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UNITED STATES BANKRUPTCY COURT

SOUTHERN DISTRICT OF NEW YORK

Case No. 11-15463(SHL)

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In the Matter of:

AMR CORPORATION,

Debtor.

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U.S. Bankruptcy Court

One Bowling Green

New York, New York

April 24, 2012

10:05 AM

B E F O R E :

HON SEAN H. LANE

U.S. BANKRUPTCY JUDGE

1 TRIAL RE: Doc. #2035 Motion to Reject - Motion of Debtors
2 for Entry of Order Pursuant to U.S.C. 1113 Authorizing
3 Debtors to Reject Collective Bargaining Agreements

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25 Transcribed by: Dawn South, Sherri L. Breach

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AMR Official Committee of Unsecured Creditors / 27:04:2012 08:43
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P R O C E E D I N G S

THE CLERK: All rise.

THE COURT: Good morning, please be seated.

(A chorus of good morning)

THE COURT: Just give me a minute to dismantle the
barricade here.

(Pause)

THE COURT: All right, proceed, counsel.

MR. DEAN: This is David Dean continuing for the
Allied Pilots Association. I intend to be very short this
morning with the advantage of a fresh start.

CROSS-EXAMINATION (Resumed)

BY MR. DEAN:

Q Mr. Glass, when we broke off we were discussing the
company's proposals for domestic and international code
sharing?

A Correct.

Q The company has proposed that it be able to do such
code sharing, quote, "in its discretion," unquote, in any
market, correct?

A Yes.

Q That proposal includes none of the protections that are
in other pilot CBAs at network carriers for such code
sharing?

A With the exception of US Airways West that's correct.

1 Q US Airways West has no such protection for domestic
2 code sharing?

3 A No.

4 Q American did not ask you for an expert opinion on
5 whether that degree of discretion was necessary to its
6 business plan?

7 A No.

8 Q So you've provided no such expert opinion to them?

9 A No, I did not.

10 MR. DEAN: Having alerted the Court to this aspect
11 of the company's proposals we will present evidence on the
12 admitted protections of their meaning for the APA pilots in
13 our case in chief as opposed to now.

14 So I would like to go ahead and move the admission of
15 APA Exhibits 1, 2, and 3A.

16 For the record APA Exhibit 1 was a photograph of
17 an Embraer 190 aircraft.

18 Exhibit 2 was the company's April 17 scope
19 proposal to the APA.

20 And Exhibit 3A is page 3 of the current United
21 Airlines pilot CBA.

22 THE COURT: And just to make it clear for the
23 record because I don't know if we had an explanation,
24 although I think everyone understood this to be the case,
25 could you explain the black lining -- the redlining that's

1 on Exhibit 2 what that is a comparison between?

2 MR. DEAN: My understanding of that black lining
3 having received this from the company, Your Honor, is that
4 that black lines it against the company's previous 1113
5 scope proposal to the APA.

6 THE COURT: All right. And what's the date of
7 that proposal?

8 MR. DEAN: March 21st, Your Honor.

9 THE COURT: All right.

10 MR. GALLAGHER: Your Honor, may I comment -- or
11 question on Exhibit 1? Exhibit 1, we don't have the
12 advantage of course of the photographer and knowing the
13 vantage point, but this is a regional airplane flown by a
14 regional airline. I believe counsel would probably
15 stipulate that this is not a KLM plane that is operated by a
16 regional carrier under some arrangement with KLM. Is that
17 fair, counsel?

18 THE COURT: I think it was just being offered for
19 the type of aircraft --

20 MR. GALLAGHER: Right.

21 THE COURT: -- if I understand correctly.

22 MR. GALLAGHER: Right.

23 THE COURT: So if we could -- if there's no
24 dispute that this is a particular type of aircraft and
25 that's the only --

1 MR. GALLAGHER: Right.

2 THE COURT: -- that's the only purpose for which
3 I'll receive it.

4 MR. GALLAGHER: Right. I'm concerned only, Your
5 Honor, about the vantage point the photo makes it appear
6 rather large. I'm not prepared to stipulate to the
7 perspective, if you will.

8 THE COURT: Well, that's -- that's fine. It is
9 what it is. It's just a question of what type of aircraft,
10 and if you want to say for the record what type of aircraft
11 again that is?

12 MR. DEAN: It's an Embraer 190, Your Honor.

13 THE COURT: All right. Is there any dispute about
14 that?

15 MR. GALLAGHER: No, Your Honor.

16 THE COURT: All right. Any objections -- with
17 those statements aside any objections -- other objections to
18 APA Exhibits 1, 2, 3A?

19 MR. GALLAGHER: None, Your Honor.

20 THE COURT: All right, then I'll receive them.

21 (APA Exhibit Nos. 1, 2, and 3A were admitted)

22 MR. DEAN: Thank you, Your Honor.

23 THE COURT: Thank you.

24 (Pause)

25 MS. PARCELLI: Your Honor, good morning, Carmen

1 Parcelli for the Association of Professional Flight
2 Attendants.

3 Your Honor, if I may before I begin my questioning
4 I'd like to rectify an omission from our case yesterday, and
5 that is simply to introduce to the Court the National
6 President for the Association of Professional Flight
7 Attendants --

8 THE COURT: All right.

9 MS. PARCELLI: -- Ms. Laura Glading, who was with
10 us yesterday and of course is again with us today.

11 THE COURT: All right. Good morning.

12 MS. PARCELLI: Thank you.

13 THE COURT: Certainly.

14 CROSS-EXAMINATION

15 BY MS. PARCELLI:

16 Q Now, Mr. Glass, I believe you've testified already that
17 you reviewed the initial 1113 proposals that the company
18 made to all of its unions; is that correct?

19 A Correct.

20 Q Okay. Now did you have any role in developing those
21 proposals?

22 A No.

23 Q Okay. And I believe you also testified that you
24 reviewed further revisions that the company had made to
25 those proposals; is that correct?

1 A Correct.

2 Q Did you have any role in developing any revised
3 proposals?

4 A No,

5 Q Okay. Now have you had any role in the negotiations
6 between American and its unions during Section 1113?

7 A No.

8 Q Now does your expert report address any of the union
9 counterproposals that were made during these Section 1113
10 process?

11 A No.

12 Q Okay. But I believe you testified that you are aware
13 of union counterproposals; is that correct?

14 A I think I testified that I spoke to the company
15 negotiators, I think it was in the context of my doing
16 review of how they costed items and how the union was
17 costing some items, yes. So that part I did.

18 Q But did you review the proposals themselves, the term
19 sheets?

20 A No, I did not.

21 Q Okay. Now you spoke just a moment ago about costing,
22 but does your expert report contain any analysis related to
23 the valuation of any of American's Section 1113 proposals?

24 A No.

25 Q Okay. Now you -- well, I'm referring now to page 5,

1 paragraph 9 in your expert report, and you indicate, do you
2 not, that your -- the work of your firm includes extensive
3 work in valuing labor contract proposals; is that correct?

4 A I don't think it said extensive, but yes, we -- that is
5 a part of our business.

6 Q Okay. Fair enough. And you state in this paragraph 9,
7 quote:

8 "While wage rates can be relatively easy to
9 quantify, intimate knowledge of airline industry work rules
10 and practices are essential to proper evaluation of contract
11 terms. Airline work rules are notoriously complex and
12 interrelated requiring broad working knowledge of the
13 industry in order to properly evaluate."

14 You see that, sir?

15 A I do.

16 Q And you have adopted this report already in the record
17 have you not?

18 A I have.

19 Q Okay. Now given the complexity of valuing labor
20 contract proposals would you agree that the parties during
21 negotiations can have a genuine disagreement over questions
22 of valuation?

23 A Yes, they can.

24 Q Now, sir, I believe you previously testified that you
25 worked in labor relations at U.S. Airway, correct?

1 A No, I was responsible for all of human resources and
2 labor relations was a component of that.

3 Q Okay. Thank you for the clarification.

4 And you've also done extensive work in your career
5 consulting airlines on labor relations matters, correct?

6 A Correct.

7 Q Okay. Now let's talk a little bit about flight
8 attendant contracts if we can.

9 Let's say you have a flight attendant collective
10 bargaining agreement at airline A and another flight
11 attendant collective bargaining agreement at airline B,
12 okay? And based on your experience at US Airways and in
13 consulting, in order to compare the cost of the flight
14 attendant agreement let's say at airline A to the cost of
15 the agreement at airline B, wouldn't you take the contract
16 terms of airline A and then superimpose those on the
17 workforce configuration and the operating statistics of
18 airline B?

19 A Yes, you would -- you would do that, and as part of the
20 intimate knowledge of the industry you would also have to
21 take into account the fact that every airline negotiates a
22 contract based on its workforce, its culture, the priorities
23 of the union at the bargaining table so that a provision
24 that may not be expensive at one airline could be very
25 expensive at another airline.

1 And an example of that would be if you had a
2 relatively junior workforce you could grant higher vacation
3 pay or higher vacation accrual and it really wouldn't impact
4 you at all, but if you superimposed that contract on a very
5 senior workforce all of a sudden it gets very, very
6 expensive.

7 Q And this type of analysis of superimposing the terms of
8 one agreement on another workforce, that's something that
9 you've done many times in your labor relations experience?

10 A Yes.

11 Q And have you used that type of analysis in prior
12 restructuring cases?

13 A Yes.

14 Q Okay. And we've talked about flight attendants, or
15 that's the way I couched by question, correct?

16 A Sure.

17 Q Would this analysis also be the same for pilot groups?

18 A Yes.

19 Q And it would be generally the same would you agree for
20 ground crew employee groups?

21 A In a restructuring setting, yes.

22 Q Okay. But this is not the kind of analysis that you've
23 performed in this case; is that correct?

24 A That's correct.

25 Q So in this case your analysis was simply done by

1 comparing the contract language of a particular provision in
2 one collective bargaining agreement to the analogous
3 language, if any, in another collective bargaining
4 agreement, correct?

5 A Correct.

6 Q Okay. And is it also true that your approach in your
7 expert report has been to compare the contract terms in
8 isolation from one another; is that true?

9 A Yes and no. They are -- they are compared in
10 isolation, but my report also indicates the importance of
11 interrelationship among all of the work rules, so it's both
12 really.

13 Q Okay. I'm not sure I understand how it can be both,
14 but okay. But it's unlike the approach that you just
15 described before of superimposing a contract where you're
16 considering all terms together in relationship?

17 A Well, they're two different analyses, they're two
18 different exercises. One is intended to try and determine a
19 total cost, one is -- one is predicated on isolating a set
20 of rules or a set of benefits or a pay and just looking at
21 those.

22 Q Okay.

23 A One is comparing contract terms, one is comparing
24 costs. So they're really -- it's kind of an apples to
25 orange type of comparison.

1 Q Okay. But isn't it true that in this case you've
2 compared the terms of contracts without regard to the
3 workforce configuration of the airlines that you've been
4 comparing?

5 A That is correct.

6 Q Okay. And isn't it true that you've compared the terms
7 of contract without regard to the operating statistics of
8 the airlines that you're comparing?

9 A That's correct.

10 Q Okay. But isn't it also true that you testified, or
11 it's included in your report, that American's costs are
12 higher than its competitors without having done the analysis
13 of superimposing contract terms; isn't that correct?

14 A My conclusion on the costs are based on my knowledge
15 and expertise and prior experience in the industry.

16 If you take -- if you have the most senior
17 workforce in the industry, which I believe American has, and
18 you take a set of pay and work rules and benefits that are
19 different, in this case lower productivity, something that
20 produces lower productivity or you have benefits that other
21 airlines don't have it's an easy conclusion to make that the
22 costs are going to be higher.

23 Q Okay. But you haven't reflected any analysis of that
24 in your report, correct?

25 A Correct.

1 Q Are you familiar with the term labor CASM?

2 A I am.

3 Q Okay. And I believe we got a definition of that into
4 the record yesterday.

5 In your experience are labor CASM comparisons
6 something that airlines will rely upon as determinative in
7 comparing their contract terms to those at another carrier?

8 A In my experience no.

9 Q And you had not concluded any labor CASM analysis your
10 expert report?

11 A That is correct.

12 Q Okay. Now directing you on page 12, paragraph 24 in
13 your report, first sentence in that paragraph. So one of
14 the conclusions that you reached in your expert report is
15 that the company's 1113 proposal quote "will put American on
16 generally equal terms with the comparator group," end quote.
17 You see that, sir?

18 A Yes, and I also started the sentence by saying,
19 "Considered overall..."

20 Q Okay. Fair enough. But that conclusion is based
21 solely on comparing the substance of contract terms
22 proposed, not on any costing or valuation of the changes,
23 correct?

24 A Correct.

25 Q Okay. Now another of the conclusions in your expert

1 report is that American's current contracts are not
2 competitive; is that correct?

3 A Correct.

4 Q But again, that's based solely on comparing the
5 contract terms themselves, not on any costing or valuation,
6 correct?

7 A Correct.

8 Q Now if I can refer you to page 8 in your declaration,
9 and the part of paragraph 14. You with me?

10 A Yes, I am.

11 Q Thanks.

12 A Sorry.

13 Q No, no problem.

14 So in this part of your expert report you define
15 the comparator group that you're using for your analysis,
16 correct?

17 A That is correct.

18 Q And your comparator group is Continental, Delta,
19 United, and US Airways, correct?

20 A Yes.

21 Q Okay. And -- and you say "for American the primary
22 comparator group is obvious." You see that, sir?

23 A I do.

24 Q Okay. And you have considered United and Continental
25 separately in your analysis, correct?

1 A Correct.

2 Q Okay. Even those two carriers are merged?

3 A They are -- they are merged for the purposes of I
4 believe an FAA operating certificate, but they have separate
5 collective bargaining agreements in place just as US Airways
6 does for its pilots and flight attendants. I think that
7 United and Continental, all of their respective contracts
8 are still in place, I don't think they have any single
9 agreements yet.

10 Q And so employees work under the terms of those two
11 different agreements to your knowledge?

12 A That's correct.

13 Q Now referring again to the same paragraph, you indicate
14 in your declaration "that the basis for determining a
15 comparator group characteristics such as market served,
16 competition, company size, number of employees, business
17 model, code sharing, and overall financial situation."
18 Correct?

19 A Correct.

20 Q Is there anything else that you would consider or is
21 that a complete list?

22 A Those are certainly -- you know, I don't want to say
23 that there isn't another thing, but this is -- this the
24 list, yeah.

25 Q And it's the criterion that you used, correct?

1 A That's correct.

2 Q Okay. Now you have not included Southwest in your
3 comparator group, correct?

4 A That is correct.

5 Q So according to the characteristics that you have
6 identified and that we've just spoken about as the basis for
7 determining a comparator group, why have you excluded
8 Southwest?

9 A The -- there are several reasons. The principal one is
10 that the business model is so dramatically different than
11 the other airlines, and also in my experience as a
12 negotiator neither the carrier nor the union I've been
13 bargaining with has ever looked at Southwest as a
14 comparator.

15 Q Okay.

16 A It's never even been an issue actually.

17 Q Okay. In your experience?

18 A Yes.

19 Q Now is it your understanding that Southwest flight
20 attendants now have the highest compensation in the airline
21 industry?

22 A Yes, they do.

23 Q Okay. And other Southwest employee groups are also the
24 highest compensated in the industry as well?

25 A If you're referring to the pay scales as opposed to an

1 average rate I would agree. If you were talking about an
2 average pay rate I would disagree.

3 Q Okay.

4 A They do not have the highest average pay rates in the
5 industry.

6 Q Okay. But as far as flight attendants go it's the
7 highest compensation?

8 A The highest pay scales.

9 Q Okay. Now if you had considered Southwest to be a
10 comparator would you have considered them separate from
11 AirTran which they have acquired as you've considered United
12 and Continental separately?

13 A Hypothetically and to be consistent, yes, I would have.

14 Q Okay. Now you've also not included JetBlue in your
15 comparator group, correct?

16 A Correct.

17 Q And again, according to the characteristics we've
18 discussed and you've identified what is your basis for not
19 including them as a comparator?

20 A I would say nearly all of the items in here they don't
21 serve the number of markets, they don't have significant
22 international routes, they fly I believe to the Caribbean
23 and that's it. Hubs certainly, they have one hub at JFK.
24 Size, there's no comparison to the size or number of
25 employees, or you know, any of the critical items here that

1 I've put.

2 Q Okay. And would the factors you've just named with
3 respect to JetBlue generally be true of the other carriers
4 that are known as LCCs or low cost carriers?

5 A Yes.

6 Q And is it for that reason you have not concluded them
7 in your comparator group either?

8 A Yes.

9 Q Okay. Now looking at the comparator group as you've
10 defined it, Continental, United, Delta -- did I miss one?
11 No, that's it.

12 A And US Airways.

13 Q US Airways, thank you.

14 So looking at those four does your expert report
15 include that American Airlines flight attendant contract is
16 25 -- I'm sorry -- 20 percent above market?

17 A No, it doesn't make such conclusions.

18 Q Okay. Now you have a section in your expert report
19 that discusses specifically the flight attendant contract,
20 correct --

21 A Yes.

22 Q -- at American?

23 A Yes.

24 Q Okay. And you identify various changes to current work
25 rules as necessary; is that correct?

1 A No, I don't think that's my report. I don't draw a
2 conclusion on what's necessary, I draw a conclusion on
3 what's comparable or consistent.

4 Q Okay. So you make no opinion or finding as to whether
5 the changes that have been proposed to the American Airlines
6 flight attendant contract are necessary?

7 A No, that's not in my purview.

8 Q Okay. Well, you do identify and discuss several
9 specific work rules, correct?

10 A Correct.

11 Q Okay. And just to tick them off you discuss schedule
12 max, correct?

13 A Yes.

14 Q You address rigs (ph)?

15 A Yes.

16 Q What does rigs stand for?

17 A Ratios and guarantees.

18 Q And can you do a two sentence explanation of what a rig
19 is?

20 A If I can it would be the first time in my life --

21 Q Yeah.

22 A -- but I'm going to give it a try.

23 Q Okay.

24 A It is -- rigs are measures of credits that are used in
25 the industry to determine total pay in a month for a pilot

1 or a flight attendant, and it's normally considered what's
2 called soft time credit for being on duty or work-related
3 activities where you're actually not in the cabin performing
4 services. How was that?

5 Q It was pretty good.

6 A Okay.

7 Q So you also identify maximum time on duty and discuss
8 that?

9 A Yes.

10 Q Duty aloft limitations?

11 A Yes.

12 Q Preferential bidding system?

13 A Correct.

14 Q A combination of international and domestic?

15 A Yes.

16 Q Vacation pay?

17 A Yes.

18 Q And sick leave?

19 A Correct.

20 Q Are there any other work rules that you addressed?

21 A What's in the report is what I -- what I addressed.

22 Q Okay. And all these items were included in American's
23 original Section 1113 proposal to APFA; is that correct?

24 A Yes, I believe so.

25 Q Okay. And do you know whether American has withdrawn

1 any of those work rule proposals that you've described as --

2 A I believe they've -- I don't know if I'd use the word
3 "withdrawn," but they've modified at least one, and a very
4 important one.

5 Q Which one is that?

6 A That is the time away from base rig, which is a
7 measurement of -- of the time you're away from your base and
8 the clock is kind of running.

9 I believe their original proposal is that net rig
10 would only have come into play if you were on a layover in
11 excess of 29 hours, which is I believe Continental's
12 provision, but they withdrew that and went to a rig of I
13 think just one for four, but it starts when you -- you know,
14 from report to release.

15 Q And do you know if they've modified any of the other
16 proposals?

17 A Not off the top of my head.

18 Q Okay. And have you reviewed the APFA's most recent
19 counterproposal to American made just prior to the Section
20 1113 filing?

21 A No, I did not.

22 Q Okay. So you're not aware then that APFA may have
23 agreed to changes in the scheduling max?

24 A No.

25 Q How about changes to duty aloft, you wouldn't know

1 that?

2 A Well, excuse me, I apologize. I -- I recall being told
3 that I thought there was an agreement on the maximum
4 scheduled -- schedule max --

5 Q Okay.

6 A -- and there might have been agreement on a couple of
7 other items.

8 Q Okay.

9 A But I -- to be clear, I did not review the
10 counterproposal.

11 Q Okay. So you're not aware then necessarily that there
12 was agreement on duty aloft?

13 A I think I did hear that.

14 Q How about preferential bidding system?

15 MR. GALLAGHER: Your Honor, at this point I'd like
16 to interpose an objection, because this hearing is about the
17 company's proposals, and this witness, as he said, has not
18 reviewed the union's counterproposals, so I think this line
19 of questioning --

20 THE COURT: Well, counsel, where are we going with
21 this given what this witness has been proffered for?

22 MS. PARCELLI: Well, I think it speaks to the
23 testimony that he's discussing proposals that have been
24 agreed upon and then making --

25 MR. GALLAGHER: Your Honor --

1 MS. PARCELLI: Let me finish, please, Jack.

2 THE COURT: Wait, wait.

3 MS. PARCELLI: And then making a global assessment
4 as to --

5 THE COURT: What I understand --

6 MS. PARCELLI: -- whether or not it's comparable.

7 THE COURT: -- he was doing was a comparative, and
8 if you want to argue that his opinion is no longer relevant
9 because of changes in the landscape when I have something in
10 front of me -- one of the problems I have is I only have one
11 side's papers, so I come into this really not quite knowing
12 what people's narratives are both factually and legally, so
13 that's why I am going to be asking occasionally where we're
14 going with various questioning because I will occasionally
15 be a little bit at sea.

16 But if a witness is not proffered for a particular
17 topic I'll give people a little bit of latitude because I
18 don't know how people are connecting the dots at this point,
19 but at the same time since we'd like to finish this hearing
20 some time this calendar year I'm going to ask people to
21 connect the dots for me or to narrow their questioning where
22 it's not the subject of the witness's testimony.

23 MS. PARCELLI: Okay. Can I try and connect the
24 dots with a couple questions? And if I'm still failing --

25 THE COURT: All right.

1 MS. PARCELLI: -- to do it I'll move along.

2 MR. GALLAGHER: If I may, Your Honor, continuing
3 objection however to the use of the word "agreement." There
4 is no agreement on proposed contract changes between APFA
5 and the company.

6 THE COURT: Well, I think that that's a fair
7 objection.

8 If I do have to rule I wouldn't be at all
9 surprised if there would be an appeal by one party or the
10 other, and you'll have some poor reviewing court who will
11 get very -- it'll make their job very difficult if we start
12 using terms loosely.

13 So I think we should use the term proposal,
14 various people have proposed to do this, proposed to agree
15 with that proposal, but I think if we start talking about
16 agreements -- I'd like to be in a position some day where we
17 are talking about agreements, but I don't think we're there
18 yet.

19 MS. PARCELLI: I'll try phrase more carefully.

20 THE COURT: All right. Thank you.

21 BY MS. PARCELLI:

22 Q Mr. Glass, if APFA had agreed to hypothetically all but
23 two of American's proposed rule changes would the resulting
24 contracts still be comparable or competitive with the
25 comparator group as you've defined it?

1 A I can't answer that hypothetical, I don't know which
2 rules you're referring to.

3 Q Okay. Well, but as a general proposition in your mind
4 would it take meeting all of the Section 1113 requests or
5 proposal that the company has made in order to have it be
6 competitive in your view?

7 A In one way, shape, or form, yes.

8 Q It would take agreeing to all of the proposals they've
9 set forth?

10 A Yes. As I said in one way, shape, or form. That
11 doesn't mean it has to be absolutely exactly the way this is
12 because there are a number of ways that you can arrive at an
13 efficient work rule system and have productive work rules
14 that are not necessarily exactly the way this is laid out.

15 Q Now referring again to paragraph --

16 THE COURT: Counsel, just for my own edification
17 --

18 MS. PARCELLI: Sure.

19 THE COURT: -- maybe you can straighten me out
20 here. I spent some time after the hearing yesterday
21 reviewing the testimony about proposals, and there was a
22 disagreement about proposals and we put off the more
23 esoteric legal discussion about the relevance of proposals,
24 but I can see we may not be able to do that forever.

25 What is your view about the relevance of proposals

1 going back and forth?

2 MS. PARCELLI: Your Honor, it is this.

3 My understanding -- and I think it's supported
4 well in the case law in 1113 -- is that the Court is to
5 analyze or assess the proposal that the company has made
6 last just prior to filing its motion. Okay, that is basis.

7 THE COURT: All right.

8 MS. PARCELLI: Now the statute contemplates that
9 there may be continuing negotiation thereafter, but that's
10 not what the statute speaks to. The analysis of necessary,
11 fair and equitable, all the other factors rests on that
12 proposal.

13 By the same token it just so happens by client
14 proffered its last proposal -- counterproposal, you know,
15 right before the filing, so other groups may be --

16 THE COURT: But I think it speaks to the --

17 MS. PARCELLI: -- situated differently --

18 THE COURT: Wait, hold on a second. But it speaks
19 to the debtor's proposal. I don't -- that's why I'm asking
20 when there's talk of counterproposals --

21 MS. PARCELLI: Uh-huh.

22 THE COURT: -- that's why I'm asking about the
23 relevance of counterproposals --

24 MS. PARCELLI: Yeah.

25 THE COURT: -- because I think the proposal I'm

1 supposed to look at is the debtor's proposal and the
2 equities in that.

3 Certainly I know there's a requirement in the
4 statute for good faith bargaining, but that -- considering
5 proposals in that context versus considering the merits --

6 MS. PARCELLI: Uh-huh.

7 THE COURT: -- of each counterproposal is a --
8 that's a different thing.

9 So what is the relevant as a legal matter of
10 specific counterproposals? Because obviously there hasn't
11 been an agreement so I don't have that in front of me and
12 I'm wondering what kind of attention I should or should not
13 be paying --

14 MS. PARCELLI: Yeah.

15 THE COURT: -- to those.

16 MS. PARCELLI: Hopefully I can clarify.

17 Your Honor, the counterproposals speak both to
18 factors such as necessary and fair and equitable, okay?

19 THE COURT: But how do they if every time we have
20 a discussion about a specific term the parties are going to
21 go back and forth and say there's no agreement, there's a
22 discussion about what -- what parties might be willing to do
23 in the context of an agreement, but there is no agreement?

24 MS. PARCELLI: Your Honor, I believe as Mr. Glass
25 just testified to, there's a lot of different ways that you

1 could get to the same value in a contract setting, okay? So
2 that's one aspect of it. Are there different ways that the
3 union has perhaps proposed that would yield the same value
4 that the company is even looking for. So that's one aspect
5 of it, okay?

6 There's also the other aspect of it is if you look
7 at the total package of counterproposals and say is that
8 really coming anywhere near the stated need? Or -- you see
9 what I'm saying?

10 If you do not think that the company's overall
11 target is the appropriate target and the union in good faith
12 has offered something else that gets to a different and more
13 appropriate target that is -- that is in our view a relevant
14 thing for the Court to be considering and evaluating.

15 THE COURT: Well again, without having the benefit
16 of any papers from anybody other than the debtors --

17 MS. PARCELLI: I know.

18 THE COURT: -- and again, I understand why parties
19 thought that that was a wise schedule, it just does present
20 some problems.

21 My question then is, at least based on the
22 questioning thus far, we do seem to be hopscotching a little
23 bit around well, we said this at this time and then we said
24 this at this time.

25 Under your view then wouldn't it be the last

1 counterproposal that would be relevant as opposed to any
2 given discussions at any given point in time? Because
3 people have compared a February agreement to a March
4 agreement --

5 MS. PARCELLI: Yeah.

6 THE COURT: -- and then compared a March agreement
7 to an April agreement, and I'm worried that there really is
8 not a sort of intellectual tether for any of this, so --

9 MS. PARCELLI: Yeah.

10 THE COURT: -- I'm going to ask the parties to
11 think about that and maybe we can have a discussion either
12 before or after witness testimony tomorrow --

13 MS. PARCELLI: If I may just --

14 THE COURT: -- or later today.

15 MS. PARCELLI: -- briefly address and hopefully
16 clarify the point you just raised.

17 I think one of the problems the Court is
18 experiencing is you are dealing with three different groups,
19 okay?

20 I know on behalf of APFA I have been solely
21 speaking and my questions have only been directed to the
22 last proposal that was put forward, because you know, that's
23 the kind of relative -- you know, relevant focus for us.

24 Other groups it may be a little bit more just the
25 back and forth might have been a little more complicated and

1 I can't speak to it, but I think also, you know, the
2 multiplicity of dates is simply a reflection of all the
3 different negotiations that are going on.

4 THE COURT: No, that's fine, but I know we have --
5 and maybe you haven't -- but I think we've talked about
6 multiple proposals back and forth.

7 All right, well, let's get back to the
8 questioning, although --

9 MS. PARCELLI: Okay.

10 THE COURT: -- given that colloquy I don't want to
11 deprive the debtors of a chance of any two cents you want to
12 contribute at this point or we'll chat about it at another
13 time.

14 MR. GALLAGHER: We're fine, Your Honor.

15 THE COURT: All right.

16 BY MS. PARCELLI:

17 Q Okay. Mr. Glass, referring back to paragraph 24 on
18 page 12. Now you say here, "While" -- are you with me, sir?

19 A I am.

20 Q Oh, sorry. You say here:

21 "While American's Section 1113 proposal provides
22 for some terms that will be more favorable than the
23 comparator group there are also proposals that will remain
24 more favorable to the comparator group."

25 You see that, sir?

1 A I do.

2 Q Okay. And you give an example of the profit sharing
3 proposal that American made, correct?

4 A Yes.

5 Q Now are you aware that the profit sharing proposal is
6 contingent upon reaching a consensual agreement?

7 A Yes.

8 Q Okay. So American has staked out the position that if
9 the contract is rejected under 1113 then profit sharing will
10 not be available; is that correct?

11 A That's what the proposal says, yes.

12 Q Okay. And you also in the same paragraph reference the
13 wage increases that are contained in American's proposal to
14 APFA, correct?

15 A Correct.

16 Q Okay. And are you aware as well that those wage
17 increases are solely available through a consensual
18 agreement according to American?

19 A Correct.

20 Q Okay. So if there is an 1113 rejection and imposition
21 those wage increases will not be forthcoming from American,
22 corrects?

23 A As part of this proceeding, that's correct.

24 Q Okay. And is it also your understanding that the
25 company's proposal in terms of making an employer match to

1 401(k) contributions of employee that that employer match is
2 only available through a consensual agreement?

3 A I believe that's the case, yes.

4 Q Okay.

5 (Pause)

6 Q Now is it your understanding of -- of what American
7 says that it needs in terms of changes to the collective
8 bargaining agreement that it's based on the business plan?

9 A Yes.

10 Q Okay. And your understanding is that American has
11 targeted a certain amount of labor savings in the business
12 plan, correct?

13 A Correct.

14 Q Okay. So if the business plan called for more in labor
15 cost cuts than the changes that you say are needed to be
16 competitive then it wouldn't be enough, right?

17 A I'm sorry, I didn't get that.

18 Q That --

19 A You probably could see my quizzical look --

20 Q All right.

21 A -- as you were asking. I'm sorry.

22 Q Let's try if I can -- see if I can do a better job.

23 So if their business plan called for more in labor
24 cuts, a higher target number than it currently does --

25 A Okay.

1 Q -- okay, then the changes that you're saying are needed
2 in order for them to be competitive would not be enough,
3 right?

4 A I hope I'm answering the question properly. Are you
5 saying -- I'm just -- I'm sorry, I'm just confused again.
6 You're saying that if they had asked for more but they
7 didn't ask for more or --

8 Q Let me try again.

9 A Okay.

10 Q Is it not the conclusion in your expert report that the
11 changes that were proposed in 1113 are necessary for the
12 company to be competitive? Is that not your conclusion?

13 A That is my conclusion, yes.

14 Q Okay.

15 A Yes.

16 Q Okay. And then you've also testified, have you not,
17 that what's necessary is ultimately borne out of the
18 business plan and the target cost reductions there, correct?

19 A Correct.

20 Q Okay. So if the target in the business plan was for
21 less in labor cuts then what you're saying is necessary to
22 be competitive would not be enough, correct?

23 A Correct.

24 Q Okay. And conversely if the business plan called for
25 more in labor -- I'm sorry -- maybe I'm getting my -- if the

1 business plan called for less in labor cuts than the changes
2 you say are needed would not be needed, right?

3 THE COURT: Your conclusions are based on the
4 business plan, if it changed your views would change?

5 THE WITNESS: Correct.

6 THE COURT: All right.

7 THE WITNESS: Thank you, sir.

8 THE COURT: I think that's where you were going,
9 but --

10 MS. PARCELLI: Yeah.

11 THE COURT: -- correct me if I'm wrong.

12 MS. PARCELLI: No, I think that --

13 BY MS. PARCELLI:

14 Q But it's driven by the business plan and that would
15 direct what you think is needed to be competitive?

16 A American's proposal -- in you're asking me if their
17 proposals are driven by the business plan the answer is yes.

18 Q Okay. Now are you aware that American revised its
19 business plan after it filed its 1113 motion?

20 A No.

21 Q Okay. Have you ever reviewed the business plan?

22 A No.

23 MS. PARCELLI: Nothing further, Your Honor.

24 THE COURT: All right.

25 (Pause)

1 MR. TEELE: Good morning, Your Honor.

2 THE COURT: Good morning.

3 MR. TEELE: Jason Teele of Lowenstein Sandler, one
4 of the attorneys for the Transport Workers Union.

5 CROSS-EXAMINATION

6 BY MR. TEELE:

7 Q Good morning, Mr. Glass.

8 A Good morning, Mr. Teele.

9 Q You testified yesterday as well as in your report that
10 your assignment was to compare American's currently proposed
11 contract terms to those of certain other U.S. airlines; is
12 that correct?

13 A Yes, that was one of my assignments.

14 Q And in fact you compared your -- American's contract
15 terms to those of the so-called comparator group, right?

16 A Yes.

17 Q And as part of the -- part of -- two of the airlines in
18 the comparator group are US Airways which recently merged
19 with America West, right?

20 A Well, not recently, the merger was 2005, so it's been a
21 while.

22 Q Fair enough. And United Continental --

23 A Yes.

24 Q -- which more recently merged, correct?

25 A Yes, indeed.

1 Q And you testified during your recent cross-examination
2 that not all of the collective bargaining agreements at US
3 Airways have been integrated among the two airlines; is that
4 right?

5 A That's correct.

6 Q Is that the same for United and Continental?

7 A That's correct.

8 Q Do you know in United and Continental are currently in
9 negotiations over that integration issue?

10 A They -- they are with some of the unions.

11 Q Do you know which unions?

12 A Well the pilots they were in negotiations with, and I
13 think some of the ground unions as well.

14 Q Is it your understanding that the agreements with
15 respect to some of the ground crew will migrate to the
16 United model agreement; is that your understanding?

17 A No, I mean, I don't have an understanding of that.

18 Q Are you engaged in any capacity to represent United or
19 Continental in those negotiations?

20 A No.

21 Q When you prepared your report you did not compare all
22 of the terms of American's current or proposed contracts to
23 all of the terms of the contracts of the comparator group,
24 right?

