stakes may have on other creditors, this was a difficult decision for the Committee. The Committee also determined, however, that it would not support equity stakes or claims for any organization that does not ratify a CBA. The

[1] A copy of the Committee's August 16, 2012 Press Release is attached hereto as Exhibit A.

APA should not benefit from being the only labor organization in American's section 1113 labor negotiations not to have reached a consensual agreement with the Debtors. See, e.g., In re Delta Air Lines, Inc., 359 B.R. 468, 486 (Bankr. S.D.N.Y. 2006) (ALPA's last-man-standing argument that modifications to its CBA were unnecessary was unsustainable "in the face of the requirement that all affected parties be treated 'fairly and equitably' and the correlative requirement of the governing case law that all constituencies, great and small, bear their fair share of the cost of reorganization.") (quoting In re Delta Air Lines, Inc., 342 B.R. 685, 694 (Bankr. S.D.N.Y. 2006)).

3. The Committee firmly believes that consensual labor agreements are in the best interest of all of the Debtors' stakeholders. The inability of the parties to reach a consensual resolution, however, does not change the fact that the Debtors must realize critical labor cost savings as to each labor organization in short order. Consequently, the Committee continues to adhere to its view that the Debtors' business judgment in seeking abrogation of the APA's CBA is sound, as abrogation will allow American to begin to implement the terms and conditions outlined in its section 1113 term sheets in an orderly and expeditious manner.

4. As to the proper scope of the hearing on the Renewed Section 1113 Motion, the Committee agrees with the Debtors' view (Docket No. 4148) that this Court's consideration of evidence should be circumscribed to only evidence relating to the two defects in American's prior section 1113 proposal—codesharing and furloughs. As this Court found in its August 15 decision, the "Debtors have established—by a preponderance of the evidence—that American's Business Plan is a reasonable stand-alone business strategy to serve as the basis for American's Section 1113 Motion." In re AMR Corp., Case No. 11-15463 (SHL), 2012 WL 3422541, at *22 (Aug. 15, 2012). There is no reason why this finding—or any of this Court's other findings as to the necessity for modifications to the APA's CBA made less than a month

ago—should be revisited. Courts have repeatedly recognized that in judging the "necessity" criterion the focus should be "on the long-term economic viability of the reorganized debtor, as opposed to the debtor's short-term economics as they may have evolved during the course of the bankruptcy." See In re Delta Air Lines, Inc., 359 B.R. at 477 (citing United Food & Commercial Workers Union, Local 328 v. Almac's Inc., et al., 90 F.3d 1, 6 (1st Cir. 1996)).[2]

5. The APA's objections to the Debtors' motion in limine and the Renewed Section 1113 Motion are primarily devoted to procedural arguments that, at bottom, obfuscate one fact: the APA seeks to defeat American's August 16 proposal because American has not reduced the size of the "labor ask" in its August 16 proposal to the APA to reflect the same percentage of cost savings that it negotiated in agreements with other labor organizations that were consensual and have been ratified. That American has reached consensual agreements with eight of its nine work groups represented by unions should not mean that the APA—as the only labor organization not to have reached a consensual agreement—can use the results of these compromises as a one-way downward ratchet on American's labor ask to its pilots or that abrogation of the APA's CBA is unnecessary. The APA's recitation of statements made by AMR management—statements made in the hopes of negotiating consensual agreements with its labor organizations—while arguably admissible as an evidentiary matter, should not now be used as a basis to relitigate whether the Debtors' business plan supports the August 16 proposal. The Committee, for its part, while aware of the labor concessions obtained from American's other labor organizations, has not received an updated stand-alone business plan from the Debtors.

[2] In this regard, however, AMR suffered losses of $241 million for the second quarter of 2012, as the costs of restructuring continue to weigh down AMR's long-term prospects. See Press Release, AMR Corp., AMR Corporation Reports Second Quarter 2012 Results (July 18, 2012) (on file with author), available at http://phx.corporate-ir.net/phoenix.zhtml?c=117098&p=irol-newsArticle&ID=1715717&highlight.

6. As to the merits of American's efforts to remedy the two defects in its prior proposal, the Committee makes the following observations:

(a) As to furlough protection, in American's August 16 proposal, "American withdrew entirely its prior proposal on furloughs." (Renewed 1113 Motion at 2.) Section 1113 of the Bankruptcy Code, on its face, applies only to the extent a proposal "provides for those necessary modifications in the employees benefits and protections that are necessary to permit the reorganization of the debtor[.]" 11 U.S.C. § 1113(b)(1)(A) (emphasis added). Whereas American's prior section 1113 proposal to the APA entirely eliminated the furlough protections contained in the APA CBA, the revised proposal leaves these furlough protections in place. (See Docket No. 4084, Newgren Decl. ¶ 9 ("[U]nder our proposal the existing provisions on pilot furloughs would remain unchanged.").)