25 A For this report that's correct.

1 Q You picked only those provisions that other airlines
2 are not subject to, right?

3 A That -- I'm sorry, other airlines are not subject to?

4 Q You compared provisions of American's current contract
5 terms --

6 A Yes.

7 Q -- to provisions of other airlines contract terms to
8 which American -- those airlines are not subject --

9 A Yes.

10 Q -- is that right?

11 A Yes.

12 Q And you conclude that if American was free of those
13 restrictions as the other airlines are that American would
14 be more competitive; is that right?

15 A Correct.

16 Q And you testified that you were not -- you did not
17 participate in the labor negotiations at American?

18 A That's correct.

19 Q And you testified also that you reviewed some, but not
20 all, of the company's proposal to its unions?

21 A Yes.

22 Q And you testified that you might have reviewed or
23 spoken to people at the company with respect to some of the
24 union counterproposals but you didn't review them yourself;
25 is that right?

1 Q So you're not aware currently of the bid in the ask on
2 the major issues specifically between the TWU and American?

3 A No.

4 Q In your expert report you don't express any opinions
5 about the actual dollar value of American's proposed
6 contract terms do you?

7 A No.

8 Q And in fact you did not analyze the sort of cost
9 savings with respect to those changes did you?

10 A No.

11 Q And I believe you just testified on your cross-
12 examination that you did not review the company's business
13 plan; is that right?

14 A That's correct.

15 Q So it would be fair to say that when you compared the
16 contract terms to the comparator group you did not overlay
17 the comparator group's contract terms onto American's
18 business plan?

19 A That's correct.

20 Q You testified in a deposition on April 17th, right?

21 A Yes, I did.

22 Q And as part of that deposition and testimony do you
23 remember testifying that one way that an airline can judge
24 its competitiveness in the industry is to overlay another
25 airline's contract terms onto its workforce?

1 A I remember the testimony -- well, yes, I said that
2 along with the caveats that are associated with doing that,
3 which I think I explained to the Court here this morning.

4 Q But in reaching your conclusions in your report you
5 didn't compare the comparator group's contractual provisions
6 against American's business plan did you?

7 A No, I did not.

8 Q And you don't express in your report whether the target
9 labor savings of American's are sufficient, too much, or not
10 enough do you?

11 A No.

12 Q Do you conclude that all of the TWU's collective
13 bargaining agreements are currently 20 percent above market?

14 A That was not my assignment to look at that.

15 Q Based on what you know do you believe that the TWU
16 collective bargaining agreements are 20 or more above
17 market?

18 A Again, I can't draw a conclusion one way or the other
19 on that. I wasn't asked to do it. I didn't perform that
20 analysis.

21 Q But yet after comparing American's proposed terms to
22 the terms of other -- of the members of the comparator group
23 you did conclude that American's proposed terms would make
24 it more competitive in some areas but not in others, right?

25 A With respect to the contract terms, that's correct.

1 Q With respect to the proposed contract terms, right?

2 A Yes.

3 Q Correct. You're aware, are you not, that in 2003
4 American went through an out-of-court restructuring?

5 A I am.

6 Q And are you aware that as part of that restructuring
7 American's labor organizations made concessions totaling
8 approximately \$1.6 billion?

9 A Yes.

10 Q And since 2003 several other airlines through the
11 Chapter 11 process have achieved similar labor cost savings;
12 is that correct?

13 A No, that's not accurate.

14 Q What part of that is not accurate?

15 A What has happened since the restructuring participation
16 agreement in 2003 are that the other airlines, US Airways,
17 Delta, Northwest, United underwent one or more bankruptcies
18 and multiple rounds of concessions that I think I'm pretty
19 sure were much greater than \$1.6 billion in savings.

20 Q Do you know how much on an annual basis of labor costs
21 savings Northwest achieved in its bankruptcy case?

22 A My -- I'd have to look and see if I have it in my
23 declaration.

24 Q Do you know how much United saved during its one, two,
25 or three rounds of 1113 savings?

1 (Pause)

2 A Well, as an example if you look on page 29 in
3 paragraphs 53 and 54 of my declaration you'll see that just
4 prior to filing for bankruptcy, but part of the
5 restructuring, Northwest achieved just from ALPA
6 \$265 million, and then after they filed -- this is in
7 paragraph 54 -- it required savings of 1.4, so right there
8 the 1.4 and the 265 million would exceed what we've just
9 within talking about.

10 Q 1.4 and 265 exceeds the 1.6 --

11 A The 1.6 --

12 Q That we've been talking about.

13 A Yeah, and that -- that's just on -- that's just very
14 quick and dirty.

15 Q Right. I believe my question was comparable savings.

16 So --

17 A Well --

18 Q -- in that instance Northwest I believe that was the
19 example in that paragraph achieved comparable savings
20 through its 1113 process as American achieved in 2003 out of
21 court, correct?

22 A No, I think I testified that through the restructuring
23 process they achieved greater than that.

24 Q Looking at paragraph 185 of your report --

25 THE COURT: What page, counsel?

1 MR. TEELE: It's page 85 of the second updated
2 report.

3 BY MR. TEELE:

4 Q You testify there, quote, "Every airline in the
5 comparator group outsources much, if not all, of their heavy
6 maintenance work to third-party vendors." End quote. Do
7 you see that?

8 A Yes, I do.

9 Q And then in paragraphs 192 to 195 you talk about the
10 comparator groups outsourcing abilities do you not?

11 A Yes, I do.

12 Q And when you drill down into the specifics of the other
13 airlines outsourcing capabilities it turns out that the
14 reality is actually much less than all of their heavy
15 maintenance work is outsourced to third-party vendors; is
16 that correct?

17 A Again, this gets to a very complex issue what is
18 considered heavy maintenance --

19 Q Well --

20 A -- depending on what check we're talking about --

21 Q Well, these are your words.

22 A -- for each -- but each carrier outsources less than
23 100 percent of its heavy maintenance.

24 Q And if I read paragraphs 192 to 195 correctly is it not
25 true that the other airlines in the comparator group

1 outsource between 20 and 50 percent of their heavy
2 maintenance according to your?

3 A Roughly, maybe a little bit more in some cases because
4 Delta -- it's interesting, Delta outsources a great deal of
5 its own heavy maintenance but they also have a business in
6 which they actually perform heavy maintenance for other
7 carriers, but as a -- but as a non-union carrier they don't
8 have any restrictions, and so you know, if for business
9 reasons they made the decision that they needed to outsource
10 more they certainly could do that.

11 Q What percentage of American's heavy maintenance work
12 would be outsourced under the company's proposal?

13 A I want to say -- well, let me just -- 40 percent.

14 Q And to use your words, most, if not all, of that -- of
15 those jobs are going to be sent overseas, correct?

16 A My words? I don't -- could you point me to that,
17 because I apologize --

18 Q Well, the much --

19 A -- I didn't --

20 Q -- the much, if not all --

21 A Excuse me.

22 Q The much, if not all, were your words. My question is,
23 a substantial --

24 MR. GALLAGHER: Your Honor, I object to any
25 mischaracterization of the witness's testimony and ask that

1 it be pointed to the declaration if it's going to be recited
2 in the record.

3 THE COURT: Since it didn't just come out of his
4 mouth if you're referring to something earlier I think you
5 need to ask the question differently.

6 MR. TEELE: I was referring to the phrase "much,
7 if not all" in paragraph 185.

8 THE COURT: All right, so let's --

9 MR. TEELE: So my question to the witness --

10 THE COURT: -- let's go to paragraph 185 and use
11 that.

12 BY MR. TEELE:

13 Q My question to the witness was whether he knows whether
14 much, if not all, of the 40 percent of the outsourced work
15 would be sent overseas?

16 A I have no idea where that work is going to be
17 performed.

18 Q And your declaration contains no information about the
19 level of cost savings that would be associated with
20 outsourcing that 40 percent of the work, right?

21 A That's correct.

22 Q And as you sit here today you can't tell the Court how
23 much -- how much the overall dollar savings that American
24 might achieve by outsourcing that work can you?

25 A No, I think there's another witness from American

1 that'll be doing that.

2 Q But I'm asking in your opinion you don't know?

3 A No, I didn't -- I didn't -- that was not part of my
4 assignment.

5 Q So when you were comparing this particular provision,
6 the outsourcing provision to the contractual terms of the
7 comparator group you concluded that the other airlines could
8 do it so American should do it too, right?

9 A No I don't think that's my conclusion. I didn't
10 conclude that they should or shouldn't do it, my analysis is
11 strictly looking at contract terms.

12 And see -- as somebody that's negotiated all these
13 contracts, when you're in negotiations both sides,
14 management and labor, have, you know, books like this or
15 folders where they do exactly this comparison, they look at
16 contract terms of other carriers, which is part of what's
17 called pattern bargaining.

18 So this is -- this is very much the norm of what
19 occurs in any negotiation in the industry.

20 Q But yet you conclude that American's proposal to
21 outsource this work would make it competitive with its peer
22 group, right?

23 A With the contract terms of its peer group, correct.

24 Q But you make that -- you make that -- you give that
25 opinion without knowing or having analyzed for yourself

1 whether there would be any cost savings associated with
2 outsourcing that, right?

3 A No, that -- that's not entirely true, because I believe
4 yesterday I had testified that I spoke to the company
5 negotiators and the member of their finance team assigned to
6 each of their negotiations and I reviewed the term sheets
7 and there was savings associated with it. That's their job
8 to do.

9 And one of the things that may be confusing
10 perhaps to the Court is that the large carriers have staffs
11 that do all this work and our work in valuation or costing
12 in terms of actually doing it will -- will normally be at
13 carriers that don't have the in-house support to do that.
14 So that's why I wouldn't have been asked to do that
15 assignment that you're speaking to.

16 Q And you weren't asked to do that assignment?

17 A That's correct.

18 Q And you didn't do that assignment?

19 A No, I did not.

20 Q So your entire knowledge of the potential savings of
21 outsourcing comes from your discussions with people at
22 American?

23 A That is correct.

24 Q Now if the company outsources the TWU crafts such as
25 fleet services, maintenance, fuel servicing, things like

1 that, that work still would have to be done for the company;
2 is that right?

3 A Yes.

4 Q And that work would still have to be done by people?

5 A Yes.

6 Q And those people would be managed by somebody, correct?

7 A Correct.

8 Q So is it your opinion then that the management of
9 American isn't as efficient at managing its people as the
10 management of the third-party vendor?

11 A No, I'm not making that at all. I'm not saying that at
12 all.

13 Q Did you -- did you look at the non-union labor
14 functions at American?

15 A No.

16 Q Why not?

17 A That was not my assignment.

18 Q Have you given your experience -- prior experience at
19 US Airways and your experience consulting airlines and
20 others in the industry, have you ever looked at outsourcing
21 management functions?

22 A Yes.

23 Q In which cases have you -- which matters have you
24 looked at that issue?

25 A Well, it would just be as part of any due diligence you

1 would look at efficiencies anywhere. If there was an
2 opportunity to replace manual with automation you would look
3 at that.

4 So just in terms of proper due diligence in a
5 restructuring where you're looking for savings in all areas
6 you would examine those sorts of things.

7 Q A few minutes ago you mentioned Delta's in-house MRO
8 did you not?

9 A Yes, I did.

10 Q And that's called Delta tech ops, right?

11 A Yes, it is.

12 Q And to your knowledge is that a large MRO?

13 A I think it is, yes.

14 Q First of all, can you explain what an MRO is briefly?

15 A Sure. It is a maintenance repair organization and
16 these are companies that perform maintenance on aircraft,
17 and you know, do a lot of it, that's their core business.

18 Q Does Delta Airlines outsource its maintenance work to
19 Delta tech ops do you know?

20 A I don't know who they use.

21 Q You don't know any of the vendors that Delta uses for
22 that purpose?

23 A I don't, no.

24 Q Do you have any knowledge about whether American has
25 in-sourced heavy maintenance work?

1 A No.

2 Q Do you have any information that would suggest how
3 Delta -- I'm sorry -- how American's maintenance lines have
4 been rated in the industry?

5 A I'm not sure what you mean by rated.

6 Q Have they been judged, have they been graded?

7 A By the industry?

8 Q Yeah.

9 A I mean who in the industry?

10 Q Whoever would do those.

11 A I'm not aware of any rating service if that's what
12 you're asking me.

13 Q So nobody rates the MROs to say this one Delta tech ops
14 does a great job and the other -- the other vendor doesn't
15 do a good job?

16 A Oh, are -- are you referring to something that's
17 different? Are you referring to the FAA oversight? Is that
18 what you're referring to?

19 Q No, I'm referring to the performance reviews that MROs
20 might receive that might lead somebody to conclude that one
21 MRO is better than another MRO.

22 A If you could show me who those organizations are to
23 refresh my memory. I'm not --

24 Q Well, I'm asking you if you're aware of any such --

25 A No, I've not heard of that.

1 Q Is it your opinion that maintenance repair
2 organizations are very efficient in conducting heavy
3 maintenance checks?

4 A Mostly.

5 Q Do you know how much a grounded aircraft costs American
6 on a daily basis?

7 A I'm sorry?

8 Q How much an airplane that's in for a heavy maintenance
9 check costs the airline on a daily basis?

10 A Every airline would have a different cost, so no, I
11 don't know.

12 Q Do you know if that's a significant cost?

13 A Sure, every day that an aircraft is out of service is a
14 day in which they can't get revenue from filling seats.

15 Q Do you know on average how long it takes for an MRO
16 such as Delta tech ops to conduct a heavy maintenance check
17 on an aircraft?

18 A It all depends on a whole slew of factors. The type of
19 heavy check, the size of the aircraft, how busy they are, I
20 mean when the plane needs to be back in schedule.

21 There are periods of time when what's known as
22 shoulder seasons when you may for purposes of scheduling
23 aircraft for maintenance at a time when it will have the
24 least impact on your operations and your revenues you try
25 and schedule the aircraft to move in and out of maintenance

1 repair shops during that period of time to minimize the
2 impact on the carrier. So it's unfortunately not a -- not
3 an easy issue. And there are departments -- airlines -- at
4 each airline that do nothing but schedule aircraft to go
5 into maintenance and when they come out. It's a very
6 exacting piece of the business.

7 Q So a private or third-party MRO might serve multiple
8 aircraft clients; is that right?

9 A Yes.

10 Q And is it fair to say that those aircraft clients would
11 want to schedule their maintenance -- did you just testify
12 that it was seasonal or based on the age of the aircraft?

13 A It's based on all sorts of things.

14 You know, I've had situations in my career in
15 which aircraft are scheduled for a heavy maintenance, and as
16 an example to do that particular aircraft could be 10-, 15-,
17 \$20 million, and as they get closer to that date the airline
18 may decide, you know what, I'm not going spend that money, I
19 can work my schedule without that aircraft or I can go lease
20 an aircraft cheaper than it would cost me to repair the
21 aircraft.

22 So there are all -- I wish I could give you a
23 simple answer, but there are so many factors that come into
24 play and last minute decisions that are made. That's one of
25 the things that makes this such an incredibly complex

1 business.

2 Q And when all of that work is done in-house does the
3 airline have more of a say over when and how the maintenance
4 will be scheduled and when it will be completed?

5 A No, I wouldn't -- I would not say that to be the case.
6 Because when they --

7 Q Who else would influence that decision?

8 A Well, when they enter -- when they enter into contracts
9 with the third-party vendors part of the agreement is a
10 schedule in which their aircraft will go into the bays
11 for --

12 Q My question -- my question was about in-house. So
13 American currently performs certain heavy maintenance
14 functions in-house, correct?

15 A I thought, and if I'm wrong please correct me, but I
16 thought you were asking me if an airline has more control
17 over the aircraft in-house versus going outside. I thought
18 that was your question.

19 Q I'm asking if the airline has control over scheduling
20 maintenance of its aircraft when it does that maintenance
21 in-house?

22 A Oh, sure.

23 Q Does it have more control over in-house maintenance
24 versus third-party maintenance?

25 A No, not -- not necessarily. Because again, you see

1 unexpected things happen, so you could even have a schedule
2 in-house and a plane breaks unexpectedly or they find
3 something unexpectedly and so that aircraft is occupying
4 that bay and it then delays the next aircraft going in.
5 Again, I just can't -- I can't agree that that's the case.

6 Q And none of that happens at an MRO?

7 A Oh, yes it happens as well.

8 Q And that doesn't affect scheduling of maintenance of an
9 aircraft?

10 A It can, yes.

11 Q To the same extent as in-house maintenance?

12 A It can.

13 Q I'm going to move ahead a little bit to paragraphs 205
14 and 207 of your declaration.

15 MR. TEELE: Which is on page 91, Your Honor.

16 BY MR. TEELE:

17 Q In paragraphs 205 and 207 you conclude that
18 Continental's and United's vacation accrual policies are
19 more generous than American's; is that right?

20 A Yes.

21 Q And in paragraph 209 you conclude that US Airways
22 vacation accrual provision is less generous than American's,
23 right?

24 A Yes.

25 Q Yet in paragraph 209 you state "that US Airways

1 employees accrue two weeks of vacation after one year of
2 service," right?

3 A Yes.

4 Q So if they work for one year they get two full weeks of
5 vacation; is that right?

6 A Correct.

7 Q And American's employees -- I'm looking at paragraph
8 204 now -- American's employees accrue five days of vacation
9 in the first five years of service; is that right?

10 A Yes. And I think I point out in 209 the parenthetical
11 that it's more generous than American's.

12 Q How many vacation days do US Airways employees accrue
13 after 30 years, if you know?

14 A I think it tops out at 25, but I'd need to look at the
15 contract.

16 Q Well, you state in your declaration that it's 25 days
17 after 25 years.

18 A Uh-huh.

19 Q There's no more additional days after 25 years of
20 service at US Airways?

21 A I'd have to look at the specific provision, but I
22 believe that's the case.

23 Q In paragraph 204 you speak to flex vacation days?

24 A Yes.

25 Q And with respect to flex vacation days those are days

1 that employees can -- can purchase, correct?

2 A Yes.

3 Q So isn't the cost of those days borne almost
4 exclusively by the employees since they have to pay for
5 them?

6 A Well, they pay for the days, but the company still has
7 to staff the airline to cover the work.

8 Q And if the airline decides that they don't need to
9 staff the particular worker for that particular shift that
10 the person is out, is that a cost to the airline?

11 A I don't believe that's the way that airlines model
12 their staffing, they do it predicated on what's expected.

13 So there's no question in my mind that they --
14 there would be an additional cost -- some additional cost
15 because you have to staff for those days that are taken.

16 Q Do you know how many flex days have been used at
17 American in the past year?

18 A No.

19 Q Do you have any idea what the overall value of the
20 proposed change in the flex day provision would be for
21 American?

22 A I looked at it on the costing sheet but it doesn't come
23 to my mind right now.

24 Q And then you also talk about personal vacation days?

25 A Yes.

1 Q And that's when an employee can borrow vacation time
2 from next year; is that right?

3 A That is correct.

4 Q And when they borrow, for example, a week of vacation
5 time from next year's allotment they lose that week in the
6 following year, right?

7 A Well, they lose that week in the following year and
8 then can borrow it -- continually borrow against it year
9 after year. And again --

10 Q But it reduces the amount of --

11 A -- they'll have to -- the airline still has to staff.
12 That's one of the reasons why, you know, in terms of
13 productivity the number of days you're available to work is
14 so important to an airline.

15 Q With respect to furloughs, which you discuss in
16 paragraph 217.

17 A I'm sorry?

18 Q Furloughs?

19 A Furloughs, yes, sir.

20 Q Which you discuss in paragraph 217. American is
21 proposing to eliminate virtually all of the restrictions on
22 laying off these so-called protected employees; is that
23 right?

24 A Yes.

25 Q And in US Airways, Continental, and United's agreements

1 they call contain certain restrictions on laying off those
2 classes of employees, right?

3 A Some restrictions, yes.

4 Q Do you know how many paid holidays American Airlines
5 currently recognizes?

6 A I want to say five or -- it's certainly -- I believe
7 it's the fewest in the industry among the comparator group.

8 MR. TEELE: Your Honor, may I just have one
9 moment?

10 THE COURT: Sure.

11 (Pause)

12 MR. TEELE: Your Honor, I think that's all the
13 questions I have.

14 Thank you, Mr. Glass.

15 THE WITNESS: Thank you, Mr. Teele.

16 MR. BUTLER: We have (indiscernible - 01:11:18).

17 THE COURT: All right. Any redirect?

18 MR. GALLAGHER: Yes, Your Honor. Would it be --
19 it would help a lot to expedite that if we could take a 10
20 or 15-minute break.

21 THE COURT: Sure, why don't we do -- why don't we
22 come back at 11:30. Would that work?

23 MR. GALLAGHER: Thank you, Your Honor.

24 THE COURT: Certainly.

25 (Recess at 11:16 a.m.)

1 THE CLERK: All rise.

2 THE COURT: Please be seated. All right, proceed.

3 MR. GALLAGHER: Thank you, Your Honor.

4 For the record Jack Gallagher counsel for American
5 Airlines.

6 REDIRECT EXAMINATION

7 BY MR. GALLAGHER:

8 Q Mr. Glass, may -- would you turn in your declaration to
9 page 7, paragraph 14.

10 A Yes.

11 MR. GALLAGHER: And if I may just to be -- for
12 expedition, Your Honor, I will --

13 BY MR. GALLAGHER:

14 Q This recites your assignment as comparing proposed
15 contract -- current proposed contract terms, correct?

16 A Yes, it does.

17 Q And it goes on to state that's the standard practice;
18 is that right?

19 A Yes.

20 Q All right. So in collective bargaining is it -- is it
21 commonly done that both the carrier and the union will look
22 at the terms in place at other airlines as one of the
23 considerations in their bargaining?

24 A Yes, it's universal, both sides do that.

25 Q Okay. Is it -- which side usually is concerned about

1 costs of the proposals?

2 A Management.

3 Q Okay. Now -- and your assignment was to look at the
4 terms not the costs, correct?

5 A That's correct.

6 Q And to compare them across a group of carriers?

7 A Yes.

8 Q All right. Now APA recently told its members that the
9 American Airlines proposal would give them the worst pilot
10 contract in the industry. Do you agree with that
11 conclusion?

12 A No, I do not.

13 Q Why not?

14 A Well, a couple of reasons, one of which if you look at
15 my report there are areas where they become more
16 competitive, in some cases less competitive, but certainly
17 when you also look at the -- when you make a statement in
18 the airline industry that's broader than just the peer group
19 we looked at that would not be the case with respect to low
20 cost carriers that don't have many of the provisions here.

21 Q So if low cost carriers are included in the analysis in
22 terms of the industry --

23 A Uh-huh.

24 Q -- how would American's proposals compare?

25 A They -- they would have more restrictions in them and

1 not be as competitive as the low coast carrier group.

2 Q In other words, even with American's proposals if they
3 were fully adopted American would still have more
4 restrictions than the low cost carriers have?

5 A In -- in many areas, yes.

6 Q And lower productivity than the low cost carriers have?

7 A The low cost carriers are very protective.

8 Q Okay. And as to the majors that you did include in
9 your comparator group, what is your conclusion as to how
10 American's proposals on the whole would stack up American,
11 vis-à-vis, the other legacy network carriers?

12 A My conclusion was that they would become in terms of
13 the overall with respect to work rules and productivity they
14 would become consistent and competitive with the peer group.

15 Q All right. Now I want to ask you the same set of
16 questions as to flight attendants.

17 If American's proposals were adopted how would
18 that stack up American's flight attendant then contract
19 terms against the other network carriers?

20 A Again, it would make them competitive with the other
21 network carriers --

22 Q All right.

23 A -- in these areas.

24 Q Is mainstream a fair word for that?

25 A Yes.

1 Q Okay. And if the low cost carriers are included how
2 would American's proposal stack up?

3 A Well, I mean not as well just because the -- you know,
4 many of the low cost carriers don't have these kinds of
5 restrictions and they have highly productive workforces.

6 Q So as to the low cost carriers American would continue
7 to be at something of a disadvantage; is that right?

8 A In terms of productivity, yes.

9 Q So if American Airlines wanted to really gouge its
10 contracts it might have gone to the low cost carrier model,
11 correct?

12 A I don't know that I'd, you know, use the word "gouge,"
13 you know, it's certainly -- they put together what they
14 thought was necessary for part of the business plan.

15 Q Well let me ask you about your experience at US
16 Airways. In your first bankruptcy what standard or
17 criterion did US Airways use to determine what level of
18 proposals it would make to its unions?

19 A It was a combination of really two factors. First and
20 foremost the obvious, what the carrier needed to survive and
21 hopefully return to profitability.

22 And then secondly looking at the airlines that
23 were in essence a large part of the problem, which was the
24 incursion of the low cost carriers into markets that used to
25 be near monopolistic markets that US Airways had.

1 Q And so in terms of referencing other carriers what
2 comparator set did US Airways look at to determine its
3 proposals?

4 A In their first bankruptcy --

5 Q Yes.

6 A -- we looked at the group of the low cost carriers
7 because US Airways had something that was unique in the
8 industry, negotiated before I had gotten there, called
9 "parody plus one," and so in essence what it was is that
10 they agreed they'd have the same cost structure as the other
11 network carriers, so they couldn't look at the other network
12 carriers to reduce cost because they were already at their
13 cost.

14 Q And in the second bankruptcy what comparators did US
15 Airways use?

16 A We -- we looked at two carriers specifically that had
17 similar -- two low cost carriers that had similar types of
18 business models, JetBlue and America West, and so we
19 compared our terms to the rules that they operated under and
20 generated our savings from there.

21 Q And in both of those bankruptcies did US Airways
22 ultimately achieve the cost savings it had targeted?

23 A Yes.

24 Q All right. And is it fair to say those reductions and
25 the impact of those reductions were more severe at US

1 Airways in relative terms than they would be at American
2 today?

3 A Well, they were -- they were quite severe, about as
4 severe as I've seen.

5 Q And so US Airways effectively went to low cost carrier
6 levels --

7 A Yes.

8 Q -- in terms of wages, productivity, and benefits; is
9 that correct?

10 A They did at the time, yes.

11 Q And -- and that is not what American Airlines is
12 proposing here today; is that correct?

13 A That's correct.

14 Q Okay. Who negotiated the pilot scope clause at US
15 Airways?

16 A I did.

17 Q All right. And is that -- have you negotiated that
18 pilot scope clause subsequent to your time of direct
19 employment at US Airways?

20 A Well, I've been involved in their ongoing negotiations
21 with the pilots and flight attendants.

22 Q Is US Airways today permitted to fly regional jets over
23 70 seats?

24 A Yes.

25 Q What is the largest RJ that a regional airline under

1 contract to US Airways is permitted to fly today?

2 A Under the transition agreement it would be 90 seats.

3 Q And is there a limit on how many regional jet aircraft

4 -- a regional carrier could fly under the US Airways code?

5 A Yes.

6 Q And how many is that?

7 A Ninety-three.

8 Q Does that give US Airways today a competitive advantage
9 in the marketplace?

10 A I think it does, yes.

11 Q Okay. Is there a pattern or history in this industry
12 when one network carrier gets an advantage what usually
13 happens?

14 A Well, it's the classic pattern bargaining and it works
15 both ways. You know, if an airline gets a competitive
16 advantage with respect to their contract other carriers are
17 going try and achieve that, and conversely if the unions are
18 successful in achieving gains at one carrier they're going
19 to try and have that carry over to other airlines. That's
20 the classic pattern bargaining and collective bargaining.

21 Q All right. Now you talked yesterday about code sharing
22 limitations at Continental Airlines. Is Continental
23 Airlines now flying under the United code?

24 A They are.

25 Q So are the code share restrictions in the Continental

1 agreement have any relevance or actual real life impact
2 today?

3 A Today, no. No, they wouldn't because of the scope of
4 -- and I don't mean the scope clause, but the breadth and
5 depth of the network that they now have.

6 Q So they are now being operated subject to the United
7 Airlines scope clause, correct?

8 A Well, no, both scope clauses still remain in place
9 because both contracts are still in place.

10 Q But they -- but they're now operating under the United
11 code?

12 A Correct.

13 Q And as a result of that are they subject to the United
14 code share limits?

15 A Well --

16 Q Well, let me rephrase.

17 A Yeah.

18 Q Does -- what are United's contract limits on code
19 sharing? Is there a numerical limit or is it simply a meet
20 and confer obligation?

21 A It's a meet and confer obligation.

22 Q Okay. And I believe that's --

23 A And just to add, United still has the extensive code
24 share with US Airways.

25 Q Okay. And I believe that is spelled out in your

1 declaration at page 38. Note 70 gives United's limitations.

2 A Yes.

3 Q And does that limitation give the union the opportunity
4 to bar United from doing a code share?

5 A I wouldn't use the word "bar," but they're -- you know,
6 there are some metrics within the scope clause that have to
7 be followed.

8 Q Okay.

9 A But those have already been negotiated so the parties
10 know what they can do and what they can't do going into a
11 domestic code share arrangement.

12 Q And once those metrics are satisfied United -- any
13 other limitations in terms of labor protections are in
14 United's business judgment, correct? According to --

15 A Labor --

16 Q -- footnote 70?

17 A Labor protections or code share?

18 Q Excuse me.

19 (Pause)

20 Q Do you see the language in footnote 70?

21 A Yes, I do.

22 Q Okay.

23 A Yeah.

24 Q So -- and that says, "Any labor protections in
25 connection with the code share are whatever is deemed

1 appropriately United in its business judgment," correct?

2 A Correct, that's what the language says.

3 Q Okay. Okay. Now you testified yesterday about your
4 years of experience and the information sources you use. Do
5 you read arbitration decisions in the airline industry?

6 A I do. I wouldn't say every one of them, but I do read
7 them.

8 Q How many have you read?

9 A Over my years probably hundreds.

10 Q How do you stay current on what is major arbitration
11 decisions?

12 A Our business provides a database to about 25 or 30
13 airlines and store all arbitrations that have occurred in
14 the last 30 years, I think we go back to like 1980. So we
15 have literally thousands and thousands in our database.

16 Q And do you monitor those as new decisions come out for
17 any that are significant?

18 A Yes.

19 Q Okay. And do you appear as a witness in arbitrations?

20 A Yes.

21 Q And do you monitor ongoing negotiations in the airline
22 industry?

23 A I do.

24 Q Okay. And how do you do that? How do you stay in
25 touch with what's happening at a bargaining table at another

1 airline?

2 A A variety of ways. Since I have relationships with,
3 you know, virtually all of the airlines, it's clients, or at
4 one time or another I will sometimes call them, have
5 discussions with them about terms, I'll receive copies of
6 the agreements, and obviously also read what's in printed
7 form as well from media and other sources.

8 Q And do you also have contacts and communications on the
9 union side?

10 A Many.

11 Q Okay. You talked yesterday about certain information
12 in DOT Form 41. Do you remember that testimony?

13 A I do.

14 Q What is Form 41 for the record?

15 A Form 41 is a series of reports that are filed by the
16 airlines on all sorts of issues, areas of the industry.
17 Head count, block hours, traffic, things of that nature.

18 Q And these are required by the U.S. Department of
19 Transportation regulations of air carriers?

20 A They are required, yes.

21 Q All right. And are the airlines required to certify
22 that the information is accurate and reliable as reported?

23 A As reported, yes.

24 Q And are these essentially financial and marketing
25 metrics, traffic, passengers, origins, destinations, and

1 costs and revenues?

2 A Yeah, it's the -- you know, I think I had mentioned
3 this yesterday, it's really kind of the one source for
4 public information on airlines, performance, and cost, and
5 so they're used a lot by outside analysts, economists,
6 people who don't have any other access to information.

7 Q And is -- for their purposes is that data considered
8 useful and reliable?

9 A For their purposes? Oh, absolutely.

10 Q Now you indicated that you don't use it for your
11 purposes; is that right?

12 A That's correct.

13 Q Why not?

14 A Because for my purposes I have -- you know, we look at
15 things in negotiations differently.

16 Q Uh-huh.

17 A And we have -- I think Mr. Kasper said yesterday that
18 the DOT was one metric, and there are other metrics that are
19 used in negotiations, especially when you're -- you know the
20 carrier is costing out particular pieces of information.

21 Q Well, does Form 41 enable you to get below the surface
22 to look into details of particular work groups or work rules
23 or the pricing of various work rules?

24 A No, it wouldn't -- it wouldn't do that.

25 Q Okay.

1 A That has to be done by the carrier.

2 Q Okay. So --

3 A To get to that level of detail.

4 Q So the detail just is not there?

5 A Correct.

6 Q All right. Now you testified on cross-examination that
7 you had discussed American's costing methodologies with
8 their finance and negotiating teams. Do you recall that
9 testimony?

10 A I do.

11 Q And did you ask questions in those calls?

12 A Many.

13 Q Okay. Did you reach any conclusions as a result of
14 those calls?

15 A I did. I mean the purpose of the calls just as
16 background is that I wanted to make sure, you know, and even
17 though my analysis was on contract terms and not costing I
18 wanted to make sure that I understood the proposals, and one
19 way to do that is to understand how an airline costs those
20 proposals out and the assumptions that they use in putting
21 together their modeling. So I did that.

22 My conclusion was that they did -- American's
23 finance people did the costing consistent with every other
24 negotiation I've been involved in.

25 Q All right. What is compounding or interaction?

1 A Well, compounding, and it's -- there are different
2 terms at different airlines, I've also heard it referred to
3 as cross variance.

4 It's basically the interaction of two provisions
5 of a contract and that when you're costing those provisions
6 out you have to take into account the impact of one
7 provision on another so you don't double count in essence.
8 That -- that is the best way that I think I can explain it.

9 Q Well, let's try an example because this can get
10 complicated.

11 A Okay.

12 Q If we are decreasing vacation by a week --

13 A Uh-huh.

14 Q -- and we are decreasing wage rates by \$1 can you
15 explain what interaction does in evaluating those two items?

16 A Well, you could -- you couldn't just cost them out as
17 two absolute items and then add the two together. If you're
18 reducing the number of vacation days, for example, or
19 vacation pay you would utilize the reduced rate that was in
20 place and take the value of that and put it into vacation as
21 opposed to putting it all just in the rate.

22 Q So if you were doing a stand-alone valuation of the
23 reduced wage rate you'd get a number, correct?

24 A Correct.

25 Q And if you did a stand-alone valuation of the reduced

1 vacation you would get a number, correct?

2 A Correct. So --

3 Q But can you then just add those two numbers together?

4 A No, there's always a line on the costing models that's
5 -- you've got a line for -- American calls it compounding --
6 that will take that interaction into account and adjust the
7 costing accordingly.

8 Q To avoid double counting?

9 A Correct.

10 Q All right. Now Ms. Parcelli asked you about comparing
11 one airline to another.

12 Is there any way for one airline to know the labor
13 costs of another airline?

14 A No.

15 Q Okay. Well, her questions were along the lines of how
16 do you take the labor contract of another carrier and put it
17 on your airline.

18 A Uh-huh.

19 Q Do you recall that line of testimony?

20 A I do.

21 Q And I believe you said that that's one of the ways that
22 carriers attempt to analyze each other; is that right?

23 A It is, it's a common way and when you do that though
24 you have to understand that it's not perfect, that there --
25 again, I think I had testified to this earlier -- that you

1 have to understand the bargaining priorities, the
2 composition of the other airline's workforce, what the
3 priorities are for the union, what the priorities are for
4 management. And so there may be provisions that are in one
5 contract that will not be costly to them, but you put them
6 -- overlay them on another contract and they'll prove to be
7 very costly.

8 Q So when you take another airline's contract terms and
9 figure out what they would cost on your airline does that
10 tell you anything about what the costs of the other airline
11 are?

12 A No, it wouldn't tell you their cost at all.

13 Q So it doesn't tell you what the cost differential would
14 be between your carrier and the other carrier?

15 A No, it would not do that.

16 Q It simply tells you what their terms would cost you on
17 your carrier?

18 A Correct.

19 Q Okay. And could there still be a gap between what
20 their contract would cost you and what it actually costs
21 them?

22 A Yes, absolutely.

23 Q All right. So if your workforce -- if you had pension
24 under funding or you had high sick or high seniority those
25 variables could all influence the comparative costing, if

1 you will?

2 A They could, and something like a defined benefit plan
3 or retiree medical could certainly impact that. If the
4 other airline didn't have that and you imposed their
5 contract terms it wouldn't account for those differences.

6 Q Okay. On the -- if -- if a carrier were to relax the
7 restrictions of a pilot scope clause and be able to operate
8 more regional jets, for example, or more code shares does
9 that involve a direct reduction of its labor costs?

10 A No, it involves obviously increased revenue.

11 Q Okay. So that's not a direct labor cost item?

12 A Not necessarily, no.

13 Q Okay.

14 MR. GALLAGHER: If I may have a moment, Your
15 Honor.

16 THE COURT: Sure.

17 (Pause)

18 BY MR. GALLAGHER:

19 Q Ms. Parcelli asked you, Mr. Glass, about the fact that
20 you did not include carriers like AirTran and JetBlue in
21 your comparator group analysis. Do you recall that
22 testimony?

23 A I do.

24 Q If you had included AirTran and JetBlue or other low
25 cost carriers in your comparison of contract terms would

1 that have -- what would it -- what would that have shown?

2 A Well, it would have shown a wider gap between
3 American's contract provisions -- current contract
4 provisions and what those carriers have.

5 Q And would it also show a wider gap between American's
6 proposals to American's disadvantage compared with what the
7 LCCs have?

8 A Generally.

9 Q Okay.

10 MR. GALLAGHER: I have no further questions, Your
11 Honor.

12 THE COURT: All right. Any recross?

13 MR. DEAN: Your Honor, could we have ten minutes
14 to coordinate since there was a good deal of redirect that
15 overlapped the cross of the three unions to try to shorten
16 that?

17 THE COURT: All right. I don't know that ten
18 minutes is really going to be needed for that, but -- but
19 we'll -- we'll reconvene at 10 after 12:00.

20 MR. DEAN: Thank you.

21 (Recess at 12:02 p.m.)

22 THE CLERK: All rise.

23 THE COURT: Please be seated. I trust that the
24 ten minutes helped to narrow the scope of recross.

25 MR. DEAN: Yes, Your Honor.

1 THE COURT: Which my definition should be fairly
2 limited in any event.

3 RECROSS-EXAMINATION

4 BY MS. PARCELLI:

5 Q Mr. Glass, can you imagine if you will two airlines
6 that have entirely identical flight attendant contract
7 terms, but one airline has a workforce that's 20 years more
8 junior than the other airline and accordingly costs less to
9 the company. Are those two contracts in your view
10 competitive?

11 A The contract terms are competitive.

12 Q Okay. Their terms but not their costs?

13 A Correct.

14 Q Now do you recall giving a deposition in this matter, I
15 believe it was last week, April the 17th, correct?

16 A Yes.

17 Q Okay. And you recall you were questioned by my
18 partner, Jeff Bartos?

19 A Yes.

20 Q And you recall being asked the following question.

21 "Looking at flight attendant contracts in
22 particular both in your experience at US Airways and
23 consulting in other capacities, what is your opinion in
24 terms of the best measure or metric for comparing the cost
25 of one flight attendant contract to another or the terms of

1 one agreement to another?"

2 Do you recall that question, sir?

3 THE COURT: Well, what's the answer, first, right?

4 MS. PARCELLI: Sure.

5 THE COURT: Let's do that.

6 BY MS. PARCELLI:

7 Q All right. The answer is --

8 THE COURT: Because that's not his testimony so he
9 can't recall the question, he should be recalling his
10 answer.

11 MS. PARCELLI: All right. Sorry, Your Honor.

12 BY MS. PARCELLI:

13 Q The answer you gave was:

14 "My opinion is that taking the contract terms of
15 another airline and superimposing it on your workforce and
16 your operating statistics is the method that I've used the
17 most in restructuring environment."

18 Do you recall giving that answer?

19 A I do, and I also recall there was more to any answer
20 than that.

21 Q Okay.

22 THE COURT: Can I have a copy?

23 MS. PARCELLI: Sure.

24 MR. BUTLER: May I approach, Your Honor?

25 THE COURT: Yes, please. All right, thank you.

1 What page?

2 MS. PARCELLI: Yeah, the colloquy begins on
3 page 18 at -- the question begins line 13. And I believe I
4 have read the entirety of the answer.

5 THE COURT: All right. Next question.

6 MS. PARCELLI: I had nothing further.

7 THE COURT: All right.

8 (Pause)

9 THE COURT: Thank you very much.

10 RE-CROSS-EXAMINATION

11 BY MR. DEAN:

12 Q Mr. Glass, you testified on redirect that US Air could
13 outsource regional aircraft up to 90 seats, correct?

14 A Correct, within the limitations.

15 Q One limitation being the 90,000 pound maximum take off
16 weight?

17 A Correct, and a limit of 93 aircraft.

18 Q And that prevents US Air from being able to outsource
19 aircraft comparable to the Embraer 190 insofar as those
20 aircraft have a maximum take off weight above 90,000 pounds,
21 correct?

22 A Correct.

23 Q You testified that a number of the network carriers,
24 CBAs, have specific restrictions spelled out for domestic
25 code sharing, correct?

1 A Correct.

2 Q And it was your testimony that that made it easier for
3 carriers to enter into such agreements?

4 A Yes.

5 Q The Delta contract does not have any such specific
6 restrictions does it?

7 A Not any longer, but they -- again, it's an identical
8 situation to United Continental, they don't need it now
9 after the merger of Delta and Northwest because the breadth
10 and depth of their system is so extensive now.

11 Q But if they enter into any new code sharing agreements
12 they essentially have to negotiate those ad hoc with the
13 Delta pilots?

14 A Yeah, again, but it's more or less the meaningless
15 provision.

16 Q The answer to my question is yes?

17 THE COURT: Could you repeat the question?

18 BY MR. DEAN:

19 Q The -- when Delta wants to enter into new domestic code
20 sharing agreements it has to negotiate that on an ad hoc
21 basis with the pilots?

22 A Today yes, I think I gave you that answer.

23 Q Okay. You testified that when scope limitations or job
24 protections are relaxed that does not result in the direct
25 labor saving for the airline involved, correct?

1 A Correct.

2 Q But if the scope concession involved -- were for
3 instance to allow for outsourcing of a 88 seat regional jet
4 and the carrier involved were flying a number of routes with
5 MD-80's that it felt were not making sufficient returns
6 would it be likely to replace those routes with the
7 outsourced 88 seat RJ's?

8 A All depends on the market, if the markets could support
9 it. I've seen firsthand where airlines have flown
10 comparably sized aircraft A-319's or A-320's and they shrink
11 down 50 seat aircraft from there literally.

12 And so, you know, again, I know I sound like a
13 broken record, but you've got to have the right aircraft in
14 the right markets to be successful. It really is that
15 simple. And if you don't that's no form of job security for
16 anybody.

17 Q I'm going to understand that answer as yes under
18 certain circumstances the airline would in fact substitute
19 mainline flying with regional jet flying?

20 MR. GALLAGHER: Object to a mischaracterization of
21 the witness's testimony, Your Honor.

22 MR. DEAN: I'll ask the witness whether that
23 follows from his last answer.

24 THE WITNESS: I think your question specifically
25 had to do with 88 seat aircraft?

1 BY MR. DEAN:

2 Q Yes.

3 A And so I gave you an answer based on that, that it
4 wasn't necessarily -- you cannot assume that it would just
5 be an 88 seat aircraft, that's my whole point is that
6 markets change and you put the aircraft in that is
7 appropriate and can allow you to have an adequate return.

8 Q So you might down gauge to an even smaller aircraft
9 than an 88 seat aircraft?

10 A You might, or you might have an 88 seat aircraft if
11 that's what the market determined.

12 Q And so in some circumstances when that's allowed you
13 would expect that in some circumstances flying on for
14 instance an MD-80 would be switched?

15 A Yes.

16 Q And that would result in a labor cost saving to the
17 carrier?

18 A Not necessarily. It depends if pilots are -- if those
19 aircraft and the -- and the people associated working with
20 that aircraft are then put in another market, which is also,
21 you know, very common in the industry that markets change,
22 you move hours and you move people to a different base or a
23 different location, that's a part of our industry and it
24 always has been.

25 Q But there would be less flying opportunities at the

1 mainline if in fact routes would be flown by the regional?

2 A No, that's not -- that's not accurate either. Again,
3 it depends on the situation.

4 I have been involved with companies in which there
5 is flying the exact block hours are transferred from one
6 location to another, and so there is absolutely no reduction
7 in hours for mainline pilots at all.

8 Q And have you been in other situations where there was a
9 reduction?

10 A Oh, sure.

11 MR. DEAN: Nothing further.

12 THE COURT: All right. Any other recross?

13 MR. DEAN: Nothing further for this witness.

14 THE COURT: Any re-redirect?

15 MR. GALLAGHER: No thank you, Your Honor.

16 THE COURT: All right.

17 MR. GALLAGHER: I would like to move in Mr. Glass'
18 second amended declaration 800B and his Exhibits 800 to 830,
19 Your Honor, as well as one additional exhibit that I have
20 discussed with union counsel that relates to it and that's
21 American Exhibit 1302, which was originally proffered by
22 another declarant who will not be called, but I understand
23 there will be no objection.

24 MS. KRIEGER: Wait. Jake, could we confer for a
25 moment? That was not our understanding of the arrangement.

1 MR. GALLAGHER: I'm sorry. Yes, we can.

2 (Pause)

3 THE COURT: And which witness was this originally
4 attached to?

5 MR. GALLAGHER: The declarant, Your Honor, was
6 Mr. Rob DeLucia (ph) who is the executive -- current
7 executive director of the Airline Industrial Relations
8 Conference.

9 THE COURT: All right. All right, let's take the
10 one I have in my hand first. Is there -- is there any
11 objection to me receiving this?

12 MR. DEAN: No objection.

13 THE COURT: All right. Let me ask if there's
14 going to be any testimony about this particular document?

15 MR. GALLAGHER: We had hoped to avoid that by
16 having it introduced in this way, Your Honor, but that's the
17 reason I did it now is because Mr. Glass can testify about
18 this document if Your Honor has any questions.

19 THE COURT: All right. Well, in light of that let
20 me make sure there aren't any -- if we're going to go this
21 route that there aren't any questions that folks want to ask
22 on cross, because that would seem to be a legitimate request
23 if we're going to enter this document with this witness.

24 MR. DEAN: No, Your Honor.

25 THE COURT: All right. That was easy.

1 All right, so this is in as Exhibit 1302.

2 (Debtor's Exhibit No. 1302 was admitted)

3 THE COURT: Any objection to the introduction of
4 the updated declaration of Jerrold Glass which is exhibit --
5 it's direct testimony essentially, although I guess we've
6 been using different terms for it whether it's the report,
7 the direct testimony 800A.

8 MR. GALLAGHER: B, Your Honor.

9 THE COURT: I'm sorry, 800 -- yes, 800B. I sorry,
10 I have too many of those. It's the second updated
11 declaration of Jerrold A. Glass, and it's Exhibit 800B. Any
12 objection?

13 MS. KRIEGER: No.

14 THE COURT: All right.

15 (Debtor's Exhibit No. 800B was admitted)

16 THE COURT: And I understand when I say that
17 obviously everyone is reserving their rights to argue about
18 the relevance and weight and all those wonderfully exciting
19 things.

20 So as to the exhibits, am I assuming that you are
21 moving all of the documents that are attached -- that are
22 included in this exhibit book, so we're talking about 801
23 through 830 and including the errata?

24 MR. GALLAGHER: Correct, Your Honor.

25 THE COURT: All right. Any objection to any of

1 those exhibits?

2 MR. KRIEGER: None, Your Honor.

3 THE COURT: All right, that was also easy. All
4 right, all that is admitted.

5 (Debtor's Exhibit Nos. 801 through 830 were admitted)

6 MR. GALLAGHER: Thank you, Your Honor. May the
7 witness be excused?

8 THE COURT: The witness is excused. Thank you.

9 THE WITNESS: Thank you, Your Honor.

10 THE COURT: Uh-huh.

11 MR. GALLAGHER: At this point, Your Honor, the
12 company's next witness will be Ms. Goulet. And Mr. Flicker
13 will handle the examination.

14 THE COURT: All right.

15 THE CLERK: Please raise your right hand.

16 (Witness Sworn)

17 THE CLERK: Can you please state and spell your
18 name for the record.

19 THE WITNESS: Beverly Goulet. B-E-V-E-R-L-Y,
20 G-O-U-L-E-T.

21 DIRECT EXAMINATION

22 BY MR. FLICKER:

23 Q Good afternoon, Ms. Goulet, this is Scott Flicker from
24 Paul Hastings for the debtor.

25 A Hi Scott.

1 MR. FLICKER: Your Honor, at counsel table is
2 Mr. Mark Pollack, one of the Paul Hastings partners you have
3 not been introduced to yet.

4 MR. POLLACK: Good afternoon.

5 THE COURT: Good afternoon.

6 BY MR. FLICKER:

7 Q Ms. Goulet, can you state your current position,
8 please?

9 A Yes, I'm the Chief Restructuring Officer of AMR
10 Corporation and I'm also the Vice President of Corporate
11 Development and Treasurer of American Airlines.

12 Q And --

13 THE COURT: Feel free to move that in whatever way
14 is most comfortable --

15 THE WITNESS: Okay.

16 THE COURT: -- to you so you're not leaning
17 forward. That'll get rather painful over time.

18 THE WITNESS: Thank you.

19 BY MR. FLICKER:

20 Q And what is the relationship between AMR Corporation
21 and American Airlines?

22 A American Airlines is a wholly-owned subsidiary of AMR.

23 Q And how long have you been in the position of vice
24 president Corporate Development and Treasurer of American?

25 A Since June of 2002.

1 Q Could you give us an overrule, a description of your
2 duties in that position?

3 A Yes. I have essentially four functions that I
4 supervise.

5 The first is corporate development, which is the
6 analysis and execution of mergers, divestitures, and
7 strategic acquisitions.

8 The second area is fleet transactions, which
9 involves the purchase, divestiture, and leasing of aircraft.

10 The third function is corporate insurance and risk
11 management, which involves both the procurement of our
12 various books of insurance ranging from aviation to property
13 to director's and officer's liability insurance.

14 And the fourth area is treasurer, which involves
15 domestic and international banking and then all of the
16 balance sheet functions relating to the -- the financings we
17 do whether they are debt aircraft related, equity, and so
18 forth.

19 Q Now is the task of modeling American's business
20 performance one that falls within the scope of your group?

21 A Not within the scope of my job with regard to American
22 Airlines.

23 Q Okay. Let's talk about AMR. What is -- what are your
24 duties as chief restructuring office of AMR?

25 A I was asked to oversee the restructuring process

1 insofar as it relates to our restructuring plan, and so was
2 essentially tasked with coming up with the -- the plan by
3 which we will return the company to profitability, move to
4 competitive costs, and emerge from bankruptcy with adequate
5 liquidity and a healthy balance sheet.

6 Q And is the task of modeling American Airlines business
7 performance one that falls within the scope of your duties
8 as chief restructuring officer?

9 A Yes, it is.

10 Q Okay. And how long have you been at American?

11 A I joined in April of 2003 -- I'm sorry -- April of
12 1993.

13 Q And what other positions have you held?

14 A I started in the legal department, I spent six years as
15 the associate general counsel for corporate finance where I
16 essentially supported the corporate finance and corporate
17 development functions.

18 After six years in that position I moved into the
19 position that is the managing director of corporate
20 development. I described that function earlier. Spent
21 three years in that position and moved into my position as
22 treasurer in 2002.

23 Q And you've prepared a written direct testimony in this
24 matter; is that right?

25 A Correct.

1 Q Okay.

2 MR. FLICKER: And Your Honor, we have another book
3 here, this one I think the order might be reversed. The
4 first tab is what I think is the update -- it should say
5 updated declaration of Beverly Goulet, if you have that.

6 THE COURT: I have something that isn't a document
7 entitled updated declaration.

8 MR. FLICKER: Right.

9 THE COURT: I think the tab just says declaration.

10 MR. FLICKER: That's right.

11 THE COURT: But the actual document says updated
12 declaration.

13 MR. FLICKER: And I wanted to clear up that
14 confusion. So that first tab is what we -- we are treating
15 as the operative updated declaration of Beverly Goulet, and
16 I'll refer to it as Exhibit 100A, because the original
17 Goulet declaration was 100. So as a shorthand we're going
18 to ignore the second tab in the book.

19 I'll also note for everyone who has a copy, and
20 does opposing counsel have a copy of that binder?

21 MR. KRIEGER: Yes.

22 MR. FLICKER: That we have included what is a
23 version that contains all of the confidential information
24 that is redacted off the public version, and the portions
25 that are redacted off the public version should be

1 highlighted in the copy before you.

2 BY MR. FLICKER:

3 Q And Ms. Goulet, do you adopt as your direct testimony
4 the declaration that is --

5 THE COURT: Let me ask a question.

6 MR. FLICKER: Yes, sir.

7 THE COURT: Sorry to be -- interrupt here, but I
8 see in the version that I have, the first document, so for
9 example on page 41 --

10 MR. FLICKER: Yes, sir.

11 THE COURT: -- there is some light blue
12 highlighting on that page, and then when I go to the second
13 document, which is redactions highlighted also -- it has
14 darker blue highlighting. I'm just trying to figure out the
15 -- what difference -- like what am I to make of the
16 highlighting in the first version? I assume those were the
17 redactions as well, but it looks like the second version
18 also has highlighting, so.

19 MR. FLICKER: Yes, sir. The tab that we're going
20 to ignore, which is the original 100 also had the same type
21 of highlighting, difference in color is just a printing ink
22 difference, but when you see for example on the page that
23 you pointed us to, page 41 of 100A, when you see the exhibit
24 number highlighted as it is that indicates that the exhibit
25 itself was redacted and filed under seal because it's --

1 THE COURT: All right.

2 MR. FLICKER: -- you can't actually express the
3 highlighting on the surface of the chart that's above it, it
4 doesn't come through.

5 THE COURT: Right. But I guess my -- I'm trying
6 to figure out what the difference is between these two
7 documents.

8 MR. FLICKER: Right. And the only difference
9 between the two documents -- and we won't display it because
10 it's a confidential document -- the only difference is that
11 on page 41 of 100A it is reflecting AA Exhibit 132A, which
12 is actually an updated version of what was on the original
13 version, Exhibit 132. Both have been submitted to the
14 Court --

15 THE COURT: I see. All right.

16 MR. FLICKER: -- and both have been redacted.

17 THE COURT: All right, thank you.

18 MR. FLICKER: Yes.

19 BY MR. FLICKER:

20 Q So with that, Ms. Goulet, do you adopt the testimony in
21 American Exhibit 100A as your direct testimony in this
22 matter?

23 A Yes, I do.

24 Q And there are exhibits that have been reproduced in the
25 binder but also appear in that declaration. Number 101 to

1 135A, and do you sponsor and adopt those exhibits as part of
2 your testimony?

3 A Yes, I do.

4 Q All right. As His Honor has already noted there are a
5 number of exhibits setting forth financial metrics of
6 American Airlines in your declaration, including some that
7 compare American to other major network carriers.

8 MR. FLICKER: In the interest of time I'm not
9 going to go through all of those, Your Honor. We will draw
10 your attention to certain ones as you had discussed
11 yesterday. To the extent we don't cover them in an
12 examination or in an oral argument we'll be sure to do so in
13 briefing if we think that it's something --

14 THE COURT: All right.

15 MR. FLICKER: -- that you should pay attention to.

16 However, I would like to display American Airlines
17 Exhibit 103 as an example.

18 BY MR. FLICKER:

19 Q And if you'd like to refer in your declaration,
20 Ms. Goulet, that might be easier for you. That particular
21 one is at page 4 of your declaration.

22 A Okay.

23 Q So this is an example of a metric 2011 labor cost per
24 ASM, do you see that?

25 A Yes.

1 Q Now I want to ask you some basic foundational questions
2 about this kind of information.

3 Is it part of your duties at American Airlines to
4 know and understand the performance metrics such as cost per
5 ASM at American and its major competitors?

6 A Yes, it is.

7 Q And why is that?

8 A I engage with a number of external parties on a regular
9 basis and it's necessary for me to understand what the
10 company's performance and prospects are as I deal with those
11 parties, including Wall Street analysts and equity
12 investors, parties from whom we might borrow money,
13 insurance providers who might want to understand the
14 performance and prospects of the company.

15 Q And do you as part of your functions as a senior
16 officer at American have an understanding of American's
17 competitive position and the factors that have contributed
18 to American's competitive position over the past few years?

19 A I believe I do.

20 Q Okay. Well, let me ask you, if you could turn to
21 Exhibit 106, which in your report is page 7. Did AMR lose
22 money in 2011?

23 A Yes.

24 Q How much?

25 A Just under \$1.1 billion.

1 Q More than a billion dollars?

2 A Yes, just under 1.1 billion.

3 Q Okay. And was this the only loss that the company
4 suffered in the past decade?

5 A Unfortunately not.

6 Q Okay. If I refer you to Exhibit 104 on page 5 what
7 does that show?

8 A Exhibit 105?

9 Q 104.

10 A Oh, 104, I'm sorry.

11 Q Page 5.

12 A Yes, it shows that over the last decade there were only
13 two years within that decade in which AMR earned a profit,
14 and in each of those two years a very modest profit based on
15 the size of the company.

16 Q Now these earnings are net earnings reported at the
17 parent company level AMR.

18 Could you just briefly describe how this -- these
19 metrics relate to the performance of American Airlines, the
20 party that's filed this motion?

21 A Yes. American Airlines accounts for the vast majority
22 of the earnings or losses of AMR Corporation. It's roughly
23 -- well, it's a very, very significant portion of the
24 earnings.

25 American Eagle, which is another wholly-owned

1 subsidiary of AMR would also be reflected in the earnings,
2 but AA Accounts for the vast majority of the results that we
3 show.

4 Q And in the SEC filings are the earnings of AMR reported
5 on a consolidated basis?

6 A Yes, the AMR numbers are reported on a consolidated
7 basis.

8 Q Okay. In your direct testimony you described how you
9 were tasked by AMR's chairman and CEO, Mr. Horton, to lead
10 the development and implementation of ARM's restructuring
11 plan. Can you please describe that assignment?

12 A Yes. As I mentioned a bit earlier, the goal obviously
13 is to emerge from bankruptcy with a business plan that
14 allows us to generate sustained profitability, adequate
15 levels of liquidity, and to maintain a balance sheet that
16 allows us to invest in the business and otherwise be
17 prepared to withstand whatever isogenous events that might
18 affect the business.

19 As we undertook that task we really thought about
20 it in several different components. We worked with our
21 financial advisors at Rothschild to determine what the
22 financial metrics might be that would suggest the goals that
23 I just described.

24 We also looked at what the company's revenue
25 generating opportunities were in order to determine that we

1 in fact were deploying those assets in a manner to maximize
2 the revenue generating capability of the company.

3 We also looked at our costs in order to ensure,
4 despite all the work that we had done for the past decade or
5 so to make sure that our non-labor costs were as -- as low
6 as they might be to make sure that there were not
7 opportunities there to further get cost out of the business.

8 We looked at the opportunities that the bankruptcy
9 filing itself would afford us in terms of the ability to,
10 for example, reject aircraft leases and otherwise
11 restructure relationships with vendors, for example.

12 And then finally we looked at what kind of labor
13 costs would be necessary in order for us to generate those
14 kinds of financial metrics that we had established.

15 Q Thank you.

16 Now focusing for the start on the revenue side,
17 what steps did you or people under your supervision carry
18 out to focus on the revenue side of the business?

19 A Well, we -- as I mentioned, we wanted to -- we wanted
20 to be sure that the strategy that we were pursuing, which
21 was referred to as a cornerstone strategy was in fact the
22 strategy that we should continue with as we moved through
23 the restructuring process. So we engaged McKinsey
24 Consulting to come in and work with us to test the
25 assumptions that we had made in developing that strategy.

1 That was a strategy that we had put in place a couple of
2 years earlier if I remember correctly, I think we rolled
3 that out in the fall of 2009.

4 Essentially it's built around five domestic hubs
5 at Dallas-Fort Worth, Miami, New York, Chicago, and Los
6 Angeles, and we wanted to look again at whether that
7 strategy was the appropriate strategy using McKinsey as a
8 way to probe that with us.

9 Working with McKinsey we -- actually knowing that
10 we were going to bring forward a six-year plan asked our
11 network planning team to actually develop for us a schedule
12 that we would plan to implement over that six-year period.

13 We then asked our fleet planning folks to
14 determine what aircraft would be operated on those routes,
15 and then we worked with McKinsey to develop a revenue model
16 that would allow us to assess what kind of revenue we would
17 generate with the plan that I've just described.

18 Q I assume, and you can correct me if I'm wrong, that
19 American has the internal capability to model its revenues
20 based on its network plan. What -- what was there for the
21 reason to have McKinsey come in and work on a revenue model?

22 A Well, as I mentioned, we wanted to make sure, and we
23 thought it was in keeping with our fiduciary duties, to
24 maximize the value of the enterprise for our stakeholders
25 that we have an independent source vet that for us. So we

1 asked them to come in and to not accept any of the -- the
2 premise that we necessarily had in place, but to really use
3 their own judgment as to whether or not the plan that we
4 were pursuing was in fact the best plan.

5 Q Now my question I suppose now is pre bankruptcy you had
6 five cornerstones, you've had a fleet, you had a network
7 plan.

8 A Correct.

9 Q What is different therefore about the network plan and
10 the business strategy that you have been modeling and
11 projecting for American in the restructuring process?

12 A Well, I think there are several things that are quite
13 different actually, and we've described those as we've -- as
14 we've indicated the amount of incremental revenue that we
15 think this plan will develop.

16 First of all we -- we believe that this process
17 should allow us to begin to operate on a much more level
18 playing field than we had been able to previously in a
19 couple of regards.

20 As we looked at the restrictions that we were
21 operating under with regard to our pilot scope clause we
22 were substantially inhibited by the terms of that provision
23 from properly gauging our airline. And what I mean by that
24 is that the restrictions on our ability to generate -- I'm
25 sorry -- to operate large regional aircraft was restricting

1 our ability to -- to align the size of the aircraft with the
2 market that it was -- that it was serving and was therefore
3 impeding our ability to fully develop the cornerstone
4 strategy.

5 Second was with regard to our ability to code
6 share with domestic partners. Given the change in the
7 landscape that we've seen as a result of the mergers that
8 have occurred in the industry over the last few years the
9 restrictions on domestic code sharing have substantially
10 inhibited our ability to fully compete with the likes of the
11 merged United Continental and Delta Northwest. So
12 provisions that might have been acceptable seven, eight,
13 nine years ago we believe are not appropriate in the
14 circumstances that we are in today.

15 The other things that I think make it different
16 are that with a company that will actually be capable of
17 generating profits we will therefore be able to invest to a
18 substantially greater degree in our aircraft facilities and
19 products and services and we'll be able to arrest some of
20 the decline that we have seen in the -- in our performance,
21 our revenue performance versus our competitors, and we will
22 be able to reverse that trend and in fact make a modest
23 improvement in that regard.

24 And then finally while not directly a product of
25 the bankruptcy the joint businesses that we've put in place

1 with regard to our Atlantic operations with British Airways
2 and Iberia and in our Pacific operations with Japan Airlines
3 on the one hand and Qantas on the other hand are maturing
4 and should move into a position where having had them in
5 place for a couple of years they should begin to generate
6 substantially more revenue than they did in their infancy.

7 Q And the business plan that has been put together that
8 the company has, does it have the capability to model its
9 financial performance as a result of that?

10 A Yes, we do.

11 Q And what does the company do on a fairly high level if
12 you could to be able to model the financial performance of
13 the strategies that it is -- it has put into its plan?

14 A Well, as I mentioned we worked with McKinsey to develop
15 a revenue model.

16 We previously had used a model that was a
17 regression based model that was -- that looked at OA
18 capacity, that is the capacity that other carriers have in
19 the market, at fuel prices, and at GDP.

20 Working with McKinsey we built a more I think
21 sophisticated bottoms up model that actually takes the
22 network plan that we've developed and looks at the -- the
23 supply and demand for air travel in each of those markets,
24 gives us an indication of what kind of revenue we might
25 generate, and then on top of that we layer in the various

1 revenue initiatives that I mentioned earlier.

2 Q And without -- without giving any confidential
3 information has the company publicly identified any revenue
4 growth as a result of its business plan?

5 A I think we believe that the business plan that the
6 initiatives that I described will generate about \$1 million
7 of incremental revenue, and that is incremental to the
8 revenue that the forces of supply and demand would be
9 expected to generate in the markets that we're serving.

10 Q All right. And was this a static one-year model or is
11 it actually a projection over a period of time?

12 A No, we went -- we modeled the entire six-year period of
13 our forecast.

14 Q Okay. And does the -- the network plan that you've
15 described and the strategies you've described, does it call
16 for the airline to grow or to contract?

17 A It calls for the airline to grow, and let me spend a
18 little bit of time on that. We would expect growth over the
19 six-year period of about 20 percent.

20 Now I know there's been a lot of conversation
21 about whether that would have the effect of disrupting the
22 industry's equilibrium and so forth, but I think it's
23 probably worth noting that if you look at that on an annual
24 basis the rate of growth that we have included in our plan
25 is actually less than the rate at which we believe the

1 demand for air travel will -- will expand over that period
2 of time.

3 I think the other thing worth noting is that while
4 there's a sort of fourish percent average that one has to
5 look beyond the averages. And as I mentioned the plan
6 actually focuses on all of the various markets to which we
7 fly, and there is more growth in some of those markets where
8 the demand is expected to grow more rapidly than there is in
9 other markets where the demand is expected to be less
10 robust.

11 Q Now we're obviously having this conversation in a
12 public forum, but there's a lot of I assume confidential
13 detail embedded in all of the information you just provided;
14 is that right?

15 A That's correct.

16 Q Now has that confidential detail been provided to the
17 unions or its advisors in connection with this proceeding?

18 A Yes, it has in great detail.

19 Q Okay. And just to give the Court a flavor without
20 going through it in any detail, can you talk about the
21 process by which that was done?

22 A Yeah. We established a -- an online data room and
23 we've uploaded to that data room -- well, I think the
24 numbers were given yesterday, I don't recall what they were,
25 but they were a substantial number of documents.

1 Q I think I heard a terabyte of data using the young
2 person's measure.

3 A I'm not young enough to know what that means.

4 Q All right. You discussed in your testimony operational
5 restrictions that American has been operating under, you
6 talked about large regional jets.

7 Are the flight operations that are contemplated in
8 American's business plan and the growth and revenue that
9 you've described, are those possible if those operating
10 restrictions remain in place?

11 A No, they're not.

12 Q Why not?

13 A A substantial component of that billion dollars of
14 incremental revenue that I described is derived by virtue of
15 the fact that the plan contemplates our ability to use a
16 substantially larger number of large regional jets in our
17 plan than we are currently permitted to operate under our
18 scope clause.

19 Q Okay. Now we've been talking about revenue growth.
20 The additional billion dollars in revenue that's projected,
21 is that sufficient alone to return the airline to
22 profitability?

23 A No, unfortunately it's not. In fact it would -- it
24 would fall well short of the -- the changes that we have to
25 make in the business for us to be successful.

1 Q And when you talk about changes are you there talking
2 about costs?

3 A Yes, I am.

4 Q And if the costs are not reduced would American be able
5 to make the investments in the fleet in the other aspects of
6 its business you describe?

7 A No, we -- excuse me -- no, we wouldn't.

8 Q Well, regarding these substantial investments, aren't
9 these investments that American should have been making all
10 along up to this point?

11 A We certainly would have -- we certainly would have
12 liked to have been in the position to do so, but I think
13 when you look back at the exhibit that we looked at earlier
14 and look at our history of earnings over the last decade --

15 Q Well, let's see, that I was 104?

16 A That was Exhibit 104, correct. It was certainly not
17 possible to invest in the airline in aircraft or facilities
18 or products to the extent that would have been appropriate
19 or desirable. In fact there were a number of years in which
20 we did very, very little investing.

21 You know, just as a rule of thumb if you think
22 about an airline of our size with 600 or so mainline
23 aircraft and 300 or so regional jets and you assume a, you
24 know, 20 to 25 year life the math would suggest that really
25 just to maintain the age of the fleet that a substantial

1 amount of investment should happen on an ongoing basis.

2 Q Now is it accurate to say that American was making no
3 investments in its fleet and facilities during the decade
4 that we're looking at here?

5 A No, certainly not, and in fact there were different
6 points in the decade where we thought differently about what
7 we were able to do.

8 When we actually -- we actually deferred the
9 delivery of aircraft on several occasions coming out of the
10 2001, 2002, 2003 time frame given our financial constraints
11 at that point.

12 As we -- now all that meant though was that the
13 fleet was continuing to age and we were going to be flying
14 less fuel efficient aircraft longer, older aircraft that
15 would require more maintenance, and with a product profile
16 that would not be as -- as attractive to our customers as if
17 we had been able to continue to invest.

18 In 2006 and 2007 when we felt as though we were
19 starting to get our feet back under us we did at that point
20 begin the process of refueling. Obviously there's a lead
21 time on when aircraft can be delivered once ordered, but we
22 did begin to take delivery of new aircraft in 2009.

23 Q And American also made a very large aircraft order in
24 2011; isn't that correct?

25 A That's correct, we placed an order for -- let's see --

1 460 aircraft I believe.

2 Q And did -- and is that aircraft order financed?

3 A It is -- it is partially financed. The aircraft order
4 itself was 200 aircraft from the Boeing Company and 260
5 aircraft from Airbus, and half of each of those orders is
6 financed.

7 Q Let's talk a little bit since you talked about past
8 investments about AMR's debt.

9 MR. FLICKER: If you could bring up Exhibit 124.

10 BY MR. FLICKER:

11 Q And that in your declaration is on page 31 of 100A.

12 The chart we're looking at in front of us looks at
13 AMR's adjusted net debt and unrestricted cash. Do you see
14 that?