(b) The revised codesharing proposal provides meaningful limitations on both domestic and international codesharing while providing American with the flexibility it requires to pursue its stand-alone business strategy. The Committee believes that the revised proposal is reasonably tailored to American's current stand-alone business plan and, based on the evidence submitted by the Debtors, provides a workable mechanism to establish new domestic codesharing relationships, subject to ASM limits.

7. Finally, two independent groups of pilots have filed objections to the Debtors' Renewed 1113 Motion: one group represents pilots covered by Supplement CC of the CBA (Docket No. 4222) (the "Supplement CC Pilots"); the other represents pilots covered by Supplement B (Docket No. 4212) (the "Supplement B Pilots" and together with the Supplement

CC Pilots, the "Independent Pilots Groups"). In their respective objections (the "Supplement CC Objection" and the "Supplement B Objection"), the Independent Pilots Groups argue that American cannot use section 1113 to abrogate the special protections Supplements CC and B provide to the pilots they cover.

8. This argument is mistaken, however, as Supplements CC and B are supplements to and part of the CBA that American has asked this Court to abrogate. Abrogation of the APA's CBA, therefore, abrogates these special protections. The Court need not address the merits of these objections, however, because the Court has previously determined that only the authorized bargaining representative (here, the APA), and not independent employee groups, has standing in section 1113 proceedings. As the Supplement CC Pilots admit (Supplement CC Objection 6 & n.1.), the Court previously denied the TWA Pilots Seniority Defense Fund's motion to intervene in the section 1113 proceedings.[3] (In re AMR Corp., Case No. 11-15463 (SHL), Hr'g Tr. 25-10-26:24; 27:22-30:18 (July 19, 2012).) Among other reasons, the Court concluded that the TWA Pilots Seniority Defense Fund lacked standing to participate in the section 1113 proceedings given APA's status as the exclusive bargaining agent for American's pilots. The Supplement CC Objection argues—in a single footnote—that the Court's July 19 decision was mistaken, but the objection articulates no reason why this issue, having already been decided, should be revisited. Notably, the TWA Pilots Seniority Defense Fund neither appealed nor sought reconsideration of the July 19 decision.

---

[3] The Supplement CC Objection is brought by former TWA and current American pilots David F. Williams, Jr. and Thomas L. Duncan, who apparently represent 49 other former TWA pilots. (See Supplement CC Objection 1-2.) Although the pilots behind the Supplement CC Objection do not presently claim to belong to any group or association, it is clear that they are affiliated with the TWA Pilots Seniority Defense Fund. "The TWA/American pilots on whose behalf this objection is being filed, acting through the TWA Pilots Seniority Defense Fund, LLC, sought to place this objection before this court in connection with American's initiation application to reject is [sic] collective-bargaining agreements . . . ." (Supplement CC Objection 6.)

9. The logic that parties exclusively represented by the APA may not separately intervene in section 1113 proceedings applies with equal force to the Supplement B Pilots. Indeed, in its August 15 decision, the Court detailed numerous reasons why conferring standing on either the Supplement CC or Supplement B Pilots would undermine the section 1113 process. AMR Corp., 2012 WL 3422541, at *52. In short, this Court has already concluded that the Independent Pilots Groups lack standing to participate in the section 1113 proceedings, and there is no reason to revisit this conclusion now. Thus, the Supplement CC and Supplement B Objections should be overruled.

10. The result of abrogation under section 1113 is simply a step in a process. Even if the Court abrogates the APA's CBA, the Debtors and the APA will have an obligation to continue at the bargaining table under the new terms and conditions of employment that the Debtors may impose, and negotiate in an effort to reach consensual agreements that will allow American to restructure and move forward. The Committee's hope remains that the Debtors and the APA will promptly reach a consensual agreement. If such agreement cannot be reached, however, the Committee will not support any economic value being provided to the APA in the form of claims or equity stakes.

Conclusion

11. For these reasons, the Committee's view is that the Debtors' judgment to pursue the Renewed Section 1113 Motion is sound, and that, absent a prompt consensual agreement, abrogation of the APA CBA is necessary to the Debtors' successful reorganization so that the Debtors can validate the assumptions in their stand-alone business plan, move forward to expeditiously compare that plan to available strategic alternatives, and implement the agreements American has already reached to modify eight of its nine CBAs.