15 A Yes.

16 Q And does it show in your opinion high or low levels of
17 debt for AMR?

18 A Very high levels.

19 Q And why was American incurring this high level of debt
20 during these years?

21 A Well, there were several reasons.

22 As we saw earlier the company was suffering very
23 large losses, so part of the borrowings were to fund those
24 losses.

25 We also were contributing to our defined benefit

1 -- defined benefit pension plans over this period of time.

2 And then we also had a substantial amount of debt
3 that was coming due over this period.

4 Q Now the business plan as you mention calls for a
5 substantial amount of additional investment; is that
6 correct?

7 A Yes, it is.

8 Q Is that investment in your view necessary in order to
9 return the company to profitability?

10 A I believe it is.

11 Q In your view is that level of investment excessive?

12 A No, it's not.

13 Q You mentioned that you worked with your financial
14 advisors, Rothschild in connection with identifying the
15 appropriate metrics for your restructuring business plan.
16 Can you just elaborate a little bit more on what that task
17 entailed, what you were trying to accomplish there?

18 A Yes. Well, clearly as we set about defining the
19 parameters of the plan we felt it was necessary to determine
20 what the profile of the company should be as we emerged from
21 bankruptcy and thereafter in terms of the levels -- the
22 acceptable levels of profitability, liquidity, and debt, and
23 Rothschild worked with us to establish those target metrics.

24 Q And why are those kinds of metrics important speaking
25 from somebody who's involved in the corporate treasury and

1 restructuring functions?

2 A Well, I guess -- I guess there are several ways to
3 think about it.

4 When you look at a measure like EBITDAR, which is
5 simply an earnings measure before servicing debt and
6 aircraft rent and interest expense and so forth, the company
7 would need to generate a sufficient level of profitability
8 which in turn drives cash flow in order for it to maintain
9 adequate levels of liquidity while making the investments in
10 the business that we believe are necessary and appropriate.

11 A metric like net -- net debt to EDITDAR is one
12 way of looking at what the company's leverage is, and the
13 leverage is important to determine whether the balance sheet
14 will have the strength necessary to support the capital as
15 well as provide any buffer from the kinds of external events
16 to which this industry is regularly subjected.

17 Q And do you believe and does AMR believe in its business
18 judgment that the levels of cash and other buffers that are
19 projected in this business plan are appropriate for the
20 company?

21 A Yes.

22 Q All right. Now the company has said that it is seeking
23 and needs 1.5 billion in labor cost reductions on an annual
24 basis and that translates into 1.25 billion I understand on
25 a six-year average; is that correct?

1 A That's correct.

2 Q How did the company from the financial side determine
3 how much labor cost reduction it needed in order to execute
4 its business plan?

5 A Well, we looked at the financial metrics that we had
6 established, we looked at the levels of revenue that we
7 believe the company will be able to generate with the
8 ability to implement those various initiatives that I
9 mentioned and with the level playing field that I described.

10 We looked at what the other improvements were that
11 we could make to our costs.

12 As I mentioned earlier a variety of things that --
13 costs that we can get at by virtue of the bankruptcy
14 process, so aircraft leases, other debt, renegotiation of
15 relationships with suppliers and so forth.

16 Q Well, can I interrupt you there and ask you a question?
17 Give us a sense of how rigorous a process this was of
18 looking at non-labor cost reductions at the airline.

19 A Well, I think it's fair to say that we examined the
20 company top to bottom.

21 This was another area where we invited McKinsey in
22 and asked them based on their experience in the airline
23 industry to look at how effectively we were managing our --
24 our non-labor costs and to certainly let us know if there
25 were pockets of opportunity that we had not identified.

1 So they came in and went department by department
2 and function by function to determine whether, as I
3 mentioned, there were thing that is we could perhaps adjust.
4 So we introduced that kind of rigor into the process.

5 Q Now it wasn't just McKinsey who did this. Had American
6 also been doing this on its own as part of its business?

7 A We had for literally the entire decade before. I think
8 as I mentioned in my declaration we had taken a very
9 substantial amount of costs out of the business just on an
10 ongoing basis, and in fact I don't want to put words in
11 McKinsey's mouth, but I think they were surprised that there
12 was very, very little low hanging fruit that they were able
13 to identify as they went through their process.

14 Q Okay. Now I interrupted you when you were giving me an
15 answer to an earlier question, which was how you arrived at
16 the labor cost reduction numbers necessary. You described
17 that you first looked at the revenue that you believed could
18 be generated under the new plan and you were talking about
19 non-labor cost reductions.

20 A Right.

21 Q What next?

22 A Well, that -- we looked at all of that and in the
23 context of the financial metric that we had established and
24 then used that as a means of determining the amount of the
25 labor costs that we believe we need to remove from the

1 business.

2 Q Okay. And I used the term 1.5 billion cash. Can you
3 explain that term?

4 A Yeah. As we were doing our modeling we were focused on
5 the cash generation profile of the company, so we simply
6 looked at -- when we talked about the 1.5 billion we were
7 looking at sort of a steady state 2017 measurement, and as
8 you mentioned, that translates into roughly 1.25 billion on
9 sort of an average six-year economic basis.

10 Q And is that 1.25 billion in reductions solely focused
11 on unionized labor costs or is it across the country?

12 A It's across the board. It extends to both unionized
13 and non-unionized employees.

14 Q And if you recall, how much of the 1.25 is attributable
15 to the unionized labor costs?

16 A I believe it's 990 million.

17 Q And is -- can American successfully reorganize in your
18 business judgment without this 990 million in annual direct
19 labor cost savings?

20 A It's our best business judgment that that's what's
21 necessary.

22 Q Is it purely a matter of obtaining the cash savings
23 from labor?

24 A No, not at all. Included in our plan, as I mentioned,
25 are a couple of things that are equally essential to

1 allowing us to succeed, including changes to the scope
2 clause that would allow us to engage in the operation of a
3 substantially larger fleet of large RJs as well as
4 substantially greater flexibility around domestic code
5 sharing.

6 Q Okay. That's on the revenue side.

7 And the on the cost side can American in your
8 judgment get by with less savings from unionized labor than
9 has been projected in the business plan?

10 A That's the number that in our best judgment we believe
11 is appropriate to our plan.

12 Q What if the actual financial results that American
13 achieves are more favorable than forecast, what then?

14 A We've proposed a profit sharing plan that would share
15 with our employees 15 percent of the profits that the
16 company generates.

17 Q And that's if there are consensual agreements reached;
18 is that correct?

19 A That's correct.

20 Q Okay.

21 MR. FLICKER: I have -- I can pass the witness at
22 this point, Your Honor.

23 THE COURT: All right. It's five after 1:00, I
24 would think now is an appropriate time for a break, and so
25 let's come back at five after 2:00.

1 (Recess at 1:05 p.m.)

2 THE CLERK: All rise.

3 THE COURT: Please be seated.

4 All right, I believe we were ready for cross-
5 examination.

6 CROSS-EXAMINATION

7 BY MR. CLAYMAN:

8 Q Ms. Goulet, my name is Rob Clayman, I'll be asking you
9 some questions. If at any point you don't understand the
10 questions just let me know and I'll try to rephrase it.

11 A Thank you.

12 Q Ms. Goulet, when did Tom Horton become president of
13 AMR?

14 A I believe it was in July of 2010.

15 Q Okay. And who was the prior president of AMR?

16 A There wasn't anybody in the office of the president
17 when he became president.

18 Q Okay. And so the CEO and chairman was Mr. Arpey that
19 the time?

20 A Correct.

21 Q And Mr. Horton then filled the slot of president?

22 A Correct.

23 Q Okay. Now I think you said that -- and it's in your
24 declaration -- that as a vice president of Corporate
25 Development and Treasurer you -- one of your

1 responsibilities is that you -- and this is a quote from
2 your declaration -- "you lead the analysis in execution of
3 corporate development initiatives, including mergers,
4 acquisitions, divestitures, and strategic investments."

5 A That's correct.

6 Q Now Tom Horton appointed you to be the chief
7 restructuring officer?

8 A Correct.

9 Q And wouldn't you agree that one of the reasons that he
10 appointed you was because of your background in corporate
11 development initiatives?

12 A I don't know what his reasons were for appointing me.
13 I suppose that could have been one element of it.

14 Q And when were you appointed the CRO?

15 A It would have been -- I don't know when formally it
16 occurred, but it was announced to the officer group on the
17 evening of November 28th.

18 Q Okay. Now in paragraph 2 of your declaration you
19 mention that -- let me just pull that up. Paragraph 2 you
20 say that "immediately prior to the commencement of the
21 Chapter 11 cases Mr. Horton assigned you the responsibility
22 to lead the development and implementation of AMR's
23 restructuring business plan focused on successfully
24 restructuring our company for long-term viability." Right?

25 A Correct.

1 Q That the time did Mr. Horton say anything to you about
2 corporate development initiatives or anything about mergers
3 or acquisitions in your role as the CRO?

4 A I think what Mr. Horton said on or about that time was
5 that -- that he believes that industry consolidation has
6 been -- that consolidation has been good for the industry
7 and that it might well have a role as we move forward.

8 Q Okay. And if I were to tell you that there has been an
9 exchange of emails between counsel for the debtors and for
10 counsel for the unions, and in the course of that email
11 exchange counsel for the debtors when asked this question --
12 let me read it to you.

13 This is in response to an inquiry that APFA made
14 back a while ago, and the question was, we asked for any
15 analysis or presentations regarding any potential merger
16 initiatives undertaken by the company within the last two
17 years. And the response that we got back was, "We do not
18 believe that information is reasonably necessary for the
19 union to evaluate the company's proposals."

20 In turn, Mr. Dean from James & Hoffman wrote Neil
21 Mullin (ph) and asked:

22 "I understand the company's response to be that it
23 did not undertake any analysis of potential mergers as part
24 of developing the business plan underlying its current labor
25 proposals."

1 Is that correct?

2 A That is correct.

3 Q That is correct, okay. Thank you.

4 Now just to make sure I understand the scope of
5 your responsibilities, you are the CRO for all of the
6 debtors that fall under the AMR umbrella?

7 A Yes.

8 Q Including American Eagle?

9 A I'm the CRO for AMR.

10 Q And what kind of flying does American Eagle perform?

11 A They perform flying using regional jets and turbo prop
12 aircraft.

13 Q Okay. And who is the head or president of American
14 Eagle?

15 A Dan Garten.

16 Q And does he hold any other positions with the company
17 or with AMR or American Airlines?

18 A He's a -- he's -- in his position as CEO of -- as
19 president of American Eagle is a senior office of American
20 Airlines.

21 Q And does the directly report to Tom Horton?

22 A Yes.

23 Q Okay. And do you interact with him as well?

24 A Yes.

25 Q Okay. Let me show you an exhibit that was posted on

1 the interlink web site, it was document 16.5. I'll have it
2 in a second.

3 (Pause)

4 MR. CLAYMAN: And we'll like to mark this exhibit
5 as APFA Exhibit 1.

6 MR. FLICKER: Mr. Clayman, do we know whether this
7 has any confidential information in it?

8 MR. CLAYMAN: I'm not sure actually, so why don't
9 you take a look at it.

10 MR. FLICKER: It is -- actually states private and
11 confidential on the top.

12 MR. CLAYMAN: Okay, I will construct my questions
13 accordingly.

14 THE COURT: Well, that raises a question about
15 whether it's going to be -- how it's going to be admitted
16 and we'll cross that bridge when we come to it, but let's
17 not forget to address that problem.

18 (APFA Exhibit No. 1 was marked)

19 BY MR. CLAYMAN:

20 Q Okay. Ms. Goulet, if I may, the cover sheet says,
21 "American Eagle restructuring update, March 2012." Do you
22 see that?

23 A Yes, uh-huh.

24 Q Okay. Do you know in looking through this have you
25 seen this document before?

1 A I have not.

2 Q Okay. You're not disputing its authenticity though are
3 you?

4 A I don't believe I have any reason to.

5 MR. FLICKER: Objection. That's not a matter for
6 this witness.

7 THE COURT: I don't know what kind of question
8 that is.

9 MR. CLAYMAN: Okay.

10 THE COURT: Let's move on to the next question.

11 MR. CLAYMAN: Okay. I'm sorry, Your Honor.

12 BY MR. CLAYMAN:

13 Q So in any event in looking at this document, could your
14 turn your attention to page 14?

15 A Okay.

16 Q Okay. And you see the third bullet there?

17 MR. CLAYMAN: And I would just direct the Court's
18 attention to the third bullet that begins, "Our changes will
19 be..."

20 BY MR. CLAYMAN:

21 Q And you see the four dashes that follow that?

22 A Yes.

23 Q Okay. Do you dispute anything in that statement that's
24 in this document?

25 MR. FLICKER: Objection, foundation.

1 MR. CLAYMAN: Well, as the CRO I would believe
2 that she should be familiar with the strategy of American
3 Eagle.

4 THE COURT: Well, let me ask a different question.
5 Is anything in the bullet point subject to any
6 confidentiality?

7 MR. FLICKER: I don't believe so, I'd like to
8 witness to see if she has any view on that, but I don't
9 believe so, Your Honor.

10 THE COURT: So if we're going to have testimony --

11 MR. CLAYMAN: Okay.

12 THE COURT: -- and if we can have it clear I think
13 that disagreements on the record it's not particularly
14 helpful. So if you would take a look at that --

15 THE WITNESS: Yeah.

16 THE COURT: -- third bullet appointment. Is there
17 anything in there that would be -- it doesn't appear to
18 be --

19 THE WITNESS: No --

20 THE COURT: -- confidential.

21 THE COURT: -- I don't believe there's anything
22 confidential.

23 THE COURT: All right.

24 MR. CLAYMAN: Okay.

25 THE COURT: So counsel, why don't you just read it

1 into the record so we all know what we're talking about.

2 MR. CLAYMAN: Okay.

3 BY MR. CLAYMAN:

4 Q It states that:

5 "Our changes" -- referring to employee costs --
6 "will be different from those proposed by American Eagle
7 benchmarks against regional airline competitors. Majority
8 of our cost gap is driven by longevity. Regional airlines
9 do not offer some of the same programs as American proposes
10 cutting to reach its goal such as pensions and retiree
11 medical coverage. American is proposing outsourcing."

12 And then turning to the next page let me ask if
13 that's confidential. Do you --

14 THE COURT: Well, give her a chance to finish
15 reading.

16 MR. CLAYMAN: I'm sorry.

17 (Pause)

18 A I don't know whether the amount of the cost
19 disadvantage has been made public or not.

20 Q Okay. I will not read that portion, but just directing
21 your attention to the second bullet, which reads, "We've
22 updated our previous data and analysis to reflect the
23 current marketplace."

24 And then the next bullet, "Because competition to
25 win or retain business is largely driven by cost we compared

1 Eagle's wages, benefits, longevity and productivity by work
2 group to the most competitive large regional airlines."

3 And followed by, "We identified the gap between
4 each work groups labor costs and those of their peers at our
5 competitors."

6 Is there anything in those statements that you
7 disagree with in those representations regarding how they
8 handled labor costs at American Eagle?

9 A No.

10 Q Okay. Now were you present or are you aware that
11 American Eagle -- that a presentation about American Eagle,
12 including its labor costs, was given to the unsecured
13 creditors' committee on March 26th?

14 A I don't believe I was there, but -- I've been to --
15 I've been to a lot of meetings recently. What happened on
16 March 26th I can't tell you I recall.

17 Q No, no, that's perfectly fine. Okay. That's fine.

18 Let's turn to one other exhibit that I want to
19 introduce or at least the next exhibit if I may.

20 MR. CLAYMAN: Could I have the next exhibit?

21 (APFA Exhibit No. 2 was marked)

22 THE COURT: Let me ask counsel whether you want
23 to --

24 MR. CLAYMAN: Oh, yeah, I'd like to admit that
25 one, yes.

1 THE COURT: Well --

2 MR. CLAYMAN: I'm sorry.

3 THE COURT: -- but let me ask this. If -- to
4 admit the exhibit that means going through and redacted
5 portions that are confidential. As you read the relevant
6 portions into the record you may not need to admit it if you
7 got the witness to agree with your statements. That's up to
8 you.

9 MR. CLAYMAN: I think I'd rather have it
10 admitted --

11 THE COURT: All right.

12 MR. CLAYMAN: -- and then have the company redact
13 the document if need be, you know, those portions.

14 THE COURT: All right. Any objection to admitting
15 the document subject to redactions as appropriate?

16 MR. FLICKER: No objection on that basis.

17 THE COURT: All right. So I'm writing to be
18 redacted on my copy and I will swap it out when I get an
19 appropriate version.

20 (APFA Exhibit No. 1 was admitted)

21 BY MR. CLAYMAN:

22 Q Let me hand you what will be marked as -- or is marked
23 as APFA Exhibit 2.

24 THE COURT: Now it's up. Thank you.

25 (Pause)

1 BY MR. CLAYMAN:

2 Q Okay. Looking at APFA Exhibit No. 2 you see the cover
3 sheet that this is a -- taken from a 10K that was filed on
4 February 16th of 2011; is that right?

5 A Yes.

6 Q Okay. And just turning to the next page and looking
7 down to the first paragraph under recent events. And I'm
8 just directing your attention really to that first
9 paragraph, if you just would take a moment and read that.

10 THE COURT: When you say the next page I think you
11 mean the third page of the document?

12 MR. CLAYMAN: Oh, is it the third page? Yes, it
13 is, Your Honor, I'm sorry.

14 (Pause)

15 A Yes, I've read that first paragraph.

16 BY MR. CLAYMAN:

17 Q Okay. And the next paragraph mentions -- it's just I
18 think one sentence, if you would just read that as well.

19 A Yes.

20 Q Okay. So in late September, just to summarize, of
21 2009, the company initiated a strategy or business plan
22 called Flight Plan 2020; is that right?

23 A That's correct.

24 Q Okay. And at the same time -- or was it at the same
25 time that they launched the cornerstone strategy? Am I

1 reading this document correctly?

2 A We don't specifically refer to it in here as the
3 cornerstone strategy, but yes, my recollection is that it
4 was in late 2009 that we launched the focus on the
5 cornerstones, yes.

6 Q And were you involved in the creation of Flight Plan
7 2020?

8 A I'm just looking at the various elements. Not
9 specifically per se.

10 Q And when did you first find out about Flight Plan 2020;
11 do you recall?

12 A Well, it was something discussed within the company
13 during this period of time.

14 Q Okay. And do you know why it was referred to as Flight
15 Plan 2020?

16 A Yeah, I think it was a shorthand way of referring to a
17 strategy around which employees could be galvanized to focus
18 on these five tenants.

19 Q Okay. But why was the year 2020 selected? Was there
20 some plan -- was part of the plan based upon what would be
21 achieved over the course of the next decade?

22 A No, I think it was intended to be a view of how the
23 company would move forward over the next decade, yes.

24 Q And pursuant to the Flight Plan 2020 did you see a
25 business plan that had projections of revenues and costs out

1 to 2020?

2 A No, we did not -- to my knowledge did not produce a
3 plan that would go out that far.

4 Q Okay.

5 A At least where there was any focus on years beyond say
6 the two, three, four years beyond the current year.

7 Q So is it safe to say that when this came out in 2009 it
8 would have been projected out to let's say 2012 or '13?

9 A Likely.

10 Q Okay. And did Flight Plan 2020 remain in place up
11 until the bankruptcy?

12 A We had not changed the strategic direction of the
13 company. I mean Flight Plan 2020 was simply as I say a
14 shorthand way of referring to these five tenants.

15 Q Okay. And would that -- the business plan that had
16 three or four years worth of projections, was that updated
17 regularly?

18 A Yes.

19 Q And -- I'll withdraw that.

20 Now last July -- and I think you've testified and
21 it's in your declaration -- that American placed a very
22 large order for aircraft; is that right?

23 A Yes, that's correct.

24 Q And some have described it as the largest aviation
25 order or airline -- aircraft order in aviation history?

1 A I think it's been referred to it that way.

2 Q Okay. Now you described 460 aircraft as part of the
3 order.

4 A Four hundred and sixty firm aircraft.

5 Q And let me understand there are 230 firm orders through
6 2017; is that correct?

7 A The 230 would refer to the Airbus aircraft, current
8 generation Airbus aircraft, and yes, I believe those are
9 delivering through 2016 or 2017, I don't recall exactly.

10 Q And the first delivery is some time in 2013?

11 A Yes, that would be correct.

12 Q Okay. And then you have firm orders for another 130
13 Airbus NEOs?

14 A Yes, the NEOs are the next generation engine.

15 Q Okay. And those are going to be delivered some time
16 between 2017 and 2022?

17 A I believe that's the case.

18 Q And then there are finally 100 Boeing max narrow bodies
19 that would be delivered between 2018 and 2022?

20 A Yeah, you left out one component I believe. You
21 referred to the 260 Airbus aircraft, there are also 200
22 Boeing aircraft. The current generation Boeing aircraft
23 will be delivered between 2013 and '16, the max, which is
24 the equivalent of the NEO will be will begin to be delivered
25 in 2017 I believe.

1 Q Right. Without regard to the manufacturing you've got
2 230 being delivered between 2013 and 2017, and then you have
3 another 230 being delivered between 2017 and 2022.

4 A Roughly, I haven't --

5 Q Okay.

6 A -- looked at exactly when each of those delivers
7 occurs, but that's roughly the time frame, yes.

8 Q Okay. And -- but prior to that you had ordered --
9 let's see -- 16 -- you had some triple sevens on order as
10 well?

11 A We have 16 triple seven aircraft on order, correct.

12 Q All right. And those are going to be used to replace
13 the wide body fleet?

14 A They can be used for replacement or growth, depending
15 on what the performance of the business would suggest.

16 Q Now I don't know if this is a -- the answer is
17 confidential -- or the question would call for a
18 confidential response -- but how many of the aircraft that
19 are to be delivered between 2013 and 2017 are replacement
20 aircraft?

21 A I don't think it's possible to answer that question
22 because the decisions as to what aircraft to retire and at
23 what rate would obviously change as prospects change.

24 We do have in our business plan certain
25 assumptions about the rate at which that would occur, but I

1 don't have the information here in front of me to know what
2 the -- what the numbers are that are coming into and leaving
3 the fleet. I think we're up over the six-year forecast
4 period about 100 net mainline aircraft.

5 Q You're up 100 net?

6 A Net when you take the -- the arrivals and departures
7 from the fleet I believe that over that six-year period it
8 calls for about 100 aircraft.

9 Q In addition to what you currently have?

10 A Incremental to what we currently have.

11 Q Right. Okay. Now in the week before American
12 announced the aircraft order with Boeing and Airbus isn't it
13 true that you entered into a lease-back arrangement, sell
14 lease back arrangement with Air Cap (ph)?

15 A We may well have. Yes, we do have a lease program in
16 place with Air Cap.

17 Q And that covered potentially 35, 737-800's?

18 A Yes.

19 Q Okay. With 29 of those being firm orders?

20 A At the time I don't recall how many were firm.

21 Q Okay. Now at the time you made -- not you -- American
22 made that offer was a business plan of the type you've just
23 described in place?

24 A When you say we made this offer --

25 Q I mean --

1 A -- what are you referring to?

2 Q -- you made the order, I'm sorry, for the aircraft in
3 July of 2011, when you placed an order for 460 aircraft I
4 assume there was an underlying business plan?

5 A There certainly would have been the kind of forecast in
6 place that I described earlier.

7 Q Where there'd be a three- or four-year projection?

8 A Yes.

9 Q Okay. And do you recall -- were you a party to putting
10 that business plan together?

11 A I was a party to portions of it, yes.

12 Q And when that order was put into place did -- did it
13 not require someone to approve that order in such -- in
14 approving that order to consider whether or not it was
15 supportable by the business plan?

16 A Yes, that order with you approved by our board of
17 directors and they were provided with a financial analysis.

18 Q Okay. And do you know if the company has provided that
19 financial analysis to the unions?

20 A I don't know.

21 Q Okay. Do you know if the company has provided the
22 business plan to the unions that underlie the aircraft order
23 in July of 2011?

24 A I do not know.

25 Q Okay. Now what -- in that -- excuse me -- in that

1 business plan was there a fleet plan attached to it that
2 assumed the 460 aircraft or at least the first 230?

3 A Yes, the analysis that was done would certainly have
4 included the receipt of those aircraft, yes.

5 Q Okay. And was there work done as to how to determine
6 -- to determine how those aircraft would actually be
7 deployed in the system?

8 A Are you asking -- well, certainly there would have been
9 views on how they would have been deployed, I don't know
10 what the level of specificity of that work would have been.

11 Q Okay. I think you mentioned in your direct earlier in
12 the day that there was a -- at least a first-year plan that
13 described the routes that would be flown with new aircraft
14 or at least flown in 2012; is that right?

15 A I don't remember saying that.

16 Q Okay. Let me just refer to my notes.

17 (Pause)

18 Q Let me just go back then to July then. At that point
19 when you say there was some kind of plan as to how the
20 aircraft would be utilized you don't have any idea as to the
21 specificity of that use whether it was -- did they drill
22 down to a specific route to which a plane would -- a new
23 plane would be attached?

24 A That work was done by our network planning department
25 and I wasn't familiar with the work they did.

1 Q Right. But you would have assume -- you would assume
2 that that kind of work would have been done for the plan
3 that was -- that was in place as of July 2011?

4 A I think certainly there would have been a view as to
5 how those aircraft would be deployed, yes.

6 Q Okay. And I take it as part of any business plan you
7 would have had an income statement that was attached to that
8 plan for the three or four-year period?

9 A Yes.

10 Q Okay. Do you recall how many years in actuality that
11 particular plan went out to?

12 A I don't recall that one specifically.

13 Q Okay. And do you recall what the assumption was in
14 that plan regarding labor -- labor costs specifically?

15 A In that plan specifically I don't. We updated those
16 plans quite frequently as -- as we saw changes in fuel
17 prices, in economic conditions. So I can't sit here today
18 and tell you specifically what would have been in that plan
19 -- or that -- the analysis as of that date.

20 Q Okay. Do you recall if the assumption on labor costs
21 was that labor costs would increase or decrease?

22 A I don't recall.

23 Q Okay. And I take it that as you said, this business
24 plan was updated regularly?

25 A Yes.

1 Q And when you say regularly what -- with what kind of
2 frequency?

3 A It was -- it was generally done in the context of board
4 meetings and there were -- at some board meetings we would
5 update it for a longer or shorter time frame depending on
6 what the focus was.

7 Q Okay. You say we, who was that -- who was we -- who
8 did we comprise?

9 A Well, the way the modeling process works is that our
10 revenue management department prepares an updated view of
11 the revenue outlook and hands it off to our financial
12 planning group which keeps updated the views on costs, and
13 then those two things come together to produce an income
14 statement.

15 Q And what is -- do you have any particular role in
16 preparing these plans or revisions to the plan?

17 A I was generally involved in preparing them, because in
18 addition to producing an income statement there's also cash
19 flow statements produced, and in my role as treasurer I
20 obviously keep close track of what the cash flows look like,
21 what our liquidity is, and so forth.

22 Q And I take it it's reasonable to assume that before any
23 business plan is presented to your board of directors that
24 Mr. Horton and Mr. Arpey at that time would review those
25 plans?

1 A Certainly.

2 Q Okay. And who else would review them among the
3 executive officers?

4 A Certainly our CFO, Bella Goren, our controller, Brian
5 McMenamy, people on his staff, people on my staff.

6 Q Okay. And before the bankruptcy filing on
7 November 29th do you recall the last time you saw the
8 business plan prior to November 29th?

9 A We had a board meeting in the middle of November.

10 Q And was that the only board meeting you had in
11 November?

12 A We had another board meeting on November 28th at which
13 the board considered whether or not to file.

14 Q Okay. And were there any presentations given at the
15 November 28th meeting or was it just to just make that
16 decision?

17 A No, there were presentations made.

18 Q Was that an in-person meeting or telephonic?

19 A It was an in-person meeting.

20 Q Okay. And were there presentations made to the board
21 at the earlier meeting in November?

22 A Yes, there were.

23 Q Okay. But in the meeting in -- the first meeting in
24 November you say there was a business plan that was
25 presented to the board?

1 A Yes.

2 Q Okay. And do you recall --

3 A Let me just clarify when we say business plan. What
4 I'm talking about are forecasts of income or in this case
5 loss in cash flows. So not a business plan per se in the
6 sense of a lot of the -- you know, it was generally an
7 update of the financial forecast I guess is the best way I'd
8 describe it.

9 Q But you said it was a -- it included an income
10 statement?

11 A It would have shown the losses we were forecasting,
12 yes.

13 Q Okay. And it would have had a labor cost assumption in
14 it?

15 A It would have been.

16 Q Okay. And what do you recall that labor cost
17 assumption was at the first board meeting in November?

18 A I'm working from memory here. I believe we were making
19 some assumptions about when we might have new contracts in
20 hand based on the negotiations that were ongoing. I think
21 the effective date of those new proposals varied by work
22 group I think. Again from memory, I believe that a couple
23 of the work groups were assumed to become effective in
24 January of 2012, I think a couple of the other work groups
25 were assumed to be in place, I think one in the middle of

1 July and one probably at the beginning of 2013.

2 Q And what was the labor cost number? Was it -- was it a
3 net increase or decrease over the course of that three-year
4 -- well, from the status quo to the first year first
5 projection?

6 A I don't recall exactly what it was for each year. I
7 believe there was an increase at least in the first year of
8 the effectiveness of that contract.

9 Q Okay. And do you remember the -- in order of magnitude
10 what that number was?

11 A I'm working from memory here, I want to say it might
12 have been 2- or \$300 million.

13 Q Okay. Do you know why that business plan was not
14 presented to the labor unions as part of -- in response to
15 information requests?

16 A No, I don't.

17 Q Okay. Now during your direct examination you made some
18 mention --

19 A If I could -- excuse me -- I'm not sure that I know --

20 Q Oh, right.

21 A -- it was or wasn't.

22 Q Right. Okay.

23 A And so I don't want my --

24 Q Fair enough.

25 A -- response to --

1 Q No, I just -- that's fine.

2 A -- suggest that it --

3 Q It wasn't.

4 A -- it wasn't.

5 Q Okay. All right. Appreciate that.

6 During your direct you mentioned that American had
7 taken on a lot of debt and that its cap X was constrained
8 and you were not being able to make the kinds of investments
9 that you would otherwise have wanted to make. Is that an
10 accurate kind of summary of what you were saying?

11 A Yes.

12 Q Okay. Now in -- at the end of each quarter -- or
13 shortly after the end of each quarter isn't it true that AMR
14 has an earnings conference call with Wall Street analysts
15 and then followed by members of the media?

16 A Yes, before we filed that was the case.

17 Q Okay. And that's a case you had an earnings call in
18 July of 2011 covering the prior quarter, correct?

19 A That would have been -- that would be correct.

20 Q And that would have been the earnings call during which
21 you were talking about -- AMR was talking about the aircraft
22 order?

23 A I believe that's right.

24 Q Okay. Now those calls are typically headed up by
25 either Mr. Arpey or a officer like Ms. Goren or Mr. Horton

1 --

2 A Yes.

3 Q -- and sometimes they're all there; is that right?

4 A Yes, correct.

5 Q Okay. Now if I were to read to you from a transcript
6 of that earnings call -- and this is from Mr. Arpey -- let
7 me just see if this jogs your memory. What he said was that
8 over the --

9 MR. FLICKER: Typically you would have the witness
10 first testify that she doesn't have it.

11 THE COURT: Yeah, I'm not sure what you're
12 jogging --

13 MR. CLAYMAN: Well --

14 THE COURT: -- her memory about, there's no
15 question --

16 MR. CLAYMAN: Okay. Let me -- well, I'm sorry,
17 then I'll --

18 THE COURT: So you can ask her a question and then
19 refresh her recollection.

20 MR. CLAYMAN: That's fine.

21 BY MR. CLAYMAN:

22 Q Do you remember what Mr. Arpey said about their ability
23 to engage in making sensible investments because they had
24 raised a lot of money over the last few years -- that
25 American had raised a significant amount of money?

1 A I don't remember what he said.

2 Q Okay. Well, let me see if this now jogs your memory.

3 He says:

4 "Over the last couple of years we significantly
5 strengthened our flexibility to make sensible investments by
6 completing over \$6 billion of financing in the midst of the
7 deepest recession in a generation."

8 Is -- does that jog your memory?

9 A He -- do I remember him specifically saying it on that
10 call, no, but would I be surprised that he said it, no,
11 because in fact we did raise a lot of financing over that
12 period of time.

13 Q Which strengthened your flexibility to make sensible
14 investments; is that right?

15 A Well, I think in hindsight I might quibble with that.
16 I think the financing we raised was really designed to
17 preserve the company's viability in the face of very large
18 losses.

19 Q So you're saying that Mr. Arpey was wrong at the time
20 he said that?

21 A I'm saying that as I sit here today and think about it
22 I would perhaps think about it differently than he might
23 have eight or nine months ago.

24 (Pause)

25 Q Now you -- we've -- I think other witnesses have

1 testified that the typical measure of revenue in the airline
2 industry is revenue per available seat mile or RASM; is
3 that --

4 A That's unit revenue.

5 Q Okay. And isn't it true that AMR suffered a RASM gap
6 over the past three or four years?

7 A Our performance relative to our peers has declined in
8 the last handful of quarters.

9 Q And during -- in 2008, 2009, '10, and '11, would it
10 surprise you if I told you that the revenue gap compared
11 with network competitors ranged from one percent in 2008 to
12 six percent in 2011? Does that sound within the ballpark to
13 you?

14 A I've never thought about it in terms of that kind of
15 measure.

16 Q Well, you've never thought about what if you had the
17 average RASM improvement that what -- how much more money --

18 THE COURT: Counsel, could you explain what RASM
19 is?

20 MR. CLAYMAN: Oh, I'm sorry, Your Honor, I thought
21 that had been covered. It's what --

22 BY MR. CLAYMAN:

23 Q Ms. Goulet --

24 A It's --

25 Q -- would you --

1 A -- it's revenue per available seat mile.

2 THE COURT: All right.

3 THE WITNESS: It's generally the unit --

4 THE COURT: It sounds one way when you hear it
5 that way it reads a different way so I just want to make
6 sure I had the right metric. Thank you.

7 BY MR. CLAYMAN:

8 Q Okay. So you've never looked at what would have
9 happened had American achieved the same RASM levels as your
10 main competitors?

11 A I've never looked at it that way. Although obviously
12 the plan that we've put forward is designed to allow us to
13 reverse that trend and close that gap.

14 Q Have you ever seen -- or have you seen an analysis of
15 why American suffered from a RASM gap?

16 A Have I seen an analysis of why it suffered.

17 Well, I think we've certainly attributed it to a
18 couple of things, including the erosion in the quality of
19 our product, vis-à-vis, our competitors in terms of a
20 constrained ability to invest in our product versus what
21 they have been able to do.

22 Q And you were -- it's attributable then to put it I
23 guess in a different way, is that you're -- that American's
24 ability to retain the high value customer was eroding?

25 A I think there's been an impact on that.

1 I think as I mentioned this morning I think there
2 are a couple of other things it could be attributable to and
3 one of those is our inability to right vague our network in
4 terms of the restrictions that our scope clause imposes upon
5 us.

6 I think our inability to enter into domestic code
7 sharing to the degree that we believe is necessary is
8 certainly another cause.

9 Q Other than the items that you've just mentioned are you
10 aware of any other factor that has prevented American from
11 achieving the same levels of RASM as other airlines?

12 A I think certainly there has been a suggestion that
13 there may have been certain activities that others might
14 have undertaken that might have had some impact on us in
15 recent quarters.

16 Q Okay. Wouldn't it be true to say that the mergers of
17 Delta and Northwest and United and Continental had an affect
18 on your RASM?

19 A I think it's likely that the mergers of those four
20 carriers did in fact have an impact.

21 Q And isn't it true hearing Mr. Kasper's testimony and
22 just from your own knowledge and experience that having a
23 larger network has certain advantages that cannot be
24 duplicated by a carrier that has a substantially smaller
25 network?

1 A I think there are -- I think there are advantaging to
2 larger networks, yes.

3 Q Yes. And currently isn't it true that American's
4 network is approximately 50 percent smaller than delta and
5 United on an ASM basis?

6 A I think that's roughly correct.

7 Q And wouldn't you agree that it's critical that American
8 grow to a point where it can -- where it is very close to
9 duplicating the size of -- the current size of Delta and
10 United?

11 A I don't know if I can sit here and say that it's
12 necessary to approximate their size, I think it is necessary
13 for us to be able to implement the various features of our
14 business plan that we've proposed.

15 Q But you would agree, Ms. Goulet, would you not, that
16 growth is an essential element of the business plan?

17 A It is, in fact the business plan contemplates growth.

18 Q A tremendous amount of growth; isn't that true?

19 A I don't know if I'd call it a tremendous amount of
20 growth.

21 Q Okay. Well, let's look at if we could just for a
22 minute your declaration paragraph 47, which is a
23 confidential document.

24 A Okay.

25 Q And before we go there I think you testified that

1 American intends to grow over the six-year period at around
2 20 percent total?

3 A Over the period.

4 Q Yes. And isn't it true that virtually all of that
5 growth will be in the cornerstone cities?

6 A The travel will originate in the cornerstones, correct.

7 Q So you are concentrating all that growth, all that four
8 percent in particular very specific markets?

9 A The growth -- the travel originates in those five
10 cities, but obviously what you're really doing is serving
11 markets. So the other end point is equally relevant.

12 Q Okay. Let me just give you a hypothetical. If -- if I
13 were to tell you that an airline that competes in a
14 particular city today within a number of years was going to
15 grow by 100 percent -- increase its presence by 100 percent
16 would you consider that to be a pretty -- a fairly
17 significant amount of growth?

18 A It would depends on what the demand is.

19 Q And it would depend upon what the demand is, is that
20 what you're saying?

21 A Yeah, if there's 110 percent growth on demand then
22 growing by 100 percent --

23 Q All right.

24 A -- would make a lot of sense.

25 Q But wouldn't that largely depend upon what was also

1 happening with other -- your competitors as to how much they
2 were growing in response to that demand?

3 A Yes, that certainly would be relevant.

4 Q And isn't it true, Ms. Goulet, that the business plan
5 does not assume any competitive response?

6 A The business plan does not assume competitive response
7 because the way in which we constructed it -- well, I don't
8 know whether I'm getting into confidential information here
9 or not.

10 We were quite careful about where the growth is to
11 occur, and it comes back to what I was saying earlier about
12 where we see the demand occurring. And obviously you're
13 going to get much different rates of demand based upon the
14 economic circumstances in any particular market.

15 Q Of course, and demand is -- is the by- -- not the by-
16 product -- the counterpart of demand of course is supply.

17 A Correct.

18 Q And if other carriers recognize what you recognize in a
19 particular market doesn't it stand to reason that they may
20 very well see an opportunity just as much as American does?

21 A Right. But if we all were to grow in line with demand
22 we would all maintain our market share and that would not
23 destroy the equilibrium in that market.

24 Q I understand. But there would be some -- let me ask
25 you this.

1 You are currently -- I mean you would agree that
2 your major -- the major network carriers are United and
3 Delta; is that right?

4 A Yes.

5 Q Okay. And --

6 A I would put US Airways in that group.

7 Q Okay, and US Airways.

8 And let me just go back and maybe you remember
9 this meeting back in February, I believe it was around the
10 20th, it was with representatives of APFA and I don't know
11 what -- if it's the map room or the globe room, the one the
12 large --

13 A The globe room.

14 Q The globe room.

15 A Uh-huh.

16 Q And you were there and some people from McKinsey and I
17 believe Rothschild, and I think Mr. Brundage was there as
18 well; is that right?

19 A I believe so.

20 Q And I -- do you recall stating that American was at a
21 disadvantage because of the difference in the size of its
22 network?

23 A I don't recall saying it, but I think it's certainly
24 something that we have acknowledged by virtue of the merger
25 of the other carriers.

1 Q And I take it you would agree that Continental --
2 excuse me -- United and Delta and US Air are worthy
3 competitors?

4 A Indeed.

5 Q And you would not expect them at any -- on any
6 particular day to stop competing would you?

7 A No, and neither would we.

8 Q Of course. And in fact as evidence of that kind of
9 keen interest in competing -- or keen sense of competition
10 did you happen to read yesterday that United ordered 100
11 aircraft?

12 A No, I didn't see that.

13 Q Okay. And would you expect --

14 THE COURT: Counsel, can I ask --

15 MR. CLAYMAN: Yes.

16 THE COURT: -- what this is -- where this is
17 going? I mean --

18 MR. CLAYMAN: Because I think that I'll tie it up
19 in a few minutes -- but I think it's important for
20 understand when I get into their business plan what is
21 happening with their business plan with regard to the --

22 THE COURT: But I think you got her to say it
23 doesn't -- it didn't contemplate or address a response of
24 competitor, so I just -- I just don't want to beat a dead
25 horse here.

1 MR. CLAYMAN: No, that's okay. I understand, Your
2 Honor, I'm sorry.

3 BY MR. CLAYMAN:

4 Q Now, the cornerstone strategy though is a well-known
5 public -- it's been announced publicly, it's not a secret
6 that American is focusing in these five particular cities?

7 A True.

8 Q Okay. And isn't it true that looking at the document
9 on page -- the chart that's attached or that follows
10 paragraph 47 of your declaration, do you see that?

11 A Yes.

12 Q And is it a fair representation to say that most of the
13 growth or -- that --

14 A I'd prefer not to get --

15 Q Okay.

16 A -- into that.

17 Q I think -- okay.

18 MR. FLICKER: Hold on.

19 MR. CLAYMAN: Okay. I will not ask that.

20 MR. FLICKER: Just for the record, there are
21 elements of that material that is confidential which is I
22 think why we're interjecting.

23 MR. CLAYMAN: Okay.

24 THE COURT: Now if you want to craft a question
25 and run it by counsel first and try to work it out that's

1 fine, I'll give you a minute if you want to do that.

2 MR. CLAYMAN: I think the document speaks for
3 itself in terms of the amount of growth that is assumed
4 during the course of those six year.

5 THE WITNESS: I think on that point we have
6 provided to the advisors significant detail behind these
7 numbers in terms of are we would expect that capacity to be
8 deployed and how the deployment of that capacity would
9 relate to the demand we would expect to see in those
10 markets.

11 MR. FLICKER: And to clarify by advisors?

12 THE WITNESS: The advisors to the unions.

13 MR. FLICKER: Thank you.

14 BY MR. CLAYMAN:

15 Q Now let me just review with you some of the assumptions
16 of your business plan, and I will try to tread lightly to
17 not ask anything that's confidential.

18 In New York part of the business plan -- what
19 would you consider a key element of the business plan in
20 terms of the growth in New York?

21 A Certainly the ability to code share would be part of
22 that plan.

23 Q Okay. And who are the likely candidates that you could
24 possibly be code sharing with to feed your New York
25 operation?

1 A Well, it's no secret that we currently have an
2 interline agreement with JetBlue.

3 Q Okay. And what is the different between an interline
4 agreement and a code share?

5 A In a code share one carrier actually puts the
6 designator code of the other carrier on its flights so that
7 it can offer the entire itinerary to the traveler, the
8 itinerary that is composed of the flight on both feed -- on
9 the other carrier.

10 So, for example, if we were to code share with a
11 party flying from, I don't know, Chicago to Sheboygan we may
12 not operate that flight ourselves, but if we were code
13 sharing with someone the AA designator code would appear on
14 that flight.

15 Q And in an interline agreement what would happen?

16 A The designator code is not included.

17 Q And so what is the relationship?

18 A It's a -- it's a marketing relationship specific to
19 specific destinations served by JetBlue and destinations
20 served by American.

21 Q Okay. Are there any other likely candidates to feed
22 the New York operation other than JetBlue?

23 MR. FLICKER: That actually might be a problem to
24 answer because once we start eliminating -- or calling
25 people likely then we're really kind of losing --

1 MR. CLAYMAN: Okay.

2 MR. FLICKER: -- the ability to speak generally.

3 BY MR. CLAYMAN:

4 Q Let me ask you this, Ms. Goulet, have you or are you
5 aware of anyone from AMR having any discussions with JetBlue
6 about code sharing?

7 A Well, we have a business relationship today and I think
8 there have been discussions about the desirability of
9 expanding our relationship at a point in time that that's
10 possible.

11 Q So they understand what you would like to accomplish;
12 is that true?

13 A I believe so.

14 Q Do you have any indication that they're inclined to
15 accommodate your interest?

16 A Well, we've certainly seen them enter into similar
17 arrangements with other carriers, including Lon (ph), I
18 believe they've entered into a similar relationship with
19 Japan Airlines, I think they've entered into a similar
20 relationship with one of the middle eastern carriers.

21 Q But they haven't entered into that kind of relationship
22 with a domestic carrier have they?

23 A I don't know whether they've got any kind of
24 relationship with other carriers. I don't -- I don't
25 believe -- I certainly don't believe they have that kind of

1 relationship with any of the other major network carriers.

2 Q Okay. Do you have any idea if any of those other
3 network carriers may have approached JetBlue to achieve a
4 code sharing like the one that you would like to have with
5 JetBlue?

6 A I have no idea.

7 Q Okay. Now isn't it true that if you don't get a code
8 sharing arrangement with whether it be JetBlue or someone
9 else that there are restrictions at JFK that may hinder your
10 own ability to feed that operation?

11 A JFK is a -- excuse me -- is a slot restricted airport.

12 Q And could you just explain for a moment what that --
13 what does that mean?

14 A Yeah, to -- to operate at JFK it's necessary to have
15 what are called "slots," which are landing and departure
16 times at which operations can be conducted.

17 Q And slots are bought and sold on the market?

18 A I believe they can be transferred, yes.

19 Q And -- but there's a restricted number of them at JFK?

20 A Yes.

21 Q Okay. And so absent a code share relationship somehow
22 American would have -- what would American do if it was not
23 able to achieve the code sharing relationship?

24 A There are some things that we have under consideration
25 that I'd prefer not to discuss.

1 Q Would it require you to shift -- make some shifts in
2 the plan from international to domestic in terms of
3 aircraft, is that one possibility?

4 A There's always the -- there's always the possibility of
5 shifting flying from one route to the next.

6 Q Okay. Now just as a practical matter, is the JetBlue
7 terminal part of the American Airlines terminal?

8 A No, it's not. They're adjacent, but they're not
9 connected.

10 Q When you say adjacent is it walking distance or do you
11 have to take a tram or some means of transportation?

12 A I think it's a few hundred yards, but there are ways
13 that once in partnership that -- that companies address
14 those, including transfers on the secure side of operations,
15 for example.

16 Q But that would also have to be part of the agreement if
17 you were to reach one with JetBlue?

18 A Certainly how we would transfer passengers from one
19 carrier to the other would certainly be part of the
20 conversation.

21 Q But I take it that the conversations that anyone from
22 American has had with JetBlue have not yet gotten to that
23 level of detail?

24 A I think the code sharing restrictions that we're
25 operating under today have impeded those discussions.

1 Q Now in Los Angeles, another one of the cornerstone
2 cities, isn't it true that Los Angeles is a gate-controlled
3 airport?

4 A I'd say gate-restricted rather than controlled.

5 Q I'm sorry.

6 A There's just a certain amount of space there.

7 Q Okay. And could you explain what that means?

8 A Well, there -- there's a set footprint and that
9 footprint can accommodate a certain amount of traffic.

10 Q And is there any opportunity for American at this point
11 to expand into other gates -- are any gates available in Los
12 Angeles as we speak right now?

13 A We have -- you know, I would actually -- when
14 Mr. Vahidi testifies I think he can do a better job of
15 explaining what the plans are at Los Angeles, he's directly
16 responsible for how we would operate that.

17 Q And then should I also ask Mr. Vahidi about whether
18 there are any slots available at JFK?

19 MR. FLICKER: Well, one of the things I'd like to
20 interject here whether it's for this witness or for
21 Mr. Vahidi, and it might actually be helpful is if you and I
22 discussed it before you did it.

23 I don't want to impede your examination, but I'm
24 concerned that trying to go market by market to discuss what
25 the strategy is going to be inevitably leads to like a

1 spilling out of the confidential strategic plans of the
2 company.

3 I'd love to be able to work out a way to have an
4 examination done without doing that damage to the company's
5 business strategy.

6 MR. CLAYMAN: Let me -- let me just ask --

7 MR. FLICKER: Yeah.

8 THE COURT: Let me ask counsel, would it be
9 helpful to have a break.

10 MR. CLAYMAN: Yes, that'd be great. That'd be
11 great.

12 THE COURT: I mean it's a couple minute after 3:00
13 and I don't -- if you can have a productive conversation, I
14 don't want you to try to shoehorn it into 30 seconds.

15 MR. CLAYMAN: Okay, thanks.

16 THE COURT: So it's ten after, we'll come back at
17 20 after.

18 THE CLERK: All rise.

19 (Recess at 3:10 p.m.)

20 THE CLERK: All rise.

21 THE COURT: Please be seated.

22 I don't want to interrupt the examination, but at
23 a certain point this afternoon we should talk about the
24 omnibus schedule for tomorrow and -- and what the intention
25 is with -- with that. I have a binder and I just want to

1 get scheduling down so people who are here for the trial and
2 not for that have an idea of when we're going to convene.
3 But we can do that after we get through this witness.

4 BY MR. CLAYMAN:

5 Q Ms. Goulet, I think you testified earlier that in
6 November -- the middle of November there was a board meeting
7 where there was a presentation that I assumed, I think you
8 said, two contracts would become effective in January?

9 A That's what I recall.

10 Q Okay. And another one would become effective in June
11 or July?

12 A I think July 1.

13 Q Okay. Then let me just turn your attention to
14 Paragraph 10 of your declaration. And before I -- before
15 you go there, let me just ask, and that assumption about two
16 agreements being effective in January, wasn't that based on
17 the fact that TWU had reached tentative agreements with two
18 -- under -- for two of its contracts?

19 A I don't recall which contracts were assumed in that
20 sequence that I described to you.

21 Q But are you -- do you recall that, in fact, TWU had two
22 tentative agreements for two of its contracts?

23 A Yeah. And -- and -- and let me, perhaps, clarify
24 because I don't remember which organizations within the TWU
25 you're referring to. But when I say four I'm generally

1 thinking of APA, APFA, the fleet service clerks and the
2 mechanics. So I'm not including within that the --

3 Q Okay.

4 A -- smaller organizations within the TWU.

5 Q Thinking in the middle of November that it was
6 reasonable to believe that two contracts would have -- new
7 two -- two new contracts would become effective less than
8 two months later, are -- do you think it would be
9 appropriate for you to -- or do you want to revise your
10 testimony in Paragraph 10 where you say, "faced with
11 mounting losses and liabilities, having leveraged nearly all
12 of its assets, and with no agreements on its unionized labor
13 costs in sight"?

14 A Yeah. I think the optimism we had had earlier had
15 faded by the time we -- by the time we filed.

16 Q But, in fact, there were -- I'm not sure what your
17 answer was. You were -- you were aware that there was the
18 fleet service tentative agreement was -- was -- had been
19 reached the end of October?

20 A Yes. That is correct.

21 Q Okay. And so wouldn't you call that an agreement was
22 in sight?

23 A I guess subject to ratification, yes.

24 Q Okay. Now let's go back to the board meeting that you
25 mentioned -- I think you mentioned two board meetings had

1 taken place in November and you said there were
2 presentations at both of those meetings. What I would like
3 to do is show you a document that appears to have been given
4 to the board of directors, at least according to the
5 interlink website, and mark that as APFA Exhibit 3.

6 MR. FLICKER: This -- this document has a highly
7 confidential designation on it.

8 MR. CLAYMAN: And I'm -- I am just going to point
9 out pages and walk the witness through the pages without
10 there being much testimony about it.

11 THE COURT: That's -- I don't -- I don't want to
12 rob anybody of their -- their rights in doing examination,
13 and I know that you don't have to disclose documents used in
14 cross. But I can't imagine there are all that many
15 surprises here. So to the extent that counsel can try to
16 work some of these problems out ahead of time so we don't
17 get bogged down with confidentiality issues, I would
18 appreciate that because if we do this for every exhibit that
19 happens in this case we're going to -- we're going to lose a
20 lot of time.

21 MR. CLAYMAN: Okay.

22 BY MR. CLAYMAN:

23 Q Do you recognize --

24 THE COURT: And what -- by okay you mean what?

25 MR. CLAYMAN: I -- I think --

1 THE COURT: You're going to --

2 MR. CLAYMAN: -- that I can ask questions --

3 THE COURT: -- have those discussions or --

4 MR. CLAYMAN: -- that clearly circumvent any --
5 any confidentiality problem.

6 THE COURT: No. My -- my concern is a slightly
7 different one, which is that in order to not have any
8 confidentiality problems, we're going to have a lot of
9 discussions and delays in questioning witnesses. So, again,
10 I understand that there may be times when you really don't
11 want to disclose your cross-examination questioning in the -
12 - in the thrust of it --

13 MR. CLAYMAN: All right.

14 THE COURT: -- but I would imagine for at least
15 some of these things that they are -- they're not all that
16 surprising and, certainly, I've seen people go exactly the
17 opposite way and say, here's all the things I could
18 potentially use and buried within there are my kernels of
19 great legal wisdom and we can just work through all the
20 documents and, therefore, you'll betray nothing about your
21 cross-examination strategy. But that, at least, prevents us
22 from having to have a discussion each --

23 MR. CLAYMAN: All right.

24 THE COURT: -- time we have one of these
25 documents.

1 BY MR. CLAYMAN:

2 Q Ms. Goulet, do you recognize this presentation?

3 A I don't believe this was a presentation that I was
4 involved in preparing.

5 Q But do you remember it being presented to the board of
6 directors in November of 2011?

7 A I believe it would have been. I don't know --

8 Q Just so -- well, you believe it would have been?

9 A It looks -- it's in the format that a board
10 presentation would be in.

11 Q Okay. So it wouldn't surprise you if it's listed on
12 the interlink website as November BOD presentation?

13 A No. It wouldn't surprise me.

14 Q Turning -- this is a little awkward, but going about
15 ten pages from the back --

16 A Okay.

17 Q -- the tenth page from the last page --

18 A The pages are not numbered.

19 Q I know. That's -- is that the -- normally done at
20 board presentations?

21 A No. Normally we have page numbers.

22 THE COURT: I don't think anybody objects if you
23 want to Bate stamp these things so we can find it more
24 easily in the future.

25 BY MR. CLAYMAN:

1 Q Okay. So you have the page that --

2 A Which -- what does it say?

3 Q It's cost cap analysis.

4 A Is that the section?

5 Q Yes. Right --

6 A Okay.

7 Q And then the next page is total labor gap valuation?

8 A Yes.

9 Q Okay. And the first number has been widely publicized,
10 I believe in SEC filings, which is there is a six-hundred-
11 million-dollar contractual labor gap. Do you see that
12 number?

13 A Yes.

14 Q And then turning to the next page there is an
15 assessment of what the contractual labor cost gap is. There
16 is a chart there?

17 A Yes.

18 Q Okay. And there's a total as to what the gap is in the
19 bottom right-hand corner?

20 A Yes.

21 Q Okay. And isn't it true that this chart represents the
22 methodology that the company has used before where it --
23 whereby you superimpose the cost -- another contract upon
24 the workforce of American to determine where that -- whether
25 that contract, if applicable to the American workforce,

1 would save the company money or not?

2 A Yes.

3 Q Okay. And then turning to about, let's see, the next
4 page I guess it is -- I'm sorry -- there are something
5 called gap closure assumptions. Do you see that?

6 A Yes.

7 Q Okay. And there is one for each work group. The first
8 is for the pilots. The second is for the fleet service, and
9 let's just turn our attention to the page that has gap
10 closure assumptions for flight attendants.

11 A Yes.

12 Q I would -- would you agree with me that the content of
13 that page is not confidential? It is simply -- it is just
14 simply stating contracts, the expectation of the company
15 with regard to the status of contracts on other properties?

16 A They were assumptions we were making about how the
17 contracts would be treated in the context of the merger of
18 these companies.

19 Q Okay. And you had dates -- I don't have to run through
20 it. It says what it says. But you -- you -- and you
21 assigned a particular time period or year when you thought
22 that would occur, correct?

23 A Correct.

24 Q Okay. And then when you get to -- you pass the
25 mechanics page and you get to this page called, valuation

1 and gap closure?

2 A Yes.

3 Q Okay. And the analysis that is shown there is the
4 title says, impact on AA gap due to OA. Is that other
5 airline changes?

6 A OA would be other airlines. Yes.

7 Q Okay. And it's better or worse, so you -- I take it
8 that these other airline changes are the changes that you
9 assumed on the prior four or five pages?

10 A Yes. I think that's correct.

11 Q And then below -- beneath that chart is one that's
12 headed -- titled, which is impact on AA gap due to AA
13 changes, correct?

14 A Yes.

15 Q And isn't -- isn't it true that the AA changes that are
16 being referred to are what were the companies offers to each
17 of those workgroups in the course of bargaining?

18 A I wasn't directly involved in these discussions, so I
19 don't think I should hold myself out as knowing exactly
20 what's behind each of these numbers.

21 Q Okay. All right. And then turning to the next page,
22 and it's actually the next to the last page, it shows that
23 -- the chart is titled, AA labor costs with other airline
24 contracts. Is that right?

25 A Yes.

1 Q Okay. And isn't it true that this chart took the
2 information from the prior page with regard to what was
3 happening in the industry at other airlines as well as --
4 well, you're not sure, but the -- what -- I think the second
5 chart on the prior page describes it as AA changes.

6 Okay. Now looking at that chart and the -- I
7 won't read the text, but do you see the first number in
8 2011? That's close to the six-hundred-million-dollar number
9 that you saw at the beginning of this presentation, right?

10 A Yes.

11 Q And isn't it true that over time that that gap narrows
12 for most, if not all -- for most of the work groups?

13 A It -- on this page it does.

14 Q Yes.

15 A Based on some assumptions that were being made in this
16 package.

17 Q I understand. And so looking at the flight attendants
18 it shows that there's a fairly significant gap in 2011 and
19 2012; is that right?

20 A Yes. That's what this says.

21 Q And it narrows substantially in 2013, reaches almost
22 zero in 2000 -- oh, I'm sorry -- I'm sorry about that one.
23 But in any event it progressively gets better, the contracts
24 become more and more in line; is that a fair assessment?

25 A Yes. That was the assumption behind these numbers.

1 Q And the totals at the bottom drop also significantly;
2 is that correct?

3 A That's correct.

4 Q Okay. All right. Now several months later in March of
5 2012 were you present when American gave a presentation to
6 the PBGC advisors on March 8th?

7 A Again, I've been to a lot of meetings. I'm not sure --

8 Q Yeah.

9 A -- exactly which presentation --

10 Q Okay. Well, let me show you a document and see if you
11 can identify it or at least testify about it.

12 THE COURT: Are you done with this document,
13 Counsel?

14 MR. CLAYMAN: I'm sorry. Yes.

15 THE COURT: Would you like --

16 MR. CLAYMAN: I would like to move for its
17 admission.

18 THE COURT: Any objection?

19 MR. FLICKER: Yes, because it's -- it looks like
20 it might be loaded up with confidential information. I --
21 I'm going to need to --

22 MR. CLAYMAN: That's fine.

23 MR. FLICKER: I'm going to need to try to deal
24 with that. And I'm not sure what the mechanism is going to
25 be yet, but maybe counsel can talk about that.

1 MR. CLAYMAN: Okay.

2 THE COURT: All right. I'll -- I'm going to hold
3 onto it. I'll say it's admitted subject to waiting for a
4 redacted copy.

5 MR. FLICKER: Thank you.

6 (APFA Exhibit Number 3 was admitted)

7 THE COURT: Thank you.

8 BY MR. CLAYMAN:

9 Q And if you wouldn't, Ms. Goulet, can you tell us have
10 you seen this document before?

11 A I don't believe I -- I'm not terribly familiar with
12 this. I -- I should explain, perhaps, the roles that each
13 of us has assumed in the course of preparing the business
14 plan and in the course of the various meetings we've had.

15 When we developed the business plan --

16 Q Ms. Goulet, there's -- there's -- I haven't asked you a
17 question, okay? I don't -- I'm not asking for an
18 explanation. I just want to know whether or not you've seen
19 that document before now.

20 A I don't recall seeing this document and --

21 Q Okay.

22 A -- what I was going to explain, if I might, is that --

23 Q Well, you can explain that on -- on cross, okay,
24 because I just want to get into the document.

25 A Okay, fine.

1 Q All right.

2 A Yeah. Sure. Sure.

3 Q Looking at the document -- or on redirect. Excuse me.
4 Looking at this document which was also posted on the
5 interlinks at 20.23, looking at the first page of this
6 document, if you would, does this look substantially similar
7 to the document -- and let's go back to APFA Exhibit 3 if we
8 would -- if we could and that first page after the cost gap
9 analysis on that document?

10 MR. FLICKER: I'm going to object to this line of
11 questioning. I'm -- I think the witness is being asked now
12 about Exhibit 4, but I think she has testified she doesn't
13 recall seeing, and asking her to compare that to another
14 document. I don't think that's appropriate.

15 THE COURT: I think you -- if you were talking
16 about comparing numbers that are in the document for all to
17 see with a document she says she's not familiar with, I
18 don't know that this is a productive use of time. If you
19 want to ask her some questions about the numbers and use
20 this as a vehicle --

21 MR. CLAYMAN: Well --

22 THE COURT: -- that's fine.

23 MR. CLAYMAN: Well, I -- let me just say then,
24 looking at -- and I'll try to cut this -- make this short.

25 BY MR. CLAYMAN:

1 Q Looking at those two pages --

2 A Uh-huh.

3 Q -- are they substantially the same, Ms. Goulet?

4 THE COURT: Well, I think you just asked the same
5 --

6 MR. CLAYMAN: Okay.

7 THE COURT: -- question --

8 MR. CLAYMAN: No. No.

9 THE COURT: -- didn't you? So I'm just -- I mean,
10 they are what they are.

11 MR. CLAYMAN: Okay.

12 THE COURT: And -- well, I -- here's the problem,
13 is if she hasn't seen the document --

14 MR. CLAYMAN: Yeah.

15 THE COURT: -- I'm going to give her ample time --

16 MR. CLAYMAN: No. I --

17 THE COURT: -- as I would with any witness for a
18 chance to carefully review the document if someone's being
19 asked to make --

20 MR. CLAYMAN: Okay. Let me just --

21 THE COURT: -- an apples to apples comparison.

22 MR. CLAYMAN: Okay.

23 THE COURT: So that's why I'm trying to cut off
24 this line of questioning.

25 MR. CLAYMAN: Okay.

1 THE COURT: But if you really -- really are
2 committed to it, then I --

3 MR. CLAYMAN: I --

4 THE COURT: -- think we're -- it's going to take
5 some time.

6 MR. CLAYMAN: I have one last question on this
7 document.

8 BY MR. CLAYMAN:

9 Q Looking at 26.3.2, and looking at the next --

10 A I'm sorry.

11 Q I'm sorry. Looking at APFA Exhibit 3.

12 A Okay.

13 Q And looking at the next to the last page --

14 A Of that document?

15 Q Of that document, the one that shows the decline in the
16 labor gap --

17 A Yes.

18 Q -- the one that we had reviewed --

19 A Yes.

20 Q -- if you would, then, if you would review this -- this
21 document and -- and let me know whether that same page
22 exists in APFA Exhibit 4. Do you see that same document in
23 Exhibit 4?

24 A So you want me to flip through this document and see if
25 I see that page in here?

1 Q Yes.

2 THE COURT: I just saw -- is there any objection

3 --

4 MR. FLICKER: I'm going to object to that, Your
5 Honor. I mean, I think that's --

6 THE COURT: I'm going to sustain it.

7 MR. FLICKER: -- just a road exercise.

8 THE COURT: I'm -- I'm not going to have people
9 hunting through --

10 MR. CLAYMAN: Okay.

11 THE COURT: -- documents --

12 MR. CLAYMAN: All right.

13 THE COURT: -- to see if they can find things that
14 are similar or not similar.

15 MR. CLAYMAN: That's fine, Your Honor.

16 THE COURT: If you want to pick a page, pick a
17 page.

18 MR. CLAYMAN: All right. I can -- it's -- it's
19 argument, Your Honor. That's fine.

20 THE WITNESS: Yeah. And Mr. --

21 THE COURT: That's -- that's my point.

22 THE WITNESS: -- Mr. Clayman, if -- if you're --

23 THE COURT: No. Let -- wait until he asks you a
24 question.

25 THE WITNESS: Okay.

1 THE COURT: So we have an objection. It's been
2 sustained.

3 MR. CLAYMAN: Okay.

4 THE WITNESS: Okay.

5 BY MR. CLAYMAN:

6 Q Just for a moment, Ms. Goulet, you would agree that one
7 of the benefits of a narrow line merger is that it can
8 create certain synergies or advantages that they don't have
9 separately, but they have -- they can enjoy once they're
10 merged?

11 A There are synergies and there are dissynergies.

12 Q Would you say on -- on a net basis there are greater
13 positive synergies than negative synergies with most airline
14 mergers?

15 A I can't comment on most airline mergers. It would
16 depend entirely on what the terms of the merger are.

17 Q Of course. Let's just go back and look at United and
18 Delta. Do you think those mergers have been positive --
19 have created or generated positive synergies?

20 A I think they are expected to.

21 Q Okay. And you've -- okay.

22 A Certainly, those companies suggested that they would.

23 Q Yes. Now do you know who Mr. Resnick is?

24 A Yes. He's our financial advisor at Rothschild.

25 Q Okay. During his deposition he made a statement and I

1 just want to know whether you agree with this or not, okay?

2 A Okay.

3 Q For \$25. No. I'm only kidding. Okay.

4 (Laughter)

5 Q All right. And the question was asked, "And what's
6 your assessment of the value of exploring consolidation,"
7 and he answered, "Well, I think the CEO of American, Mr.
8 Horton, has always said that he believes consolidation is
9 something that has to occur in the industry and something
10 where American needs to participate, and that there are a
11 number of options available and the question really is when
12 to pursue consolidation and then, also, to analyze with whom
13 and where there would be most value."

14 A Yes.

15 Q Okay. Would you agree with that assessment of Mr.
16 Horton's view of consolidation? Well, let me rephrase the
17 question. Would you agree that that fairly represents Mr.
18 Horton's view of consolidation?

19 A I think -- I'm sorry. Would you read it again?

20 Q Of course.

21 MR. FLICKER: Do you have the cite?

22 MR. CLAYMAN: Oh, I'm sorry. It's Page 25 -- at
23 the bottom of Page 25 of his -- of the transcript of his
24 deposition.

25 BY MR. CLAYMAN:

1 Q "Well, I think the CEO of American, Mr. Horton, has
2 always said that he believes consolidation is something that
3 has to occur in the industry and something where American
4 needs to participate, and that there are a number of options
5 available and the question really is when to pursue
6 consolidation and then, also, to analyze with whom and where
7 there would be most value."

8 A Yes. I believe that's an accurate statement -- an
9 accurate reflection of what Mr. Horton's views would be.

10 Q Thank -- thank you.

11 Now you would agree that non-labor stakeholders
12 are also required to make sacrifices in this bankruptcy?

13 A I would agree with that. Yes.

14 Q And isn't it true to achieve the kinds of savings AMR
15 has developed a number of projects -- to achieve the kinds
16 of savings that it says it needs, that AMR has developed a
17 number of projects to reduce its non-labor costs?

18 A Yes. We have a number of those ongoing.

19 Q And isn't it true that, as you say -- well, do you
20 recall how many are ongoing, approximately?

21 A Well, there are -- there are several major areas that
22 we've identified. Certainly, with regard to our fleet, with
23 regard to our facilities, with regard to our vendor
24 relationships, and with regard to our balance sheet.

25 Q Okay. And isn't it also true that there are other

1 projects that have been identified, but have not yet been
2 launched?

3 A Do you have something specific in mind?

4 Q No, I don't. I'm just -- I would assume that in the
5 course of the first four months of the bankruptcy you may
6 very well have identified a project that you hadn't thought
7 of prior to the bankruptcy?

8 A Well, certainly, we have a long history of ongoing
9 review of the business to operate it in the most effective
10 manner possible.

11 Q But let me just say -- let me rephrase the question or
12 ask you a different question. Since the bankruptcy filing,
13 and now that you have some of the advantages that bankruptcy
14 or Chapter 11 protection affords you, have you identified
15 projects -- new projects since November 29th that would save
16 money and lower the costs of other stakeholders besides
17 labor?

18 A We had identified all of those that we believe are
19 significant. As I mentioned as part of the process of
20 working with McKinsey, we had them take a look at our costs
21 structure to make sure --

22 Q Uh-huh.

23 A -- that we hadn't overlooked anything of that sort.

24 They -- they pointed us to a couple of very minor
25 opportunities, but, certainly, nothing that I would call at

1 all material.

2 Q And so the projects, most if not all of the --
3 virtually all of the projects have been identified before
4 November 29th?

5 A Well, airline bankruptcies are a road well trodden at
6 this point. So we had a -- certainly, a pretty good
7 template of where those opportunities would reside. And
8 that was certainly where we started. But as I say, we went
9 into the process with the view that if we could find
10 additional savings we would, but I think we have done that
11 analysis and have come to the conclusion that we have
12 identified what's there.

13 Q So since the bankruptcy filing are you saying that you
14 have not approached any vendors to renegotiate the terms of
15 their agreements?

16 A No. That was one of the categories I mentioned.

17 Q Okay. And how many vendors, since the bankruptcy, have
18 you contacted about lowering their -- the costs of whatever
19 they're supplying?