Dated: New York, New York

August 31, 2012

SKADDEN, ARPS, SLATE, MEAGHER
& FLOM LLP

By: */s/ John Wm. Butler, Jr.*
Jay M. Goffman
Four Times Square
New York, New York 10036
(212) 735-3000

- and –

155 North Wacker Drive
Chicago, Illinois 60606
(312) 407-0700
John Wm. Butler, Jr.
John K. Lyons
Felicia Gerber Perlman

Attorneys for the Official Committee of
Unsecured Creditors

Exhibit A

FOR IMMEDIATE RELEASE

**STATEMENT OF AMR CORPORATION'S
OFFICIAL COMMITTEE OF UNSECURED CREDITORS
REGARDING SECTION 1113 MATTERS**

August 16, 2012 -- The Labor Subcommittee of the AMR Creditors' Committee met today to review the Bankruptcy Court's Section 1113 decision issued on August 15, 2012 with respect to the Allied Pilots Association (APA). Contrary to initial press reports, the Court upheld AMR's Section 1113 motion in its entirety, except for two specific contract proposals relating to code-sharing and pilot furloughs. These proposals have already been modified by the company in the recent agreement voted on by American's pilots and the Committee believes that the Court will promptly sustain the company's position when the Court considers the company's revised motion in early September.

As important, the Committee believes that American Airlines' and American Eagle's employees should not misinterpret the Court's decision issued yesterday, which actually upholds American's positions on all issues common to the company's labor organizations and rejects arguments from the unions relating to the company's business plan, potential mergers and proposed changes to benefits for all of American' unionized employees. While the Committee believes that it is now clear that the Bankruptcy Court will abrogate any collective bargaining agreement that is not consensually resolved, the Committee also firmly believes that consensual labor agreements are in the best interests of all of AMR's stakeholders. Accordingly, the Committee agreed today to reaffirm the following views and took the following actions:

1. As evidenced by the seven ratified agreements achieved with the Transport Workers Union of America, AFL-CIO (TWU) at American Airlines, the Committee believes that employees represented by the labor organizations will fare better and receive more value in agreements they accept consensually than will be the case in any situation where contracts must be abrogated and employment terms are imposed as permitted under the Bankruptcy Code.

2. The Committee has concluded that there is no additional economic value beyond the current company offers that can be provided to the company's labor organizations without endangering AMR's reorganization and the rights and economic interests of non-union creditors and parties in interest. Accordingly, the Committee decided today that it will oppose any new efforts to transfer additional economic value from general unsecured creditors to American's unionized employees.

3. In order to support prompt, consensual agreements between American and its unionized employees, the Committee today agreed to reluctantly support the equity stakes negotiated by APA, the Association of Professional Flight Attendants (APFA) and TWU at American Airlines and the unsecured claims negotiated by the Air Line Pilots

Association, International (ALPA), The Association of Flight Attendants-CWA (AFA) and TWU at American Eagle. This was a difficult decision for the Committee to reach because of the dilutive effect these equity stakes and unsecured claims may have on other creditors, but the Committee's action recognizes that consensual agreements benefit everyone. However, the Committee's support will continue only to the extent that consensual agreements are reached promptly. The Committee will not support equity stakes or claims for any labor organization that does not ratify a collective bargaining agreement nor will the Committee support any further economic value to labor organizations beyond the current proposals.

4. As a result of Judge Lane's ruling with respect to the APA, the Committee supports the company's plan to re-file its 1113 motion as to the APA tomorrow (August 17, 2012), and will support a prompt hearing on that motion during the week of September 3, 2012.

The Creditors Committee, through its Labor Subcommittee, has closely monitored the negotiations with APA, AFPA and TWU at American Airlines and with ALPA, AFA and TWU at American Eagle. The Committee strongly supports the company's Last, Best and Final Offers made to each of the labor organizations. The Committee is satisfied with the progress the company is making in its restructuring as evidenced by its non-labor cost savings, and its revenue performance and operational results, which have been the strongest in many years.

Today's message from the Creditors' Committee to American's and American Eagle's labor organizations is clear: the Creditors' Committee recognizes the valuable contributions of the companies' employees. The Committee supports the consensual deals that have been negotiated -- including equity stakes for American Airlines' labor organizations and unsecured claims for American Eagle's labor organizations – assuming that consensual deals are ratified promptly. If such deals cannot be reached, the Committee will not support any further economic value being provided to the labor organizations. The Committee will also expect that the company will promptly obtain orders abrogating any remaining collective bargaining agreements that have not been consensually resolved and will proceed in an orderly and expeditious manner to implement the terms and conditions outlined in its 1113 term sheets.

Consensual deals or abrogation of unresolved CBAs is necessary to AMR's successful reorganization so that the company can validate the assumptions in AMR's standalone business plan and continue to explore strategic alternatives in close collaboration with the Committee to compare against the standalone plan. The Committee's hope and desire is that consensual labor agreements will be achieved with all labor organizations. Such a result in the best interests of all stakeholders and the actions taken by the Committee today are intended to help achieve that outcome.