20 A We've identified probably well north of 10,000
21 contracts that will be addressed in the course of this
22 bankruptcy. So everything ranging from our largest
23 contracts with major manufacturers to much more modest
24 relationships. Our purchasing department has a very
25 elaborate process that they've put in place to pursue all of

1 that. We included all of those opportunities in the
2 estimates that we made when we put our business plan
3 together.

4 Q Okay. But wouldn't you agree that for labor to
5 determine that all stakeholders are being treated fairly and
6 equitably it would have to know -- labor would have to know
7 the contributions that non-labor constituencies are making?

8 A That's included in our business plan.

9 Q Okay. But not on any particular individual level?
10 It's just a gross number.

11 A It's a gross number, but, for example, I believe at
12 least one -- one or more of the unions sits on the fleet
13 subcommittee, and so would be aware of the activities that
14 we've undertaken, for example, with regard to our fleet
15 activities.

16 Q But with regard to vendors or suppliers and the
17 projects that you have identified, wouldn't you think it
18 would be necessary for -- for labor to see some list or
19 description of those projects and whatever other
20 opportunities you have or intend to take with regard to
21 lowering your non-labor costs?

22 A I don't know whether that request has ever been made.
23 Certainly, if we've not provided something I -- I'm not
24 aware of it. But I'm sure, certainly, that the nature of
25 the discussions that we intend to have are certainly

1 something that the creditors' committee will certainly be
2 aware of.

3 Q That doesn't -- that may very well be the case, but in
4 -- you would -- you would agree, though, that if, in fact,
5 any of the unions had asked for the materials that I just
6 described, that it would be appropriate for the -- for the
7 company to produce that list and that information regarding
8 how it was going to achieve non-labor savings?

9 A We --

10 MR. FLICKER: Objection. This -- objection. This
11 is getting a bit hypothetical. If there is a specific
12 request that he could --

13 MR. CLAYMAN: Well, I -- this is --

14 MR. FLICKER: -- frame the question --

15 MR. CLAYMAN: This is -- this witness is the head
16 of -- is the chief restructuring officer. I think she could
17 --

18 THE COURT: Right, which -- which -- do you have
19 something specifically in mind that you want to ask because
20 when I'm asked to evaluate that particular question as to
21 whether all information has been shared, I'm going to need
22 to actually have something specific to consider.

23 So if this is designed to help me, I don't know
24 that it's --

25 MR. CLAYMAN: Yes. It is. Okay. Well, then, it

1 does -- it is designed to help you --

2 THE COURT: All right.

3 MR. CLAYMAN: -- very -- very much so. And so I'm
4 -- I still would like the witness to answer the question
5 that's been asked.

6 THE WITNESS: I don't remember what the question
7 was.

8 MR. CLAYMAN: Well, neither do I. No. I'm only
9 kidding.

10 BY MR. CLAYMAN:

11 Q What -- what I was asking is if you thought it would be
12 appropriate for the company to provide to the unions, should
13 they have asked for it, the information setting forth the
14 methods and ways in which the company intended to achieve
15 non-labor cost savings?

16 MR. FLICKER: My objection is that that is --
17 seems to be a hypothetical question. This is a fact
18 witness. If she's got a fact -- a specific request, she
19 could --

20 THE COURT: I'm not sure, no matter how she
21 answers this question, that it's going to shed any light on
22 anything because it's -- it's such a broad question that
23 you're going to get from a smart witness a qualified answer.

24 MR. CLAYMAN: Okay.

25 THE COURT: And then we can do this all day. So

1 we --

2 MR. CLAYMAN: Okay. I --

3 THE COURT: -- we can spend a lot of time talking
4 about something we're actually not going to get helpful
5 testimony. So that's why I'm -- again, it's your
6 examination, but --

7 MR. CLAYMAN: That's -- that's fine, Your Honor.
8 I just -- I would just -- one other question I would ask.

9 BY MR. CLAYMAN:

10 Q Is -- has the company prepared a list of the projects
11 that they intend to pursue or are pursuing with regard to
12 non-labor costs?

13 A Yes. We've got work plans in all of those areas. As I
14 mentioned, we've got 10,000 plus contracts that our
15 purchasing department, for example, is in the -- in the --
16 in the course of reviewing and engaging. We have unsecured
17 debt that we've -- that we have either moved to reject or
18 that we -- we will. We have identified certain facilities.
19 In fact, we've already rejected the leases on certain
20 facilities. So, yeah. We've got very comprehensive plans
21 on all of these items.

22 Q Right. And you have documents that describe those
23 plans?

24 A People's work plans exist. Certainly.

25 Q With regard to renegotiating aircraft leases, isn't it

1 true that the overall objective of those negotiations is to
2 achieve market-based leases?

3 A Generally, the idea of marking leases to market is a --
4 is, I think, the concept behind our discussions.

5 Q Okay. And that is done on an individual lease basis,
6 correct?

7 A Correct.

8 MR. CLAYMAN: I think I'm almost finished, Your
9 Honor.

10 BY MR. CLAYMAN:

11 Q I just have one other area and one other exhibit that I
12 would like to just ask you very briefly about.

13 You're aware that -- that the global distribution
14 system litigation at American has -- is involved in?

15 A I'm aware of it.

16 Q Yes. And it is -- can you just briefly describe what
17 the basic claim is involving?

18 A I -- I am not an expert on that litigation and I don't
19 think that I would do it justice describing it.

20 Q Is it fair though, just very briefly, to say that in --
21 that in response to that litigation some of the travel --
22 some of the travel sites, such as Expedia and Travelocity
23 delisted American from its web pages?

24 A I think that was all disclosed in our public filings.

25 Q Yes. Okay. And do you have any idea how much revenue

1 American may have lost as a result of that delisting?

2 A May I look to counsel to help me with that?

3 THE COURT: Well, I think it's a question of
4 whether you know or not, or you --

5 THE WITNESS: I do not know.

6 THE COURT: -- whether it's confidential.

7 MR. CLAYMAN: Oh.

8 THE WITNESS: Yeah.

9 BY MR. CLAYMAN:

10 Q Okay. You don't know? Fine. I think we're up to APFA
11 Exhibit 5. Is that correct?

12 THE COURT: Well, I didn't prod you as to Exhibit
13 4, which was never moved into evidence, but I don't know
14 that it was ever used. So I don't know --

15 MR. CLAYMAN: Well, I think --

16 THE COURT: -- if you want to -- if you want to
17 introduce it or -- or not.

18 MR. CLAYMAN: I think it would be -- and just -- I
19 think she testified that the first page was similar to the
20 first page of APFA Exhibit 3. So, based on that, I would
21 like to move it into evidence.

22 THE COURT: Well, I think, you don't need her
23 testimony for that. The document --

24 MR. FLICKER: Yeah. I -- I actually --

25 THE COURT: -- speaks for itself.

1 MR. FLICKER: -- don't believe she did testify to
2 that.

3 THE COURT: But it doesn't matter. Any objection
4 to receiving this subject to appropriate redactions for
5 confidentiality?

6 MR. FLICKER: One moment, Your Honor.

7 (Pause)

8 MR. FLICKER: Your Honor, we -- I don't think we
9 doubt that it's a -- the authenticity of the document. So
10 we'll need to, obviously, look at it for redactions to the
11 public record.

12 THE COURT: All right. I will receive it subject
13 to getting a redacted copy.

14 (APFA's Exhibit Number 4 was admitted)

15 THE COURT: All right. So now we are up to Number
16 5.

17 MR. CLAYMAN: Yes. Thank you, Your Honor.

18 BY MR. CLAYMAN:

19 Q Are you aware that Mr. Horton issued a letter to all of
20 the American employees yesterday?

21 A Yes.

22 Q Okay. Have you seen that letter?

23 A I skimmed it quickly on my Blackberry last night.

24 Q Okay. Let me hand you what has been marked as APFA
25 Exhibit 5 and have you take a look at that.

1 (Pause)

2 A Okay.

3 Q Okay. Is this the letter that you recall reading
4 yesterday?

5 A Yes.

6 MR. CLAYMAN: Through no objections I would move
7 for the admission of APFA Exhibit 5.

8 THE COURT: Any objection?

9 MR. FLICKER: No objection.

10 MR. GOFFMAN: Your Honor, one comment I guess I
11 have -- this is Jay Goffman on behalf of the committee. As
12 Your Honor can tell from the watermark on this, this -- this
13 is a -- this is a document -- I think, actually you probably
14 have read the article on most news services. But the
15 content is -- is not public, but the watermark makes it
16 clear that it was pulled from a confidential site that the
17 creditors' committee maintains. And so --

18 THE COURT: All right. I'll accept it subject to
19 getting a clean copy which has got the identical --

20 MR. CLAYMAN: That's fine. I --

21 THE COURT: -- contents.

22 MR. CLAYMAN: I apologize for that. I didn't
23 realize --

24 MR. GOFFMAN: Thank you.

25 MR. CLAYMAN: Okay.

1 (APFA's Exhibit Number 5 was admitted)

2 THE COURT: And when I say identical contents,
3 that means it's a message from the chairman and CEO, Tom
4 Horton. It's got the same "Dear American Team," and content
5 down to, "Sincerely, Tom," and the -- it's the other --
6 other, essentially, window dressing that -- that can change.

7 MR. CLAYMAN: Thank you, Your Honor.

8 BY MR. CLAYMAN:

9 Q Could you -- could you turn your attention to the
10 fourth paragraph of that letter?

11 A Yes.

12 Q Have you had conversations with Mr. Horton about
13 pursuing a combination down the road?

14 A Yes.

15 Q And when did you first have a conversation with Mr.
16 Horton about pursuing accommodation?

17 MR. FLICKER: Hold on, Your Honor. If I could, I
18 -- I'm concerned here because, obviously, our position is
19 that any discussions, any actions, any combinations by this
20 company with any other company is not relevant to this
21 proceeding.

22 But, moreover, I am also concerned that we not
23 distract this proceeding by getting into confidential
24 business conversations between two senior executives of
25 American Airlines in a public forum.

1 MR. CLAYMAN: If I could be heard for a moment?

2 THE COURT: Sure.

3 MR. CLAYMAN: Thank you.

4 This goes to the -- to the -- and in a large
5 degree to one of the core matters of the case, which is
6 that, first, should have -- should American before it
7 formulated its plan, should it have considered consolidation
8 as a reasonable alternative, and in the months after
9 formulating its plan, should it have considered that option
10 as well along the road -- the way.

11 THE COURT: But you can make that case without
12 asking her that question. If the debtors put --

13 MR. CLAYMAN: Right.

14 THE COURT: -- into evidence that they've had
15 discussions about that topic, then you can address that, If
16 they don't put in any evidence, you say they haven't
17 addressed it and you can make your argument.

18 MR. CLAYMAN: Well --

19 THE COURT: I -- I don't know that if -- if I
20 understand correctly, the argument is that it's -- it's --
21 you're getting into confidential business information; that
22 is, information that is not historical, but going forward as
23 to what the plan and the strategies are. I don't think
24 you're hamstrung in terms of -- of making your case because
25 if the debtors don't put on any evidence of that, then

1 that's -- they put in what they put in.

2 MR. CLAYMAN: Yes.

3 THE COURT: So -- so I think you -- it's -- that's
4 -- again, we're getting into really argument that lawyers
5 make rather than what you need from this witness.

6 MR. CLAYMAN: Well, I think, though, Your Honor,
7 with all due respect, there may be another -- another part
8 of this -- of the case that this letter directly addresses
9 and is of great concern in terms of how the Court should
10 consider this motion.

11 What this paragraph indicates is that Mr. Horton
12 apparently is prepared to go through with the 1113 process
13 and at some indefinite point, after assuming to get --
14 assumingly he gets the relief he's seeking, we do not know
15 whether it would be a day, a week or a month or whatever
16 that he could turn around, the company could turn around and
17 decide that, in fact, the better option here is a
18 combination with another carrier.

19 It is -- it is critical for us to know whether the
20 plan that is before the Court is really the plan that
21 American intends to pursue, or is it an excuse or pretext to
22 extract as much from labor as possible.

23 THE COURT: I don't agree with you. I have the
24 proposal in front of me, which I have to evaluate. You can
25 make arguments, as you just did, and I expect I'll hear more

1 arguments of that sort saying that the debtors' position is
2 defective for a number of reasons, including the fact that
3 they haven't pursued consolidation as a first option or an
4 option before this option. You can make that argument. T
5 here's nothing to preclude you from making it. In fact, you
6 just did make it.

7 But I don't think that that means that you can get
8 on the witness stand confidential business information about
9 -- about whether it's being discussed now. The debtors will
10 make their case. You can poke holes in it saying that it's
11 defective for exactly the reason you identified. But I -- I
12 -- and you can use this letter to -- as one of the -- one of
13 your exhibits to do it. But I -- I don't -- do you -- do
14 you -- are you trying to force the debtors to make an
15 argument about consolidation that they don't want to make?
16 I don't think you want to --

17 MR. CLAYMAN: No. No. No, Your --

18 THE COURT: -- do that.

19 MR. CLAYMAN: No, Your Honor. I think it's just
20 -- it's a matter of how -- I think the letter suffices for
21 our purposes and --

22 THE COURT: I mean, I think I heard --

23 MR. CLAYMAN: -- I -- I understand.

24 THE COURT: -- it in opening, didn't I?

25 MR. CLAYMAN: Yes.

1 THE COURT: I think I -- I think I heard in
2 opening that -- that the debtors plan to pursue this 1113
3 and that consolidation is -- and merger is something that
4 may or may not be on the table down the road, and I don't
5 think they've hidden from that fact. And you can make
6 whatever --

7 MR. CLAYMAN: Yeah. Well --

8 THE COURT: -- legal argument that relates to
9 their position.

10 MR. CLAYMAN: It's -- let me just say, though,
11 that this letter is the first time that we've seen a
12 statement from Mr. Horton that so explicitly mentions and
13 states and indicates that the company, in fact, intends to
14 pursue consolidation earlier rather than later; that is,
15 they will pursue it down the road with the creditors'
16 committee's involvement, which is -- which basically
17 indicates, for the first time, that this company intends to
18 look at consolidation during the course of the bankruptcy.
19 And that raises a whole different piece of evidence that we
20 have not had to date.

21 And the reason I wanted to -- and I think the
22 letter suffices to make that -- to make that clear. But I
23 think that as this case evolves, it becomes more and more of
24 a concern as to whether or not American is pursuing the plan
25 that's actually before you.

1 THE COURT: Well, I assume that if I'm being asked
2 to make an 1113 determination, that -- that that's what I'm
3 being asked to do. So, again, there is -- this case, from
4 my point of view, is much like an iceberg. I see a very,
5 very small piece that's above the water. I am quite well
6 aware that there is a lot of -- there are a lot of other
7 things going on to which I am not privy, some things to
8 which I see in the news and avert my eyes. I do not have --
9 it's not appropriate and I also don't have the luxury of
10 delving into all of that. I have to decide what's in front
11 of me.

12 So that's why I am looking to -- to address how
13 this relates to the one application I have in front of me.
14 And, again, I don't think there's any objection to admitting
15 this letter for the -- for -- as evidence and you can make
16 whatever argument you want.

17 But, again, I'm not -- I'm just not sure that
18 there's value to pursuing that line of questions that you're
19 about to ask this witness about, essentially, the business
20 strategy when I think those questions really are just
21 details as to what -- what's already in this letter.

22 So if -- if there are confidential information
23 that needs to be delved into in questioning, I also don't
24 want to let that bog down the trial and we can address that
25 at an appropriate time when we don't have a courtroom full

1 of people.

2 MR. CLAYMAN: Okay. Thank you, Your Honor.

3 With that, I -- I don't have any further questions
4 at this time.

5 (Pause)

6 MS. KRIEGER: Thank you, Your Honor.

7 CROSS-EXAMINATION

8 BY MS. KRIEGER:

9 Q Good afternoon, Ms. Goulet.

10 A Good afternoon.

11 Q My name is Kathy Krieger and I'm here with the Allied
12 Pilots Association.

13 A Good afternoon.

14 Q If you have any trouble hearing me, just ask me to
15 speak up.

16 A Okay. I will. Thank you.

17 Q Ms. Goulet, I -- I apologize if I'm going back over
18 some ground, but I wanted to make sure I understood what --
19 what's -- what your position is and how this evolved.

20 In your direct testimony I believe you said that
21 in your capacity as a senior vice-president and treasurer
22 for American Airlines, modeling business performance was not
23 part of the scope of your duties; is that correct?

24 A Let me expand on that a little bit. As the treasurer,
25 I obviously have direct responsibility for all things

1 balance sheet and liquidity-related. And so as in that
2 capacity, traditionally the way we have handled things is a
3 -- sort of the shared ownership between my department and
4 one of my colleagues in finance.

5 Brian McMenamy, our comptroller, his department is
6 charged with information and -- and forecasting relating to
7 the P&L, particularly with a focus on the current year, but
8 the modeling we do produces both income statement and cash
9 flow statements. So I'm involved in the -- in the -- in the
10 process and preparation of that -- of that series of -- of
11 documents and forecasts.

12 Q Okay. And just so I understand it, and, again, I'm
13 speaking up to the point where you assumed the position of
14 chief restructuring --

15 A Uh-huh.

16 Q -- officer at the AMR level --

17 A Yes.

18 Q -- in your American Airlines capacity, just so I'm
19 clear, what department -- what is the name of the department
20 that you're involved in and that you head up?

21 A Corporate development and treasury.

22 Q Okay.

23 A And my -- my title was vice-president of corporate
24 development and treasury. I guess it still is.

25 Q Right. And Mr. McMenamy as the comptroller, what's the

1 name of his department?

2 A He is VP and comptroller. I think his department is
3 financial -- it may be finance. I'm not sure exactly what
4 the name of his department is, but he has the control
5 function, the accounting function and some amount of
6 financial analysis.

7 Q Okay. And as I understand it, the business plan model
8 that American Airlines has had up to this point and that
9 McKinsey worked with you on tweaking --

10 A Uh-huh.

11 Q -- one of those departments at least had -- when I say
12 custody, I mean, was involved in maintaining the very
13 complicated computer systems that --

14 A uh-huh.

15 Q -- take the inputs and regularly generate the forecasts
16 and the numbers that you look at; is that correct?

17 A Yeah. Maybe -- maybe if I take three minutes and
18 explain, just --

19 Q That would be very helpful.

20 A Okay.

21 Q Thank you.

22 A We actually have a -- a series of models that are --
23 that are all used to produce the output which is the
24 forecast that -- that we've shared with the unions and their
25 advisors. We start with the revenue model that McKinsey

1 helped us develop, and as I -- I mentioned earlier, that was
2 done with input from our network planning and fleet planning
3 folks who actually laid out the six-year network and fleet
4 plan, and then a revenue model was developed based on that
5 -- that -- that plan.

6 The revenue model then is used in our business
7 plan model, which takes the revenue and lays that into the
8 so-called BPM, which takes the revenue, offsets, obviously,
9 the expenses to produce a P&L, and then will also produce a
10 -- a series of cash flow statements and balance sheets.

11 Q And is there also a labor cost model that is part of
12 this --

13 A There is.

14 Q -- apparatus?

15 A The labor cost model is actually handled in Mr.
16 McMenemy's department and his department provides us the
17 input for the business plan model that reflects the labor
18 proposals that we've made.

19 Q Okay. And anything other than the fleet planning input
20 that's non-labor cost related, is that -- is there a
21 separate model for that or does that --

22 A That's --

23 Q -- come into one of these?

24 A That's contained in the business plan model.

25 Q That's part of the business plan model.

1 A Uh-huh.

2 Q Okay. Now what you've just described, so that I'm
3 clear, you're describing this -- the modeling system that
4 exists right now?

5 A That's correct.

6 Q Okay. And that was created after the filing of the
7 Chapter 11 petition?

8 A Yes. Certainly, the revenue model was created new
9 following the filing, as I -- as I -- and -- and --

10 Q And just so I'm correct again, we're talking about
11 November 29, 2011 as the --

12 A Yes. Yes.

13 Q -- benchmark date?

14 A That's the model that we worked with McKinsey to
15 develop to forecast our revenue based on that six-year
16 network and fleet plan.

17 Q Okay. Other than -- putting aside the McKinsey tweaked
18 revenue model that you are now using, what elements of what
19 you just described here predated the petition in this case?

20 A The business plan model was effectively the forecasting
21 tool we used before we filed. And so what -- if you -- if
22 you look at -- if you look at that, we now have revenue
23 coming from this new source, but the way in which we model
24 the expenses associated with the business -- so, for
25 example, the fuel forecast, forecast salaries and benefits

1 and, you know, you name it as you run down the items on the
2 P&L is essentially the same tool that we were using before
3 we filed.

4 Q Okay. And you've been, as I understand, in your
5 current position as the senior vice-president for corporate
6 development and the treasurer since 2002?

7 A Yes.

8 Q And so --

9 A It's -- it's not senior vice-president. It's --

10 Q Excuse me.

11 A -- just vice-president.

12 Q Vice-president.

13 A Yeah.

14 Q Is that a senior executive position in AMR -- I --

15 A It's an officer.

16 Q -- I mean, American Airlines?

17 A It's an officer position.

18 Q Okay. And how far back during your tenure does the
19 business plan model you've described go?

20 A That component that I described sort of X the revenue
21 input was something we developed in the context of the 2002-
22 2003 restructuring.

23 Q Okay. And did you have a role in the development of
24 that business plan model?

25 A I -- I did. As I mentioned we -- we developed it in

1 the context of that restructuring and I was -- I was,
2 essentially, the first owner of that model as we looked at
3 what our liquidity position and so forth was as we moved
4 through that time frame. The ownership of that model then
5 transferred over to Mr. McMenemy's shop sometime thereafter
6 and that portion of it resided there until we brought it
7 back into the corporate development group as we did the
8 bankruptcy planning.

9 Q Okay. And going back to the original development of
10 this where you were the first, I guess, owner, was it people
11 under you who were involved in designing it and putting it
12 together?

13 A It was -- it was a couple of people on my staff and at
14 the time we were using Greenhill as our financial advisor in
15 that restructuring, so they assisted us in developing that
16 model.

17 Q Okay. I think I've seen a reference to -- also to
18 green tree. Is that different from Greenhill?

19 A Green --

20 Q I've got them confused.

21 A Green tree was simply the code name we used internally
22 for some of the bankruptcy planning and it was --

23 Q Okay.

24 A -- plucked out of air. Somebody looked at a big plant
25 in the office and said, green tree.

1 Q I love it. Thank you.

2 Okay. So getting back to the earlier out of court
3 restructuring in 2002-2003, was this model developed prior
4 to the -- what I would call the brink of bankruptcy
5 negotiations with the unions in March 2003 or that led to an
6 agreement in March 2003?

7 A No. It was -- it was developed in that context.

8 Q Okay. And when you say "in that context," was it used
9 to model the types of labor cost reductions that would be
10 necessary and the types of revenue improvements?

11 A That -- that would certainly have been one of the uses.
12 The other use very significant use, obviously, was to look
13 at where our cash was going to go because you may or may not
14 recall there -- there were very significant liquidity
15 challenges that confronted us back in -- in the 2002-2003
16 time frame.

17 Q Okay. And at that time -- now you mentioned that the
18 current revenue model of your business plan now is something
19 that you've refined post-petition. But --

20 A Correct.

21 Q -- going back to the 2002-2003 restructuring, is it
22 fair to assume that there was some sort of a revenue model
23 for anticipating and projecting the kinds of revenue, just
24 as you're doing now?

25 A That's right. It was -- it was -- it was produced by

1 -- you know, over the course of the last few years. I don't
2 remember going all the way back to 2002-2003 exactly what
3 the revenue input was. But in -- in the years subsequent,
4 generally the way we've -- the way that's been handled is
5 that the folks in our revenue management department would
6 provide us a revenue forecast based on, essentially, three
7 components: GDP forecasts; what other airlines were doing
8 with capacity; and what the fuel forecast was.

9 Q Okay. And, again, going back to at least its design
10 back in 2002-2003, was this a model that was used to develop
11 somewhat long-range planning that is beyond the current
12 year?

13 A It can -- it can be used for both purposes. Our -- our
14 -- the financial planning folks use it as the basis for the
15 current year P&L. But, yes, we do use it to look forward
16 two, three, sometimes four years. Obviously, in our
17 business, particularly with regard to volatility of fuel
18 prices as well as some of the volatility we've been through
19 with regard to the broader economic circumstances, you know,
20 it -- it certainly presents its series of challenges. But
21 that is the tool we've used for that purpose.

22 Q Okay. And as I understand it, the entire, I guess,
23 collection of models, which I'll refer to collectively as
24 the business plan model, going back then were you using it
25 as a rolling forecasting tool periodically --

1 A Yes.

2 Q -- checked, tuned up?

3 A Yes. We would -- we would update it -- well, as I
4 mentioned, usually in anticipation of a board meeting at
5 which we were going to update the board on what our outlook
6 was.

7 Q And how frequently were those board meetings?

8 A We have, I believe, eight board meeting -- in-person
9 meetings per year, so I think that's right. January, March,
10 May, July, September, November -- yeah. No. I guess there
11 was six -- well, they're several -- they're a number per
12 year. I would have to sit here and --

13 Q Yeah.

14 A -- and then we also have a couple of phone calls per
15 year. But that -- that was generally the forum in which
16 these updates would be produced.

17 Q Okay. And maybe this is the question I'll be asking
18 too fuzzy for you to answer. But is this a model that's
19 designed to be strategic; that is, you don't just look at
20 see what's happening, but it tells you what you need to do
21 to improve the financial condition of the airline or to grow
22 more revenue, to deploy your resources in a particular way
23 so that you remain profitable?

24 A No. I would say that it -- it more reflected the
25 output that -- the results the company would achieve based

1 on the assumptions that go into it. I would say the
2 strategic planning occurs and then that, obviously, is
3 translated into a view of how that will drive our results.

4 But the model itself is an Excel spreadsheet that --

5 Q Yes.

6 A -- that takes the inputs and provides outputs.

7 Q Thank you.

8 And I guess what I was asking is when you see
9 outputs and it shows, for example, we're losing money and
10 this is our fifth quarter of doing that, or are fifteenth,
11 whatever it might be, is -- is there somebody who follows up
12 on that and then who is expected to do something to write
13 the plan as it --

14 A Oh, yeah. I --

15 Q -- is?

16 A -- I think it's fair to say that over the course of the
17 last decade, you know, there's -- there's been intense focus
18 on -- on what we can do to improve our circumstances.

19 Q And have you -- just so I understand, so there's a --
20 as I understand it, there's a financial planning group
21 internally who regularly update the inputs that go into the
22 business plan model --

23 A Uh-huh.

24 Q -- and then is there somebody above that who -- would
25 that be you or some other group of people who then decide

1 what to do about what you're seeing coming out of the model?

2 A I -- I think our -- our planning department is -- is
3 the -- is I guess what I would say the group that provides
4 the strategic direction, to the extent that -- that an
5 airline's strategy fundamentally is sort of first and
6 foremost around its network and its fleet plan. And those
7 functions reside in -- in our planning department. I guess
8 it's now -- well, it's -- it's -- it's the -- it's the
9 groups that report up through Virasb Vahidi who will be
10 testifying later on in this trial.

11 Q Okay. And so I understand on the corporate structure
12 where you belong, Mr. McMenemy is the comptroller you said
13 and --

14 A Yes.

15 Q -- you are the vice-president for corporate development
16 and the treasurer.

17 A Yes.

18 Q Are you in a position overseeing Mr. McMenemy or does
19 he --

20 A No. We're peers.

21 Q You're peers.

22 A We're peers.

23 Q And what about Mr. Vahidi?

24 A Mr. Vahidi is a senior vice-president in charge of --
25 he's our chief commercial officer and has marketing and

1 planning.

2 Q And is he also a peer with --

3 A He is --

4 Q -- the three of -- the two of you?

5 A -- a senior officer.

6 Q And then --

7 A Brian and I are officers. Virasb is a senior officer.

8 Q So that means you report to him or --

9 A No. I report to Bella Goren, the CFO.

10 Q Uh-huh. And --

11 A And Bella is a peer of Virasb.

12 Q Okay. And then are they the direct reports to

13 President Horton or --

14 A They are.

15 Q Okay. And prior to Mr. Horton's assuming the
16 presidency as I understand in 2010 was it or late 2009?

17 A I think it was in July of '10.

18 Q July of 2010? He was the CFO?

19 A He was the CFO and also had the planning function.

20 Q That is Mr. --

21 A That Mr. Vahidi now has.

22 Q Now has. Okay. So when he held both those positions
23 did he work with you on planning and working with the
24 business plan?

25 A Yeah. He would have been probably the first person we

1 would have briefed on all of that.

2 Q Okay. And he -- just so I'm clear it was around 2006
3 when he became the CFO?

4 A Yeah. I believe he came in -- in early 2006.

5 Q Okay. So going back to -- you mentioned you were
6 involved in developing the tools to help with the 2002-2003
7 out of court restructuring. Since that 2003 restructuring,
8 as I understand it the internal financial planning group has
9 continued to regularly generate business plans using the
10 tools you described?

11 A That's correct.

12 Q And this continued up until November 29th of last year?

13 A Correct.

14 Q Okay. And I understand currently Candice Irving was --
15 had a lead role in that -- or has a lead role in that
16 financial planning group?

17 A She -- yeah. She's on my staff. She is the managing
18 director of corporate development, and she and her team have
19 -- have, I guess, owned the business plan model since we
20 brought it back over from -- for -- for purposes of the
21 bankruptcy planning.

22 Q Okay. And did she have any role with the business plan
23 prior to the petition being filed?

24 A She certainly -- certainly reviewed it from time to
25 time. You know, a lot -- a lot of us would look at it to

1 make sure that it's -- it's -- it's a quite complex model.

2 Q Uh-huh.

3 A And so people would -- you know, for example, Peter
4 Warlock (ph) who is our managing director of corporate
5 finance and treasury would look at it to make sure that the
6 assumptions regarding our -- our fleet financing was -- was
7 handled appropriately. So, yeah, Candice was one of the
8 people who was involved in regular meetings about the inputs
9 and outputs of that model.

10 Q And she was reporting to you during that time period?

11 A Correct.

12 Q And that goes back how long?

13 A Boy, I have to think about that for a bit. Two years,
14 perhaps.

15 Q Okay. Now -- so during -- just to recap, during the
16 period you've described from the time the first business
17 plan model, the modern version was developed up until the
18 filing of the petition, the business plan, as I understand
19 it, had at least these key components that were part of it:
20 Revenue, labor costs and non-labor costs?

21 A Yeah. That's -- that's one way to think about the
22 business plan model. That's correct.

23 Q Okay. And the relationship between those elements your
24 model was capable of analyzing and telling you at any given
25 point what was going on and what the effect would be on

1 American's financial profile?

2 A Yeah. That's right. It was -- it was a device by
3 which to forecast our P&L and cash flows.

4 Q Okay. And if you were in the middle of collective
5 bargaining negotiations, for example, and you were making a
6 particular proposal --

7 A Yes.

8 Q -- you could input that and see what the impact of that
9 would be on --

10 A That's correct.

11 Q Okay.

12 A Yeah. Essentially, think of it as -- as there's a --
13 there's a line that says, salary and benefits, and, you
14 know, that forecasts what the amounts would be going forward
15 under our current contract and we would simply get inputs
16 from the folks who own the labor model telling us how to
17 adjust those amounts depending on -- on what the content of
18 the proposal was.

19 Q All right. And you could see if there was a growing
20 labor cost gap, for example, what you could do to fix that
21 or adjust that in --

22 A Well, the --

23 Q -- the way of proposals?

24 A -- the model that we're discussing really just shows
25 what our labor costs are in the context of our -- of our

1 P&L. The work that's done to analyze what the labor cost
2 gaps are and so forth are done in -- in -- in Brian's shop
3 separately from the BPM. They are simply an input into the
4 --

5 Q Okay.

6 A -- into the business model.

7 Q And when you put the input in and if it would show,
8 like a terrible result on the financial picture or you need
9 an improvement --

10 A Uh-huh.

11 Q -- it would -- it would be interactive. You could go
12 back and say, we need to adjust labor costs to make this --

13 A That's right.

14 Q -- look better?

15 A That's right.

16 Q And was that part of the continual monitoring or
17 tracking of AMR's performance that went on during your
18 tenure?

19 A Yeah. I mean, as -- as we would -- you know, for the
20 -- for the first few years after 2003 the labor cost line in
21 that model simply reflected what the labor costs were that
22 were driven by the contracts that were then in place. As we
23 entered into the negotiations that have been ongoing, from
24 time to time we would make assessments of the likelihood
25 that new contracts would be achieved and what the terms of

1 those contracts would be, and then we would be able to
2 adjust the labor -- the salary and benefits line as well as
3 whatever other lines might be adjusted based on changes in
4 work rules and productivity, for example, to see what --
5 what impact that would have on our profitability.

6 Q And in addition, just to see what impact you would be
7 capable of determining or identifying areas where you needed
8 to bring costs down, for example?

9 A That's right.

10 Q Uh-huh.

11 A That's right. I mean, it's -- it's -- yeah. It's --
12 it's -- you know, for example, if we thought there was an
13 initiative in our purchasing department that would result in
14 renegotiations with suppliers that would result in a -- you
15 know, thirty-million-dollar improvement, we would simply
16 enter that into -- into whatever line would be effected.

17 So the changes have to be inputted into the model
18 and then -- and then the output is the -- is the financial
19 result.

20 Q But then it's fair to assume, is it not, that the
21 people who are conducting those parts of the operations are
22 not going out and doing things that are inconsistent with
23 the business plan model or its --

24 A Well, the business plan model really exists to reflect
25 what the activities of the business people are and what the

1 business people think they can achieve.

2 Q Uh-huh. Okay. I'm -- there was an exhibit that the
3 flight attendants put in as APFA Exhibit 2.

4 A Yes.

5 Q And as I understand it -- well, you answered some
6 questions for Mr. Clayman about the new business plan that
7 was colloquial referred to as flight plan 20/20 --

8 A Yes.

9 Q -- that was rolled out in late 2009. And you mentioned
10 that that was a shorthand reference to the five tenants that
11 are listed there --

12 A Yes.

13 Q -- under recent events. And as I understand it, the
14 last of the five tenants is fly profitably.

15 A Uh-huh.

16 Q So is that a -- is that a shorthand for American should
17 make sure that its revenues exceed its costs and expenses?

18 A Yes.

19 Q Okay.

20 A Make money.

21 Q And so -- so the business plan was designed to achieve
22 that?

23 A Absolutely. I mean, clearly, all of the changes that
24 were made in the business over the last few years were all
25 designed at trying to improve our results. And so, you

1 know, clearly as we -- as we undertook these changes,
2 including the cornerstone strategy, it was clearly done with
3 the idea that it would result in an improvement in our
4 profitability or reduction in our losses I guess s --

5 Q Yeah. You were always planning to have a viable
6 airline over the --

7 A Absolutely.

8 Q -- long-term, right?

9 A Absolutely.

10 Q Getting back to the other forecasting capabilities,
11 whether they were part of a formal model or part of your
12 work as a corporate strategic person, was monitoring the
13 trends in the industry part of your portfolio?

14 A The analysis that's done to monitor the trends in the
15 portfolio are done in other departments, both within the
16 finance organization and the planning organization. They
17 relate to my portfolio insofar as I need to understand all
18 of those metrics. You know, a lot of my -- well, my work
19 now as chief restructuring officer, but my -- my role as
20 treasurer involves a lot of external relationships. And so
21 to be able to convey to those parties what our condition and
22 prospects are, it's, obviously, very important to understand
23 how the company is performing as well as how we're doing
24 relative to our -- to our peers.

25 Q And -- and that's been the case since you've been

1 treasurer, right, since --

2 A Yes.

3 Q -- 2002?

4 A Yes.

5 Q Okay. And is there also a function within the planning
6 or modeling capability of American or has been up until the
7 petition of being able to monitor the company's performance
8 vis-à-vis goals or benchmarks or revenue targets or cost
9 saving targets that are set by the leadership?

10 A Yeah. Certainly, for example -- well, yeah. We -- we
11 have a plan every year and then -- and then regularly
12 measure how we're performing versus that plan.

13 Q Okay. So at any given time if you needed to know where
14 you stood vis-à-vis the metrics in the industry you could do
15 that?

16 A Yes. Other people in the company are -- are sort of
17 continuously updating all of those.

18 Q Okay. And you could assess the company's financial
19 condition, it's EBITDA or the other metrics that you use?

20 A Yes.

21 Q And Mr. Horton, when he became CFO, did he also become
22 familiar with the business plan and the business planning
23 capabilities at American?

24 A Certainly.

25 Q Uh-huh. And did he find them adequate? Did he bring

1 in an outside consultant at that time or did he view you as
2 having a robust planning capability?

3 A I -- I think he believed -- I guess I -- I would parse
4 the words a bit.

5 Q Okay.

6 A I think what we're talking about is -- is -- is a -- is
7 a forecasting tool that -- that reflects the complexity of
8 the business. Again, I -- I think of that more as a way to
9 measure what the output of all of the various assumptions
10 are that certainly reflect what the planning decisions are,
11 but the planning decisions are -- are the basis on which the
12 -- you know, the inputs are developed.

13 Q Okay. Well, you've described, I guess, Mr. Horton's
14 most recent charge to you as chief restructuring officer to
15 make sure that you had a business plan that was aimed at
16 American's long-term viability and success?

17 A Yes.

18 Q And deploying assets to optimize revenue for the
19 company?

20 A Yes.

21 Q Controlling costs?

22 A Yes.

23 Q And making a profit?

24 A Yes.

25 Q That wasn't a new strategy, was it? I mean --

1 A No.

2 Q -- that was what he expected of everybody --

3 A Absolutely.

4 Q -- going back years. And that was --

5 A Certainly.

6 Q -- what you guys have been trying to do since 2002?

7 A Certainly. Yeah.

8 Q Okay.

9 A But I -- I think with -- with the bankruptcy, you know,
10 we -- we wanted to use that as an opportunity to make sure
11 we had scrubbed everything.

12 Q Okay.

13 A As we -- as we do regularly.

14 Q Okay. You were here yesterday when Mr. Kasper was
15 testifying?

16 A I was in the courtroom. Yes.

17 Q Yes. And he was -- you -- have you read his
18 declaration?

19 A I certainly read a draft. I don't know if I read what
20 was actually final and filed.

21 Q It's a lot of paper.

22 A Yes, it is.

23 Q But what he -- what he summarized and addressed, I
24 think most eloquently in his testimony, the trends in the
25 industry, the rise of low cost carriers since deregulation

1 --

2 A Yes.

3 Q -- field volatility, exogenous shocks and things like
4 that, that wasn't new to you, was that?

5 A Not at all.

6 Q Okay.

7 A We've lived through it.

8 Q Okay. And -- and that's part of your job as well to be
9 up to date on that?

10 A Absolutely.

11 Q Okay. And as I understand, also, M&A or mergers and
12 acquisitions is part of your portfolio?

13 A That's correct.

14 Q And you've been monitoring the consolidation trends in
15 the industry going back as long as you've had that
16 portfolio?

17 A Yeah, going back at least to the year 2000, and we've
18 -- we've done that very actively.

19 Q Okay. As I understand it, in the months before the
20 bankruptcy filing in November 2011, American was in the
21 process of some active negotiations with the pilots' union
22 for a new collective bargaining agreement?

23 A Yes.

24 Q And at the time these negotiations were going on, of
25 course as I understand it, the business -- there was a

1 business plan in effect?

2 A Well, it -- when you say business plan, you know, I
3 mean, we -- we always have -- we always have a plan insofar
4 as it relates to our network and fleet and so forth.

5 Q Okay. But it was the plan to fly profitability, for
6 example, that was --

7 A Sure. It was --

8 Q Yeah.

9 A -- essentially, what was, you know, summarized here is
10 in this reference to flight plan 20/20.

11 Q In the 10k filing?

12 A Yes.

13 Q Yeah. Okay. And at that time during the negotiations
14 American could analyze the amounts of labor cost reductions
15 that it should be seeking from the pilots in its
16 negotiations?

17 A Certainly, through the modeling that we've discussed we
18 would have the ability to show what the impact of those
19 contracts as renegotiated would have on our salary and
20 benefits line and, therefore, on the company's performance
21 overall.

22 Q And as I understand it, the negotiating proposals that
23 American was making were, in fact, consistent with its
24 business plan to fly profitably and to --

25 A Well --

1 Q -- turn around the airline?

2 A -- you know, I -- I think -- certainly, this was the
3 tenants within which we were operating. I think that the
4 discussions that were ongoing before -- before the filing
5 was -- was, frankly, being done with a different set of
6 objectives in mind. I think it's probably pretty clear that
7 -- that Mr. Arpi (ph) wanted very much to avoid bankruptcy
8 and believed that the ability to achieve consensual
9 agreements, I think, particularly -- well, not particularly,
10 but certainly with the -- with the pilots would carry us
11 down that road.

12 And so I think there was a -- there was a
13 willingness to put a different series of proposals forward
14 than proposals that might be aimed exclusively at improving
15 our profitability to the levels that are necessary to
16 sustain the business on a -- on an ongoing and long-term
17 basis.

18 Q Okay. Well, let me just scroll back, though. In the
19 2002-2003 restructuring, as I understand it, American did a
20 deep analysis to figure out what it needed to avoid
21 bankruptcy, correct?

22 A Correct.

23 Q And they made the proposals to labor, including the
24 pilots of what they needed to avoid bankruptcy?

25 A Yes.

1 Q And literally within a matter of weeks in March 2003,
2 the pilots gave you everything you asked for at that time?

3 A Yes. The proposals that were on the table were
4 accepted.

5 Q Right. And -- and as I understand the testimony
6 earlier today, the total from union labor amounted to about
7 1.6 billion --

8 A That's correct.

9 Q -- per year from the unionized workforce?

10 A Yes.

11 Q Over a period of up to five years?

12 A It was a five-year contract.

13 Q It was --

14 A Or they -- the contract became amendable in five years.
15 That's correct.

16 Q All right. So it locked that in at least for your
17 labor cost purposes. And -- and, in fact, from the pilots
18 there -- alone there were at least 660 million in annual
19 cost reductions that were asked for and given?

20 A I believe that number is right.

21 Q Okay. And American was the one who set the target,
22 right, that -- what it -- what it wanted and needed?

23 A Yes.

24 Q Okay. And -- and that resulted, in fact, in a -- I
25 think a twenty-three percent pay cut for the pilots at that

1 time?

2 A I -- I don't recall what the number was.

3 Q Okay. But whatever that was, it was locked into a
4 five-year agreement?

5 A Yes. The changes to the contracts that were made at
6 that point would have been in place as long as that contract
7 was that under which we were operating.

8 Q Yeah. And -- and, of course, even after the expiration
9 of those contracts it --

10 A Yes.

11 Q -- would have continued? And even today, as I
12 understand it, American's pilots are earning the base wage
13 rate that they would have been earning back in 1993?

14 A 2003.

15 Q No. The same --

16 A Oh. I'm sorry. I guess I didn't understand your
17 question.

18 Q Yes. The same hourly rates that the pilots are earning
19 today were the ones they had in 1993?

20 A I'm not personally up to speed on how those amounts
21 compare.

22 Q Okay. But just -- and just before I close out that
23 period of time, it was in mid-March 2003 that -- or early to
24 mid-March 2003 that all the agreements were reached to stay
25 off bankruptcy?

1 A Yeah. I thought it was the very end of March, but I
2 could be remembering that wrong.

3 Q Toward the end of March?

4 A Yes.

5 Q And then about fifteen days later on April 15th, 2003
6 was when American announced millions of dollars in bonuses
7 to its executives?

8 A There may have been bonuses paid that year. I -- yes.

9 Q Okay. And -- and since that -- after that time, as I
10 understand it, American's executives who were in --
11 qualified for bonuses, they've been given bonuses amount to
12 an additional 360 million up to the end of 2011?

13 A I'm not -- I'm not familiar with what that number is. I
14 think when we looked -- went back and looked at what the
15 percentage of our targeted compensation was over the last
16 decade, the officers at American earned somewhere between
17 fifty-five and seventy percent of target, including those
18 years in which we received awards under the performance --
19 the performance share program.

20 Q But the performance share program after -- after the
21 year 2003, as I said, that 360 million in bonuses figure is
22 accurate?

23 A I don't know. I don't know what that number is.

24 Q Okay. So the capabilities that you had to -- to
25 determine what was needed to avoid bankruptcy and then to

1 ask for it from the unions, you had that back in 2002-2003,
2 right?

3 A When you say we had it --

4 Q You're -- you're financial planning systems allowed you
5 to make that analysis and determine what you needed?

6 A Well, I think the way that analysis was done was to
7 prepare those proposals based on what we thought was
8 necessary to move our employee compensation to what was then
9 market.

10 Q Okay. And it was a long-range plan, though? It
11 envisioned five years at least?

12 A Well, the contracts were -- were set for five years,
13 but I don't think any of us knew what would follow with
14 regard to further airline bankruptcies and so forth.

15 Q Okay. Yeah. No. Understood. You didn't have
16 necessarily for -- complete foresight. We now have perfect
17 hindsight.

18 A Correct.

19 Q But as of October 2011, when you were in negotiations
20 with the pilots this -- this past round, you had those same
21 capabilities to be able to determine what -- what you needed
22 to ask for in the way of cost reductions. And, in fact, as
23 I understand you asked for concessions from the pilots that
24 would amount to at least \$50 million annually?

25 A I'm sorry. What time frame was this?

1 Q October -- as of October 2011, the negotiating
2 proposals that were being made to the pilots --

3 A Oh, I'm -- you know, I'm --

4 Q -- just a few months ago?

5 A Yeah. I'm -- I'm not -- I'm not the person to ask
6 about what those proposals were. That was not within the
7 purview of my activities at that point. Where I would have
8 become involved, as I mentioned, was to simply have taken
9 the output from the folks in our labor finance group that
10 would have valued those and -- and had -- layered those into
11 the business model.

12 Q Okay. And so they -- they could take, for example, the
13 input that says we're seeking \$50 million a year in
14 reductions from pilot labor over a five-year period
15 projected out, and your model could show the impact on
16 American's financial profile?

17 A That's correct.

18 Q Okay. And did you do that?

19 A Yes, we did. We -- as -- as we ran through some of
20 this with our board, we did take the discussions that were
21 ongoing and, as I say, our -- our labor folks priced those
22 out and we did show what the impact of those changes in the
23 terms of our contract would have had on the salary and
24 benefits line, and any other lines that --

25 Q Sure.

1 A -- would have been implicated.

2 Q And moving to another line, as I understand it, there's
3 also an understanding, I understand from your testimony,
4 that some of the provisions in existing contracts or the
5 terms of expired contracts, in effect, have a -- a cost in
6 lost revenue to American --

7 A Yes.

8 Q -- you know, hundreds of millions of dollars,
9 potentially.

10 A Yes. Very significant amounts.

11 Q And, again, going back to October 2011, as of that time
12 when the proposals were being made to the pilots for
13 concessions, those included concessions asking for
14 substantial contributions to give back some of that value to
15 the company as well?

16 A Well, I think what we were looking for was a
17 modification of those provisions that would have allowed us
18 to operate on more of an even-footing with others in the
19 industry.

20 Q Yeah. You're talking about, for example, scope changes
21 that would allow for bite-sizing or gauging of --

22 A Correct.

23 Q -- your fleet and code-sharing?

24 A Correct.

25 Q Okay. And all of that was part of the proposals as

1 well?

2 A Again, I'm not the one to be able to sit here and cite
3 chapter and verse on what those proposals were. But I know
4 that the concept, generally, was in an effort to achieve
5 those agreements given, as I had mentioned earlier, Mr.
6 Arpi's desire to avoid the course we now find ourselves on,
7 the idea was that there would be some combination of
8 increases or perhaps lump sum payments that would have been
9 coupled with changes in work rules, for example, that would
10 have driven productivity.

11 Q Right. But the net -- the net resulting concessions
12 were at least 50 million and the increased revenue was also
13 an input into the model so you could see the effect of that?

14 A Again, I -- I don't know what the amounts would have
15 been.

16 Q But there -- but that would have been done, whatever
17 the amounts were?

18 A It -- it would have been part of the process we would
19 have undertaken.

20 Q Okay. And -- and those proposals were designed to
21 improve American's financial position?

22 A Again, they were -- they were aimed at -- at trying to
23 reach a consensual agreement.

24 Q And that would have locked in and stabilized your labor
25 costs for at least one group for a period of years, right,

1 five years?

2 A Well, it would have been for -- for -- for whatever
3 term --

4 Q You got the concessions.

5 A -- the proposals were. Yeah.

6 Q Now moving to November, as I understand it on or about
7 November 14th, 2011 --

8 A Uh-huh.

9 Q -- just about two weeks before the Chapter 11 petition,
10 some further proposals were made to the pilots to try to
11 close a deal?

12 A Again, I was not involved in the --

13 Q Okay.

14 A - negotiations.

15 Q But as I understand, there's been -- American at least
16 assigned a value, a costing and valuation to the proposals
17 to go into the business plan model?

18 A Yes.

19 Q And on the cost savings, at least, as I understand the
20 annual cost reductions every year over a five-year period
21 from the pilots ranged between 47 million and 55 million,
22 depending on which option you're looking at?

23 A Again, I -- I don't recall what those numbers were.

24 Q Does that -- does that sound like it's in the ballpark?

25 A I'm just really not the right person to ask that.

1 Q Okay. I appreciate your candor.

2 So now moving to your work with Rothschild --

3 A Yes.

4 Q -- the financial consultants, as I understand it
5 Rothschild was engaged in late October 2011?

6 A That would be right.

7 Q Okay. And --

8 A Well, I should -- I'm sorry. Just to put a finer point
9 on it. That's the point at which we began talking to
10 Rothschild specifically about restructuring. We -- we have
11 an ongoing relationship with them where they would have been
12 advising us on other strategic matters.

13 Q Predating the October 27th engagement?

14 A Correct.

15 Q Were any of those strategic matters within your
16 department?

17 A Yes, they might have been. Some -- some were, some
18 were not.

19 Q Okay. And was Mr. Resnick one of the people that
20 advised you prior to the October 27th engagement?

21 A No. Mr. Resnick wouldn't have been involved because
22 he's on the restructuring side of the house. We would have
23 been dealing with his colleagues who are more traditional
24 strategic advisory bankers.

25 Q Okay. Was Mr. Lawrence one of them?

1 A Yes.

2 Q Okay.

3 A Mr. Lawrence heads up the account for us.

4 Q Okay. And so, at least looking at what Mr. Resnick and
5 his team from Rothschild began doing when -- when his
6 engagement began, my understanding is that he didn't
7 immediately begin working with you on the business plan or
8 any of the outputs of the business plan, but was involved in
9 the advising on the decision whether or not to file for
10 Chapter 11?

11 A That's right because, you know, that decision wasn't
12 made for a -- for a month thereafter.

13 Q Okay. And -- and it's within that approximately one-
14 month period was the entire time period during which
15 American evaluated whether or not to file for Chapter 11?

16 A Yes. It was a -- yeah. That's -- that's the right
17 time frame.

18 Q And so prior to that time there had been no
19 consideration of that?

20 A No formal consideration. Obviously, given the perilous
21 financial condition that we've been in, you know, there was
22 certainly concern regarding our financial condition. But,
23 yes. We didn't do any -- any formal analysis of it until,
24 essentially, the month of November.

25 Q Okay. And I'm not going -- I'm going to try to stay

1 away from any attorney/client conversations and --

2 MR. FLICKER: Your Honor, I -- I rise only because
3 we've been going a very long time and I wonder if this might
4 be a -- or near a point, at least, where we could take a
5 break, give the witness a little bit of a breather, and then
6 start up again.

7 THE COURT: Well, let me ask --

8 MS. KRIEGER: I've --

9 THE COURT: -- what the schedule looks like for
10 this witness. How much more do you have left?

11 MS. KRIEGER: I would probably have about twenty
12 minutes at most, I think.

13 THE COURT: All right. And is there any other
14 cross-examination?

15 MR. TEELE: Your Honor, we have probably fifteen
16 to twenty minutes as well.

17 THE COURT: All right. And what's the anticipated
18 redirect?

19 MR. FLICKER: Right now maybe five minutes.

20 THE COURT: All right. Factoring in the
21 multiplier effect --

22 (Laughter)

23 THE COURT: -- that would take us probably about
24 an hour, a little bit more than an hour. So I would imagine
25 this witness would like to be done today.

1 THE WITNESS: Yes.

2 THE COURT: So if there's a desire to take a
3 break, let's take a short one so we can actually get -- get
4 finished before the end of the day.

5 So it's -- it's about three minutes after five.
6 Let's come back here at ten after.

7 MR. FLICKER: Thank you, Your Honor.

8 THE WITNESS: Okay. Thank you.

9 (Recess)

10 THE COURT: -- unopposed that will be brief. So
11 I'm assuming that we could probably get this done in about a
12 half-an-hour, forty minutes?

13 MR. BAER: Yes, Your Honor. Lawrence Baer, Weil,
14 Gotshal and Manges on behalf of the debtors.

15 There are a total of four matters on, two are
16 contested. We have sought to adjourn the --

17 THE COURT: No, I understand.

18 MR. BAER: -- just one of the --

19 THE COURT: One of them can't be adjourned.
20 There's an opposition to it.

21 MR. BAER: That -- that's correct.

22 THE COURT: And that's fine. We'll just deal with
23 it.

24 MR. BAER: Right. The Debouvoise (ph) firm is
25 handling one the contested matters on for tomorrow. I

1 understand that they are making efforts, even as we speak,
2 to resolve the remaining objections.

3 THE COURT: That's the eighth omnibus?

4 MR. BAER: That's correct, Your Honor.

5 And as to that, if they are unable to move that
6 one -- to resolve the outstanding objections, they expect it
7 will be resolved within twenty to thirty minutes of the
8 Court's time.

9 THE COURT: All right.

10 MR. BAER: As to the remaining matters, the
11 contested and uncontested matters are -- it's our belief
12 that we'll be able to resolve those in fifteen to thirty
13 minutes. So all together under an hour.

14 THE COURT: All right.

15 So in --

16 MR. BAER: And Mr. Gallagher --

17 THE COURT: -- if -- if --

18 MR. BAER: -- I believe has a proposal --

19 MR. GALLAGHER: If I may --

20 THE COURT: Sure.

21 MR. GALLAGHER: -- Your Honor, the debtor would
22 like to suggest, so that we don't lose the entire morning
23 tomorrow, or most of it, that we start at nine for this
24 hearing, adjourned for the omnibus with all people on call
25 to reconvene promptly as soon as the omnibus is concluded.

1 THE COURT: All right.

2 MR. GOFFMAN: I actually, Your Honor, wanted to
3 raise another -- he mentioned the omnibus. I believe that
4 the debtors have submitted to Your Honor a consensual order
5 regarding the bar date, which is, I think -- I think they
6 set in chambers.

7 THE COURT: Yes.

8 MR. GOFFMAN: And -- and if you just want to ask
9 about -- you know, there's a lot of things that have been
10 cued, but the bar -- that had been negotiated and we support
11 the debtors' motion. That has a specific date set in it.
12 And so we're -- we're anxious on our part to have the Court
13 consider it. And as Your Honor is inclined to approve it,
14 (indiscernible as speaker is too far from a microphone) for
15 publication and if the stay is much longer, we're going to
16 want to have a conversation about (indiscernible as speaker
17 is too far from microphone).

18 THE COURT: All right. No. That's fine. I took
19 a look at it. It didn't get addressed sort of the first
20 pass because it has some things that are different than the
21 form bar date order that this Court uses. So that -- that
22 was a bit of a speed bump. So -- but we should be able to
23 get that done tomorrow.

24 MR. GOFFMAN: I really appreciate it. And I think
25 the other thing was --

1 THE COURT: Well, you know --

2 MR. GOFFMAN: -- just more of a -- more of a --

3 THE COURT: Nature abhors a vacuum. So that's
4 fine. So, yeah. I think -- anyone want to be heard in
5 connection with starting at nine o'clock tomorrow. Does
6 that present a --

7 MR. JAMES: We're fine with that.

8 THE COURT: All right.

9 So why don't we -- why don't we do that? We'll
10 resume at nine, then we'll break at ten for an hour so
11 people have some certainty, and then we'll come back at
12 eleven. So from ten to eleven we'll be doing other things
13 and people can wander the city and enjoy the sights.

14 All right. The other thing I did want to briefly
15 mention and I -- this is really for purposes of -- of going
16 forward, by my count we have ten witnesses and we're hoping
17 to get two done a day. We're a little behind on that.
18 Based on the number of times that various names have been
19 invoked, I don't imagine these witnesses are going to be any
20 shorter than the witnesses we've had to date.

21 So in light of that, I want people to look at
22 their examinations, both the things that you need to address
23 in direct that might be dispensed with, such as
24 qualifications, which are in the direct, as well as concerns
25 about repetition. I understand the delicacy of having

1 multiple parties that have an interest and each have their
2 own cross-examinations. But, you know, it's not that hard
3 to get a red pen out and to start deleting things that other
4 people have asked. And I don't think cross-examination
5 doesn't necessarily have to have the beautiful narrative
6 flow of a direct examination. You just need to get your
7 evidence in.

8 So I don't think we had a lot of repetition in day
9 one, but I think we've bogged down in a fair amount of
10 repetition in day two. So, again, I'm -- I'm not blaming
11 anybody. I think it's -- it's just a function of the fact
12 that we have three very interested parties who all have --
13 have a vested and very strong feelings about the case. But
14 I would ask, so that we're not here through 2013, that you
15 do the best you can to try to minimize over lap.

16 Also, I certainly -- some of these questions --
17 and, again, I understand we have the two-week break. There
18 -- occasionally, and again, I don't have a narrative from --
19 from the three unions yet so I -- I -- I'll just throw this
20 out there for what it's worth -- seem to perhaps relate to
21 things you want to know in order to present your case in the
22 nature of discovery as opposed to truly rooted in the 1113
23 inquiry.

24 So to the extent that that can be short-circuited
25 by getting that kind of information from debtors outside of

1 the courtroom so that the hearings don't take a bit of a --
2 sort of a left turn to talk about some extraneous issues,
3 which, while fascinating, if -- if we sort of go the full
4 nine yards on all of them we will be here for a long time.

5 So I just ask people take a look at their
6 examinations and what they're trying to do in light of those
7 observations.

8 The second observation I can't say necessarily
9 fits because, again, I don't have the narratives of how the
10 unions want to argue the 1113 issue, but it's an observation
11 that, perhaps, may fit and I'll leave it to your
12 professional discretion to -- to decide that in the first
13 instance.

14 But in order to be able to get through this
15 hearing with -- with some speed, or just simply not take
16 forever to get through the hearing. I don't even know if
17 we're even talking about achieving any sort of speed. But I
18 just pass that along. So I -- I don't expect anyone to
19 change anything today, but going forward I would really like
20 people to take a look, particularly at the repetition
21 because we -- we can all live without it

22 MR. GOFFMAN: Judge, just one question and
23 (indiscernible as the speaker is too far from the
24 microphone) those comments. The pretrial order provides
25 that there's no discovery after commencement of the hearing

1 other than, I think, some deposition discovery which is
2 scheduled by consent between the parties. I just wanted to
3 ask if Your Honor would reconsider that or are we supposed
4 to --

5 THE COURT: Well, I confess I didn't focus on that
6 and nobody brought it to my attention. What I'm saying is,
7 to the extent that there are questions that, among counsel,
8 you can get answers to and you don't have to get it from
9 witnesses, that's a -- an appropriate way to narrow the
10 amount of time that everyone in this courtroom and -- and
11 the overflow rooms has to sit through examinations. I'm not
12 saying you're not entitled to the information. I'm not
13 saying it might not be a valuable piece in the puzzle. But
14 it -- it might be somewhat tangential to the actual 1113
15 inquiry.

16 So I would ask -- you know, there's very good
17 counsel involved in this case. Everybody is -- is clearly
18 on the ball as to what the issues are, and there seems to
19 have been very good cooperation considering the emotions
20 that -- strong emotions of -- of various folks and clients.

21 So in light of that I feel confident to ask
22 counsel to -- if there are ways to address those kind of
23 issues so that we don't have to get bogged down on -- on
24 those sort of things at the hearing, that that would be
25 helpful.

1 MR. GOFFMAN: Thank you.

2 THE COURT: All right. Thank you.

3 So with that said, speaking of wasting time I've
4 now set us back a few minutes, but I'm confident you can get
5 us started again.

6 MS. KRIEGER: Thank you, Your Honor.

7 BY MS. KRIEGER:

8 Q When we left off I think I had asked you about the
9 period of time before Rothschild formally began working with
10 you to evaluate whether or not AMR should explore and then
11 file a Chapter 11.

12 Without getting into any attorney/client privilege
13 conversations, can you tell me approximately how far before
14 that date of late October 2011 AMR's leadership had at least
15 explored the options and maybe modeled what would happen?

16 A Well, we were, I think, very much focused really up
17 until sort of that time frame within which we -- we hired
18 Rothschild on reaching consensual deals and taking a
19 different path than -- than we find ourselves on today.

20 Q But these were consensual deals that would stave off
21 bankruptcy?

22 A Well, I think the idea was that the -- the goal was to
23 avoid bankruptcy and that -- and that achieving consensual
24 deals would -- sort of twin objectives, right, reach
25 consensual deals and avoid bankruptcy. And that was really

1 the focus well into -- well into the fall.

2 Q And -- and understanding that people could read the tea
3 leaves a bit from the financial performance. At what point
4 was the -- did the objective of avoiding bankruptcy become
5 one of the twin objectives of the negotiations?

6 A Well, I -- I think the -- there was a combination of
7 the continue -- the deterioration -- continuing
8 deterioration in our financial condition. It was becoming
9 readily apparent that we were going to again suffer a very
10 substantial loss.

11 Q Could you give me a point in time about -- put yourself
12 back and give us a time marker?

13 A Well, I think this is all, again, in -- in that sort of
14 late October time frame, if I recall.

15 Q So before the last quarter of 2011 it was not -- there
16 wasn't this issue of trying to avoid bankruptcy or --

17 A Well, I think up until then the objective was very much
18 to avoid bankruptcy.

19 Q Under -- yeah. And -- and so the contemplation that
20 bankruptcy might be looming, when did that come into the
21 picture is what I'm trying to ascertain?

22 A Well, in terms of the -- sort of the formal thought
23 process, it was -- it was within that time frame of, I
24 think, probably late -- late October.

25 Now, you know, as -- as we've -- as we've noted,

1 it was -- it was clear that the company was continuing to
2 generate very large losses and -- and that that was
3 something that was not going to be sustainable indefinitely.
4 But the choice we had made at that point was based on, I
5 think, in hindsight a relatively optimistic assessment of --
6 of how things might line up and with the idea that, you
7 know, as was pointed out earlier, that we would see, I
8 think, more convergence in labor costs than we certainly
9 have that we could adopt what, frankly, we referred to
10 internally as a limp-along strategy that would allow us to
11 continue down the path that we were on with the -- I think,
12 the hope, the -- really the hope that things would line up
13 in such a manner that we could stave (sic) this off.

14 But I think that would have meant that we would
15 have to have seen a robust recovery in demand, a benign fuel
16 environment, and -- and as I mentioned a rapid convergence
17 in -- in labor costs vis-à-vis other -- other carriers. And
18 I think in hindsight, as we look back on that, that was --
19 was -- was probably an unrealistic way in which to approach
20 it, but it was very much the path that we were on based on
21 the direction of our CEO and board.

22 Q Okay. And just so I understand, in November of 2011
23 the APFA exhibit that you were shown showing that
24 convergence analysis in labor costs --

25 A Yes.

1 Q -- that projected -- there wasn't any convergence
2 projected to happen in November 2011 or December, right? It
3 was over the course of the next couple of years?

4 A I -- I believe that's right. I wasn't involved in
5 preparing those analyses.

6 Q Okay. But between the early to mid-November time frame
7 and then November 29th --

8 A Uh-huh.

9 Q -- was that when it became apparent that you weren't
10 getting the convergence you were looking for or --

11 A Well --

12 Q -- the economy wasn't performing the way --

13 A -- I think the economy was not performing the way that
14 we -- we might have anticipated. Certainly, at the time,
15 you know, I think certainly the -- one of the things we did,
16 I believe, at the November 15th board meeting was to look at
17 how our forecast might have stacked up versus what the Wall
18 Street community was -- was indicating about our prospects
19 and use that as a -- as a -- as a stress test or reality
20 check. And --

21 Q And are you talking about the first meeting in November
22 or the --

23 A The first meeting.

24 Q -- November 28?

25 A The first meeting in November.

1 Q Okay.

2 A And, you know, I think -- so, yeah. With -- with
3 another large loss looming, with -- you know, we saw a
4 downgrade in our credit rating, fuel prices were extremely
5 volatile. There was continued uncertainty around the events
6 in the Middle East and in -- in Europe, and with all of that
7 uncertainty around our prospects, I think the view began to
8 evolve that this was not something that we probably could or
9 should stave off.

10 Q And that evolved pretty quickly, as I understand it,
11 within one month?

12 A Yeah. And -- and I think the other -- the other
13 significant factor that we -- that we had under
14 consideration was the fact that -- that at that point we had
15 encumbered virtually all of our easily encumberable assets.
16 And so the cash we had on hand was really liquidity that --
17 that we would -- would need, in our view, to get us through
18 a restructuring where we didn't have the wherewithal
19 necessarily to go out and put any kind of DIP financing in
20 place.

21 So when you looked at the -- at the financial
22 condition of the company, the broader macro-economic
23 conditions, our own liquidity, the recent credit downgrade,
24 and the fact that certainly convergence, which was something
25 we had been talking about for a couple of years, didn't seem

1 to have occurred, we -- we certainly began to think much
2 differently about what the -- what the course was that we
3 should follow.

4 Q Okay.

5 MS. KRIEGER: I wanted to have an exhibit
6 distributed. And as I understand this is the slide Number
7 53, Page 54 of American Airlines' Exhibit 1505.

8 MR. FLICKER: Yes, Your Honor. Actually, Ms.
9 Krieger discussed this with us in advance and 1505 is itself
10 a confidential exhibit and I understand that Ms. Krieger
11 wants to display a Page 53 from that and she -- and we have
12 reviewed that and determined that that does not contain
13 confidential information on the page.

14 THE COURT: All right. Thank you.

15 BY MS. KRIEGER:

16 Q And as I understand it, this is one of the slides from
17 a February 1st, 2012 presentation called, plan for success,
18 which is on the reverse side of the exhibit?

19 A Yes.

20 Q And is this a document that you were involved in
21 preparing?

22 A Yes.

23 Q And did you, in fact, present it?

24 A I did.

25 Q And to whom and on what date?

1 A It was presented to the labor unions and advisors on
2 the morning of February 1st.

3 Q And was it also presented to the UCC?

4 A It was presented to the labor subcommittee of the UCC
5 on that Monday, January 29th.

6 Q The day before or --

7 A That would have been a Monday and then a Wednesday, I
8 believe.

9 Q I see. Okay. And to put this in context, as I
10 understand it, this was a -- a slide -- comprehensive slide
11 presentation walking us through what American's financial
12 situation was, what the business plan projected in the way
13 of revenue increases, cost savings from all sources, and
14 prospects for the future?

15 A That's correct.

16 Q Okay. And on this particular page, if you could focus
17 on the top line of the chart, the header line.

18 A Yes.

19 Q And it says, "2017 needed improvement 3.1 billion."

20 A Yes.

21 Q Could you explain what that represents?

22 A Yes. As we -- as we looked at the objectives that we
23 had set forth in terms of sustained profitability and the
24 various financial metrics that we had established that we
25 believed were appropriate to get us squarely on that that

1 path, we looked at what the changes were that we would need
2 to effect in the business in order to hit those metrics, and
3 it was determined that to do that it -- it would require the
4 \$3.1 billion of improvement.

5 We referenced 2017 simply because it was a six-
6 year forecast we were -- we were -- we were producing.
7 Obviously, some of the things that were in the plan vary
8 from year to year. For example, debt restructuring is a
9 good example. The -- there is variability, obviously, there
10 as to the impact on cash depending on -- on when principal
11 payments would have been done, what kind of interest expense
12 has been reduced and so forth.

13 So we said for purposes of illustrating what the
14 objectives were, we would simply produce this document to
15 discuss what the cash impacts would be in 2017 and kind of a
16 steady state world, assuming the accomplishment of the
17 various components that are shown on this page.

18 Q Okay. And as I understand it, the 3.1 billion is an
19 annual improvement --

20 A Yes.

21 Q -- number in each year? And it's described as a needed
22 improvement and it was -- it was you who determined that
23 that was the needed improvement, correct?

24 A Yes. That, again, reflects the work that we had done
25 with Rothschild to look at what kinds of metrics and targets

1 we should be setting for ourselves as we determined what the
2 appropriate path was to be on as --

3 Q Okay.

4 A -- part of this process.

5 Q But as I understand it, Mr. Resnick or the team from
6 Rothschild didn't give you that 3.1 billion number and say,
7 this --

8 A Oh, no.

9 Q -- is what you need?

10 A We -- we set the metrics, the financial metrics and
11 this was the -- this was the amount as we worked through all
12 of the elements of the plan that -- that is derived from
13 that analysis.

14 Q Okay. But as I also understand Mr. Resnick has
15 testified that he also didn't give you a particular EBITDA
16 target, for example, 14.3 percent or whatever number --

17 A No. That's right. We -- we looked at a variety of --
18 variety of points of reference there. We looked at -- at
19 estimates for -- for other -- other airlines, both in the --
20 in the near term, say the 2012-2013 time frame. We looked
21 at what other airlines had set as targets as they emerged
22 from bankruptcy, and then I think importantly we -- we -- we
23 looked at -- at what kinds of results we would need to
24 achieve to allow us to generate the cash flow and the
25 liquidity that would be necessary to make the investments in

1 our business that we had identified as necessary to allow us
2 to, for example, address the product needs and so forth that
3 are -- that are part of our plan.

4 Q Okay. And, again, just for the sake of completeness,
5 there's been reference to McKinsey Consulting working with
6 you --

7 A Yes.

8 Q -- as well and Mr. Dictor heads up that team. Mr.
9 Dictor also -- and his McKinsey team did not give you that
10 3.1 billion number as the target you need -- you needed to
11 emerge from bankruptcy?

12 A No. That's right. Mr. Dictor and his team were the
13 ones who helped us analyze whether or not we were optimizing
14 our assets from the standpoint of our revenue targets,
15 helped us build the revenue model. But, no. The -- I would
16 say that the targets that we set were developed based on
17 that analysis that I just described with input from
18 Rothschild as our financial advisor.

19 Q Okay. And then the same questions regarding the actual
20 breakdown. As I understand this slide it says that you
21 looked for all possible revenue. You looked for all
22 possible non-labor cost savings and what was left, the gap
23 is referred to on the slide, was a 1.5 billion gap in labor
24 cost savings?

25 A That's correct.

1 Q Okay. And -- and, again, McKinsey didn't purport to
2 give you any opinion or recommendation on whether 1.5
3 billion was the right number?

4 A No. That's right.

5 Q Okay. And the same is true of Mr. Resnick. He didn't
6 say you need to hit 1.5 billion in -- in labor cost
7 reductions as opposed to other kinds of reductions?

8 A No. I -- I -- no. That's -- that's correct. These
9 were all the result of the work we had done with advice from
10 Rothschild to set those targets and then to determine what
11 the components of -- of -- of those improvements would be.

12 Q Okay. Now I have a question about another slide that
13 I've discussed with counsel for the debtors that does have
14 confidential numbers on it. So it will not be projected,
15 but --

16 A Okay.

17 MS. KRIEGER: I would like to ask some questions
18 about --

19 MR. FLICKER: Sure.

20 MS. KRIEGER: -- the presentation

21 THE WITNESS: Okay.

22 MS. KRIEGER: And do it carefully so that, Scott,
23 you'll let me know if I'm saying anything --

24 THE WITNESS: Okay.

25 MS. KRIEGER: -- confidential here.

1 BY MS. KRIEGER:

2 Q There was also a slide in the same presentation that
3 gave a similar kind of breakdown of the four components of
4 revenue improvements that you discussed in your direct
5 testimony this morning.

6 A Yes.

7 Q And as I understand those components were increased
8 revenue flowing from right-sizing your -- your fleet
9 deployment.

10 A Uh-huh.

11 Q From joint business agreements or JBAs, from increased
12 domestic code-sharing and other types of revenue-generating
13 initiatives including product enhancements?

14 A Yes.

15 Q And we have the total number, as I understand, is not
16 confidential because it's on the slide --

17 A Correct.

18 Q -- we're looking at. The total number of those
19 revenue-improving initiatives would add up to 1.0 billion.

20 A That's correct.

21 Q Now, again, was that a target number that was given to
22 you by McKinsey Consultants as the number you needed to
23 reach?

24 A No. That was a number that was developed as a result
25 of the work we did in laying out the network and fleet plan.

1 As -- as we -- as we worked through it, as I -- with
2 McKinsey, we developed the revenue model that would predict
3 what the revenue would be that would be generated by the
4 network that had been laid out.

5 Q Uh-huh. And --

6 A The --

7 Q And as I understand the network --

8 MR. FLICKER: She -- I think she was speaking.

9 MS. KRIEGER: Oh, sorry.

10 THE WITNESS: Yeah. The -- so that provided a
11 baseline. The billion dollars that's shown here is the
12 value attributable to these incremental changes in our
13 business plan that would generate revenue beyond what the
14 network plan itself would -- would produce.

15 MS. KRIEGER: Okay.

16 BY MS. KRIEGER:

17 Q And as I understand it, prepetition the revenue input
18 part of your -- the revenue assumptions in your modeling
19 were at least cognizant of increased value that could be
20 gained from the pilot contract contributing to at least two
21 of those elements; that is, increased code-sharing and
22 better gage use of aircraft?

23 A Those are two elements of this billion dollars.

24 Q Right. And those had been already on American's radar
25 screen before the bankruptcy, correct?

1 A Yes. Clearly, we have -- we have certainly been aware
2 that -- that we have labored under a competitive
3 disadvantage with regard to our scope clause in -- in both
4 of those areas, the --

5 Q Right.

6 A -- the RJs and the domestic code-sharing.

7 Q And you had a revenue assumption of how much in lost
8 revenue you were missing because of those restrictions even
9 before the bankruptcy?

10 A Well, I think -- I'm not sure that we had quantified it
11 in the same way that we have here, but we knew that, for
12 example, the inability to fly more large RJs in a market
13 like Chicago was clearly having an adverse effect on our
14 ability to generate revenue.

15 Q Okay. And you reported to the board of directors in
16 November 2011 that part of your bargaining initiatives were
17 to capture some of that lost revenue, if you will, or
18 contribution from the pilots to improve that side of the
19 balance sheet?

20 A Certainly -- again, I wasn't part of those negotiations
21 so I'm not sure how it was teed up. But, you know, I -- I
22 -- well, I wasn't part of those so I don't know how the
23 various elements of the labor proposals were provided to the
24 board.

25 Q But some value was assigned to them, some significant

1 value, right?

2 A Well, I -- what I would say is that the lack of
3 flexibility was impinging on our ability to optimize the
4 deployment of our assets.

5 Q Yeah. And you wouldn't be seeking those changes if
6 they didn't have significant value to the company?

7 A Yeah. I think we've -- I think we've indicated here --

8 Q Yes.

9 A -- that there is value associated with that incremental
10 flexibility.

11 Q And as I understand it -- and, again, without betraying
12 specific numbers -- of the total 1.0 billion in
13 improvements, the -- I've been authorized to say that -- use
14 the terms the vast majority, the great majority of the
15 dollar amount of that would come from -- is attributable to
16 the pilot contributions in this -- in this breakdown chart?

17 A I would say a substantial majority.

18 Q Okay. And then a component of it that's attributable
19 to increased code-sharing opportunities, just so I
20 understand, at the time this February 1st presentation was
21 given -- again, without saying the actual number associated
22 with it -- is it my understanding correct that the number
23 that is given in the presentation is attributable to
24 estimates of increased code-sharing with Jet Blue out of
25 JFK?

1 A It's -- it's certainly attributable to -- I'm not sure
2 if we -- certainly -- certainly, a code-share with Jet Blue
3 would be something that would be -- something we would be
4 interested in pursuing.

5 Q Okay. Well, let me ask you this. I've been -- it's
6 been represented by the McKinsey expert in his testimony so
7 far that the --

8 MR. FLICKER: Hold on a second. Before we get
9 there --

10 MS. KRIEGER: Oh.

11 MR. FLICKER: -- do you know whether that
12 representation was done under a protective order? Okay. It
13 would have been confidential representations in a
14 deposition.

15 MS. KRIEGER: Okay. All right. Let me step back
16 from that, then.

17 BY MS. KRIEGER:

18 Q Are you aware of whether or not the new revenue model
19 from AMR's restructuring business plan has assigned any
20 value to any potential code-share agreements other than with
21 Jet Blue?

22 A Well, we've -- we've assigned a -- a value relating to
23 the code-share, and I think it's fair to say that -- that it
24 is the Jet Blue relationship that -- that stands behind that
25 valuation.

1 Q That makes up that number right now?

2 A Yes.

3 Q Okay. So is there -- has -- has anybody separately
4 looked into valuing other potential code-share relationships
5 that I think the testimony has been that American is seeking
6 from the pilots?

7 A We've not specifically put values to it.

8 Q Okay. And is there any -- is it -- is it because
9 there's nothing right now in the offing?

10 A You know, that's -- that's an area that -- that lies in
11 our planning organization. So I'm not sure what the -- what
12 the things they may be thinking about might or might not be.

13 Q Okay. So if there were additional code-sharing
14 opportunities beyond Jet Blue at JFK, those could add
15 additional contributions to the revenue side of this chart
16 that we're looking at?

17 A Again, I -- that's -- I think that's theoretical. I
18 have no idea if it's -- if it's -- if it's -- if it's
19 realistic.

20 Q Okay.

21 MS. KRIEGER: At this time I would like to move
22 the admission of the document that's been shown to the
23 witness as APA -- I believe -- are we up to Exhibit 6?

24 THE WITNESS: It says 4.

25 UNIDENTIFIED SPEAKER: We're on 4.

1 MS. KRIEGER: 4.

2 THE COURT: All right. And just remind me again
3 what -- this is part of another exhibit and what was the
4 number on that?

5 MS. KRIEGER: American Airlines Exhibit 1505 --

6 THE COURT: 1505.

7 MS. KRIEGER: -- which is appended to the
8 declaration of Denise Lynn, I believe.

9 THE COURT: All right. Any objection to -- I
10 can't imagine there would be one since this is part of
11 another exhibit -- but APA Exhibit 4, which is part of 1505?

12 MR. FLICKER: No objection, Your Honor.

13 THE COURT: All right.

14 (APA's Exhibit Number 4 was admitted)

15 MR. GOFFMAN: Your Honor, just -- just for the
16 record, Counsel in the examination made reference to a page
17 that she was referring to that was not -- it was
18 confidential.

19 MS. KRIEGER: Oh, yes. The page that I referred
20 to that had the actual breakdown that I did not discuss in
21 detail is Slide Number 40 and -- of the same exhibit, 1505.

22 THE COURT: Thank you.

23 MS. KRIEGER: Thank you, Jack.

24 BY MS. KRIEGER:

25 Q And, finally, just before leaving this APA Exhibit 4,

1 if you can recall, was the value -- the dollar value
2 assigned to the pilot code-sharing and scope relaxation
3 proposals before the petition the same as the value that was
4 assumed and carried forward in the model to contribute to
5 this post-petition business plan?

6 MR. FLICKER: I'm going to object to that, Your
7 Honor. It assumes facts not in evidence.

8 THE COURT: You want to say that again?

9 MS. KRIEGER: Okay.

10 BY MS. KRIEGER:

11 Q As I understand in the post-petition business model
12 there has been a value assigned on the revenue side, a
13 substantial value to the changes proposed in the scope
14 clause and in the code-sharing provisions of the collective
15 bargaining agreement with the pilots, correct?

16 A Yes.

17 Q And prior to the petition American Airline had been
18 bargaining for changes in the scope and relaxation of
19 alleged restrictions in code-sharing, correct?

20 A Uh-huh.

21 Q Was there a change in the value that went into the
22 input side of the revenue model before and after?

23 A It was --

24 MR. FLICKER: Wait. I'm sorry. That's where I
25 have an objection --

1 MS. KRIEGER: Oh.

2 MR. FLICKER: -- because it's presuming that there
3 were values before and after.

4 MS. KRIEGER: Well, I believe that it was reported
5 to AMR's board that there was going to be substantial value
6 obtained from these --

7 THE COURT: Yes, but --

8 MS. KRIEGER: -- if these --

9 THE COURT: -- I don't want to say anything that's
10 going to tell the witness how to answer the question. But I
11 -- I think I'll sustain the objection to the form of the
12 question, but there's --

13 MS. KRIEGER: Okay.

14 THE COURT: -- probably a way you can address
15 that.

16 MS. KRIEGER: Okay. Let me rephrase that.

17 BY MS. KRIEGER:

18 Q Prior to the petition there was a revenue model that
19 was part of your business planning and it did account for
20 and was able to account for increases in revenue that could
21 be generated by changes in contract restrictions?

22 A Correct.

23 Q And there was input into that -- or input into that
24 would include increased code-sharing opportunities and
25 increased right-size gauging of fleet deployed on particular

1 routes, correct?

2 A There could have been. Those inputs were provided by
3 our revenue management department and I don't know exactly
4 how they would have thought about those inputs when those
5 assumptions were provided to us.

6 Q Okay. But you do recall they did put in those types of

7 --

8 A I --

9 Q -- inputs?

10 A I don't know.

11 Q Okay.

12 A I don't know.

13 Q All right. Thank you.

14 Now I just have a couple of wrap up questions.

15 As I understand it the original business plan that
16 you presented included the provision that termination of
17 pension plans was a requirement in order to emerge from
18 bankruptcy?

19 A Correct.

20 Q And that subsequently changed?

21 A Correct.

22 Q And was there any change made in any of the costs or
23 revenue allocations and target numbers as a result of that
24 change?

25 A The decision to freeze instead of terminate the

1 pensions resulted in a relatively substantial increase in
2 the amount of cash that the company will -- will contribute
3 to those plans going forward. But we did not, as a result
4 of that, change -- increase the cost savings targets that we
5 had established. We instead chose to address that through
6 the concept of a rights offering.

7 Q Okay. And the rights offering was -- is that a --

8 MR. FLICKER: The amount is confidential.

9 MS. KRIEGER: Okay.

10 BY MS. KRIEGER:

11 Q There was a substantial amount of rights offering, a
12 dollar value in sizing that was assigned to that on exit?

13 A That was -- that was the -- yes. That was a change we
14 made in the way we were modeling things.

15 Q Okay. And then as I understand it, your financial
16 advisor, Rothschild, Mr. Resnick, presented a declaration
17 that said that freezing the pension then required that AMR
18 go out to the market and get that equity raise on exit?

19 A I -- I think that's the way it was presented
20 originally. I think -- I don't want to -- I think the way
21 we are thinking about it currently is that -- is that that's
22 something that we will assess -- the need and the size is
23 something that we would assess as we emerge from bankruptcy,
24 depending on our liquidity and our prospects at that time.

25 Q Okay.

1 A But it is still a component of the business plan as it
2 exists today.

3 Q And as I understand in Paragraph 59 of your declaration
4 that's been submitted you do state that carrying these
5 pension-funding obligations from the freeze "will require
6 AMR to raise additional capital to address this liability on
7 its balance sheet"?

8 A Yes. But as I -- as I mentioned, I think -- I think
9 the view is that that's something we will continue to keep
10 under consideration.

11 Q Okay. And are you aware that then subsequent to the, I
12 guess, business plan model 2.0 that was presented that laid
13 out this required equity raise, that has subsequently been
14 changed to a version 3.0 --

15 A Yes.

16 Q -- and Mr. Resnick has amended his declaration to state
17 that the pension freeze no longer requires an equity raise
18 upon exit?

19 A Right, which I think is -- well, I -- I think what his
20 declaration says is that it's something that we will
21 consider as we move through this process and assess our
22 prospects as we emerge.

23 Q Okay.

24 A And -- and we have, as a result of the changes we made
25 in the context of business plan 3.0, we have reduced the

1 amount that we have in there as -- as reflective of the fact
2 that in -- in the changes we made in 3.0 the changes
3 resulted in an increase in our -- in our cash over the
4 forecast period.

5 Q Right. And so you've reduced -- in your plan you've
6 reduced it, but your testimony is still that that's required
7 in your view?

8 A No. I think what I -- I think what I -- what I said
9 earlier is -- is consistent with what Mr. Resnick has said,
10 is that as our -- our thoughts about this have evolved, that
11 the -- that -- that it's -- the act of raising the equity
12 and the size of the equity raise is something that we will
13 consider given the facts and circumstances at the time of
14 the emergence.

15 Q Yeah. And as I understand he -- there were two changes
16 to his opinion: First, he --

17 MR. FLICKER: Hold on.

18 BY MS. KRIEGER:

19 Q -- he removed the opinion that --

20 MR. FLICKER: I object --

21 THE COURT: Hold on a second. If you're going to
22 make an objection, you really --

23 MR. FLICKER: All right. Let me get up and --

24 THE COURT: -- need to stand and --

25 MR. FLICKER: -- just do it.

1 THE COURT: -- and make it because I actually
2 couldn't hear you. I was lip-reading when I saw the word
3 objection.

4 MR. FLICKER: Sorry.

5 THE COURT: I saw it. I didn't hear it.

6 MR. FLICKER: All right.

7 THE COURT: Object. What's the basis?

8 MR. FLICKER: The objection is, Your Honor, that
9 we're going to have Mr. Resnick here and in the interest of
10 getting this witness off the stand --

11 THE COURT: Yeah.

12 MR. FLICKER: -- can we just avoid reading his
13 declaration to this witness?

14 THE COURT: I think she's answered the question
15 about what she thinks the current thinking about the rights
16 offering is. So if there's another question you can ask
17 that, but I think that that's -- that particular topic about
18 what the current thinking is, from her point of view, has
19 been well covered.

20 MS. KRIEGER: Okay.

21 BY MS. KRIEGER:

22 Q I -- what I wanted to close on was simply that there
23 are -- there are two things. There may be some equity or
24 capital raise required, but you're not sure whether that's
25 the case and how much?

1 A That's right, because that's several months from now
2 and, you know, in the airline business a lot can change in a
3 handful of months.

4 Q Right. And in addition to that, your expert has now
5 concluded that that is no longer a requirement because of
6 the pension freeze?

7 THE COURT: All right. I'm just -- we -- I've
8 heard that question a couple of times in various forms. So
9 I'm -- I'm going to sustain my own objection.

10 (Laughter)

11 BY MS. KRIEGER:

12 Q You -- you mentioned that the -- earlier in your direct
13 testimony that -- when you were asked about information
14 available to the unions I believe you referred to the fact
15 that at least one union sat on a fleet subcommittee in this
16 bankruptcy?

17 A I believe so.

18 Q Okay. Is it not correct that a union who is sitting on
19 that subcommittee is not allowed to use any information that
20 it receives in that capacity for bargaining or for the
21 Section 1113 negotiations or discussions?

22 A I think that's consistent with the protocol, but I -- I
23 think that's right.

24 Q Okay. So that's not a viable way of getting
25 information to the union?

1 A That's a fair point.

2 Q Okay. And a question about APFA Exhibit Number 3,
3 which, again showed some labor cost comparisons. Mr.
4 Clayman, I believe, focused on the pages that he had you
5 look at, showed some breakdowns and some labor gap
6 assessments for flight attendants. Those also include
7 similar numbers for pilots as well, correct?

8 A Correct.

9 Q Okay.

10 THE COURT: All right. We're now on -- close to
11 forty --

12 MS. KRIEGER: Let me --

13 THE COURT: -- minutes, so how much --

14 MS. KRIEGER: Let me take a moment.

15 THE COURT: -- more do you have left?

16 MS. KRIEGER: One minute, I think..

17 THE COURT: All right. I'm going to hold you to
18 that.

19 (Pause)

20 MS. KRIEGER: No further questions at this time.
21 Thank you very much.

22 THE WITNESS: Thank you.

23 THE COURT: All right. Thank you.

24 Mr. Teele.

25 MR. TEELE: Good afternoon, Your Honor. For the

1 record, Jason Teele, on behalf of the TWU.

2 CROSS-EXAMINATION

3 BY MR. TEELE:

4 Q Good afternoon, Ms. Goulet.

5 A Good afternoon.

6 Q Other counsel covered an awful lot of ground over the
7 past several hours, so I'm going to try to cover only new
8 things or things that are particularly important to the TWU.

9 And I have a couple of questions relating to your
10 statements in your declaration. But before I move into
11 that, in -- you assumed your current position in 2002,
12 right?

13 A Correct.

14 Q So the turn-around plan that was the business model in
15 2003, you were aware of that as -- as part of your normal
16 course of duties; is that right?

17 A Yes.

18 Q Did you have any role in preparing the turn-around
19 plan?

20 A Well, the turn-around plan, much like flight plan 20/20
21 was the shorthand way of describing all of the initiatives
22 that the company was putting in place and the actions the
23 company was taking to return the company to profitability
24 and, you know, there were three or four elements of the
25 turn-around plan just as there are four or five elements of

1 flight plan 20/20 that -- that effectively say that -- that
2 you need a company that makes money, that has a reasonably
3 strong balance sheet; that's -- you know, that can invest in
4 its product, et cetera, et cetera. I mean, it's -- it --
5 you know, when I think about labels like that it's -- it's
6 -- it was really intended, I think, as a shorthand way of
7 being able to communicate particularly with employees about
8 what the priorities of the company were.

9 Q And did you have any -- any role in formulating what
10 those priorities were?

11 A I don't think in terms of setting forth the four or so
12 items that -- that constituted, you know, "the turn-around
13 plan." I wasn't involved in that. No.

14 Q Okay. And the current business plan that you've talked
15 so much about today, you indicated that had been vetted by
16 professionals such as McKinsey, possibly even Rothschild and
17 other professionals have looked at it and tested it for the
18 company; is that right?

19 A Well, the professionals certainly each had, I would
20 say, different roles with regard to the business plan. I
21 would say McKinsey, as -- as an airline expert -- was
22 specifically brought in to vet the business plan in terms --
23 in terms of the revenue generating capabilities, the cost
24 structure, and -- and so forth of the business. Rothschild
25 was playing a different role as -- as our financial advisor

1 as it related to things like setting financial metrics.

2 Q Do you know if any professionals such as a McKinsey
3 firm vetted the revenue potential of the elements that went
4 into the turn-around plan in 2003?

5 A I don't recall.

6 Q And it turns out, in hindsight, that there were -- that
7 the turn-around plan or the elements that were -- that went
8 into that concept were insufficient for -- for the company
9 to be profitable; is that right?

10 A Yes. That's correct.

11 Q And there came a time in, I guess it was 2011 or so
12 that flight plan 20/20 came into existence?

13 A Yes.

14 Q And it was the same kind of concept as the turn-around
15 plan, a bunch of elements designed to return the company to
16 profitability; is that right?

17 A Yes.

18 Q And do you know if any company such as a McKinsey firm
19 vetted the revenue potential of the flight plan 20/20?

20 A We have certainly had consulting firms in -- on a
21 variety of assignments, I think some of which were aimed at
22 the revenue-generating capabilities of the company. I was
23 not involved directly in any of those assignments, so I
24 don't know specifically what they were asked to look at.

25 Q And it turned out, in hindsight, like the turn-around

1 plan of 2003 that the flight plan 20/20 components were
2 insufficient to return the company to profitability; is that
3 right?

4 A Well, I think it's clear that the company lost a lot of
5 money over the course of the decade, so I think that was
6 certainly attributable to the fact that our -- I would say
7 primarily attributable to the fact that our costs and
8 particularly our labor costs were not competitive with the
9 rest of the industry, and to the extent that -- that -- that
10 we can't set the prices that we charge for airline tickets
11 independently of the rest of the industry, that we found
12 ourselves in a continuing competitive disadvantage.

13 Q Well, you -- you just said in response to that, that
14 the labor costs of American were not competitive to the rest
15 of the industry, yet in your declaration when you talk about
16 the \$1.6 billion of labor agreements or labor concessions
17 that were achieved in 2003, you say that those savings were
18 "parallel to those US Airways had obtained in its first
19 bankruptcy and United Airlines was then seeking from its
20 union represented employees early in its bankruptcies
21 cases."

22 A Right.

23 Q That's correct? That's --

24 A That's correct. But what we obviously didn't know at
25 the time was that US Airways would go through a second

1 bankruptcy. United was only then in the first year of a
2 three-year bankruptcy and I think they went back to the well
3 a couple of times. And then, obviously, subsequently
4 thereto Delta and Northwest both filed. So the
5 circumstances surrounding the competitive or uncompetitive
6 nature of our labor costs continued to evolve over the cost
7 of the decade.

8 Q Do you have your declaration up there in front of you?

9 A Yes, I do.

10 Q Could you turn to Page 5, and I'm looking at Exhibit
11 104, which is entitled, AMR net earnings.

12 A Page 5. Yes. I've got it.

13 Q In 2003 when the labor concessions were achieved,
14 almost immediately thereafter the company started reaping
15 the benefits of the -- of those concessions, did they not?
16 The revenue for the next couple of -- several years trended
17 upwards; is that correct?

18 MR. FLICKER: Objection. Mischaracterizes the
19 evidence.

20 MR. TEELE: I'm asking her a question about --

21 MR. FLICKER: Oh, yeah. I think you used the word
22 revenue. That's all.

23 THE WITNESS: Yeah. These are earnings.

24 MR. TEELE: I'm sorry. I apologize.

25 BY MR. TEELE:

1 Q The earnings --

2 A Yes.

3 Q -- trended generally upwards for the next several
4 years; is that right?

5 A They did, although, obviously, we continued to incur
6 losses for two or three of those years.

7 Q But significantly fewer losses, right, until --

8 A Yes.

9 Q -- significantly fewer losses, right? And if I turn --
10 if you turn with me quickly to Page 25 of your declaration
11 and Exhibit 119 -- are you with me?

12 A Yes, I am.

13 Q The blue bar on that chart which represents the
14 adjusted net debt of the company --

15 A Yes.

16 Q -- that is trending down in the several years after
17 2003; is that right?

18 A That's correct.

19 Q And if you turn further to Page 31, that is,
20 essentially, the same chart as Exhibit 119 except it rolls
21 it forward from 2008 to 2011?

22 A That's correct.

23 Q Is that right?

24 A Yes.

25 Q And at the end of 2011, the net debt was less than --

1 the adjusted net debt, excuse me, was less than the adjusted
2 net debt in 2003, if you refer that back to 119 -- Exhibit
3 119; is that right?

4 A The -- I'm sorry. Did you say 2003?

5 Q Yes.

6 A If I'm reading this correctly, the adjusted net debt in
7 2003 was seventeen-and-a-half billion, yes, and in 2011 it
8 was 12.8 billion.

9 Q So in '11 it was less than in '03, correct?

10 A Yes.

11 Q If you could turn to Page 6 of your declaration, it's
12 Exhibit 105. If I understand this chart correctly, and tell
13 me if I don't, this is the chart that shows --

14 A I'm sorry. I think I missed your reference there. You
15 said Paragraph 6?

16 Q No. Page 6 --

17 A Page 6. Okay.

18 Q -- Exhibit 105.

19 A Okay.

20 Q That's a chart that shows -- that ranks the world's
21 largest -- ten largest airlines according to available seat
22 miles in May of 2012; is that right?

23 A Yes. The schedule for May of 2012.

24 Q And that only shows May of 2012. It's not a trailing
25 period of any -- of any length of time?

1 A I believe that's right. It would show as of -- as of
2 that schedule.

3 Q And this -- this schedule shows that United was Number
4 1 at 21.7 billion ASMs in May of 2012?

5 A Yes.

6 Q And American was fourth with fourteen-and-a-half-
7 billion?

8 A Yes.

9 Q If you were to combine American's ASMs in that month
10 with US Airways ASMs in that month, would it put American at
11 the top of that chart? 14.5 --

12 A Simple math would say --

13 Q -- and 7.9?

14 A -- yes. It would be 22.4.

15 Q And if you turn with me, please, to Page 30 of your
16 declaration, Exhibit 123.

17 A Yes.

18 Q On the left side of that exhibit it shows capacity by
19 ASM in 2003; is that right?

20 A Correct.

21 Q And that shows that American was number one in capacity
22 at that point in time, right?

23 A Yes.

24 Q And on the right side it shows the same information for
25 the summer of 2011 and it shows American dropped down to

1 third place; is that right?

2 A Correct.

3 Q And it also shows that US Airways was last at least of
4 the -- of the airlines shown there, correct?

5 A Yes.

6 Q So if -- if American -- if you add American and US
7 Airways together, on the right side of that chart that shows
8 the '11 figures, the 2011 figures, would that put American
9 at the top of that chart?

10 MR. FLICKER: I'm going to object to that. That
11 particular question assumes that all you need to do is do
12 the math and then that puts American at the top of the
13 chart. That's a different question.

14 THE COURT: I'll let her answer for what it's
15 worth.

16 THE WITNESS: Yeah. I mean, if -- if what you're
17 asking me is that you simply add those two sets of ASMs
18 together, yeah. The answer is that it would be slightly
19 larger.

20 BY MR. TEELE:

21 Q So has -- has the company considered whether its
22 competitive -- its challenges as a competitive airline arise
23 from the lack of consolidation in --

24 A I think we've -- I think we've identified a whole
25 series of reasons that we're in the circumstances we're in.

1 I think, certainly, the consolidation has had some role in
2 that. But I think there are other drivers as well, not the
3 least of which is our cost structure.

4 Q Right. So you've identified some other factors such as
5 you've identified downward pressure on fares?

6 A You mean broadly as it relates to --

7 Q Correct. You state in your declaration that the
8 downward pressure of -- on fares of the transparency caused
9 by internet ticketing, for lack of a better term, is one of
10 the factors contributing to American's challenges; is that
11 right?

12 A Yeah. I think that's been an industry-wide --

13 Q Okay.

14 A -- impact.

15 Q But you cite it specifically --

16 A Sure.

17 Q -- as --

18 A Absolutely.

19 Q -- as a challenge to American, right?

20 A Absolutely.

21 Q And you also cite competition from low cost carriers
22 such as Southwest as one of the challenges?

23 A Yes.

24 Q Under the -- American's business plan as you formulated
25 it so far, do you expect that fare pressure and competition

1 from low -- low cost carriers is going to abate in the near
2 future?

3 A No.

4 Q You also cite, as a challenge to American's business
5 position, American's debt burden?

6 A Yes.

7 Q You also cite falling -- or I'm sorry -- capital
8 expenditures falling to unsustainably low levels; is that
9 right?

10 A Yeah. Now all -- all of the things you're discussing
11 were -- were things that we've -- we've experienced over the
12 course of the last decade.

13 Q Which have led American to where --

14 A Right.

15 Q -- it is today?

16 A Yes.

17 Q And you've cited these things as reasons why American's
18 competitive position has been eroded over the last decade as
19 you say; is that right?

20 A Yes.

21 Q You also cite, obviously, an increase in operating
22 expenses, which would include labor over the last decade --

23 A Correct.

24 Q -- as one of the reasons? You cite rising fuel costs
25 as one of the reasons as well?

1 A Yes.

2 Q And you expect --

3 THE COURT: Counsel, do we need to go through each
4 one of these reasons as they're in her direct? It's almost
5 6:20 in the evening. I think they're all in there, so --

6 MR. TEELE: Your Honor, I feel like the student
7 who forgot to remind the teacher to assign homework. So the
8 answer is, no. We don't have to go through each one
9 individually.

10 THE COURT: Well, I mean, if -- if you can explain
11 to me why it's relevant, I'm happy to hear it.

12 MR. TEELE: Well, it -- it's relevant, Your Honor,
13 because American, not just through Ms. Goulet, but generally
14 in their briefs and the general theme that runs through all
15 of the evidence is that the company is in the competitive
16 position that it's in now or the lack of competitive
17 position that it's in now primarily because -- and I think
18 those are the exact words that Ms. Goulet uses in her
19 declaration -- of labor costs.

20 THE COURT: Well -- well, then ask her that
21 question. Again, I'm -- I make a point of reading all these
22 documents and spending some time with them so that I can --

23 MR. TEELE: We'll move -- I can -- I can move on,
24 Your Honor.

25 BY MR. TEELE:

1 Q You -- you talk -- if you could turn to -- it's Page
2 12, Paragraph 17 of your declaration, but it's really the
3 follow on page -- Page 13 where you -- you talk about
4 American's acquisition of assets of TWA and you say that in
5 hindsight, given certain events such as, you cite the events
6 of September 11th -- that the acquisition of the TWA assets
7 was ill-timed because, among other things, demand -- demand
8 dropped precipitously, right?

9 A Yes.

10 Q Yet in -- in your cross-examination earlier this
11 afternoon, you talked about the airline or the airplane
12 order that American has made --

13 A Uh-huh.

14 Q -- which I think has been termed by some as the largest
15 airline order in history. What evidence or information do
16 you have or does the company have available to it to suggest
17 that that airline order -- airplane order, which has been
18 termed the largest one in history, won't turn out, in
19 hindsight, to be ill-timed?

20 A Well, if -- if you can -- well, I don't think any of us
21 could have foreseen the events of September 11th. And I
22 think, as I say in my declaration, there are a lot of
23 exogenous events that can affect the industry very
24 dramatically.

25 However, in the case of an air -- of an airplane

1 order as -- as -- of the sort that we just placed, one of
2 the -- one of the governors we have on how we can think
3 about that is that, as I think I show elsewhere in here, our
4 fleet is certainly aged at this point. And -- and so if
5 there were to be an event of that sort that would cause a
6 significant decline in demand, one of the things we could do
7 is simply retire more older aircraft faster, which would,
8 you know, have the effect of allowing, you know, the -- a
9 larger percentage of -- of the fleet to be operated with
10 new, more fuel-efficient, maintenance-efficient aircraft.

11 Q And American Airlines can retire aircraft unilaterally
12 without any -- free of any restrictions of any leases or
13 agreements or anything else like that?

14 A For the most part we have some pretty substantial
15 flexibility to do that.

16 MR. TEELE: Your Honor, if I could just have one
17 minute? I'm going to --

18 THE COURT: Sure.

19 MR. TEELE: -- try to only cover things that we
20 have to cover.

21 (Pause)

22 MR. TEELE: I think just one more question.

23 BY MR. TEELE:

24 Q If you can, in Paragraph 43 you -- you have a statement
25 that says, "Mr. Horton told union leaders that this" --

1 meaning the business plan --

2 A Wait. I'm sorry. Did you say Page 43 or Paragraph 43?

3 Q Paragraph 43.

4 A Okay. Sorry.

5 MR. FLICKER: You'll see it on Page 34.

6 THE WITNESS: Okay.

7 BY MR. TEELE:

8 Q It says, "Mr. Horton told union leaders that this was
9 his plan and that he was totally committed to making the
10 plan work," et cetera.

11 A Yes.

12 Q Do you see that?

13 A Uh-huh.

14 Q Has -- has this business plan been adopted by the
15 company's board of directors?

16 A Yes.

17 (Pause)

18 MR. TEELE: Your Honor, I -- I think that given
19 all the other cross today we can wrap up -- I can wrap up
20 there.

21 THE COURT: All right.

22 MR. FLICKER: Your Honor, just briefly for the
23 record, Jay Goffman on behalf of the committee. As we said
24 in our opening statement and based on Your Honor's pretrial
25 order (indiscernible as the speaker is far away from a

1 microphone) we have no questions of Ms. Goulet as it relates
2 to the business plan and the Section 1113 proceeding.

3 THE COURT: All right.

4 All right. So let me just briefly ask folks what
5 the plan is going forward for the rest of the week. We've
6 now -- and -- and you can -- you can step down. You're
7 excused.

8 Oh, I'm sorry. You have redirect? I -- overly
9 optimistic.

10 (Laughter)

11 THE WITNESS: I'm eager --

12 MR. FLICKER: I have actually, I think, one
13 question, Your Honor.

14 REDIRECT EXAMINATION

15 BY MR. FLICKER:

16 Q Is it accurate to say that the business plan that
17 United has put forth here going forward -- oh, my goodness.
18 Let's try that again.

19 Is it -- let me -- let me try that again. Is it
20 correct to say that the business plan that American Airlines
21 has put forward here does not contemplate any competitive
22 response by the other major airlines?

23 A No. I -- I -- if that's what I said, it's -- I stated
24 it badly. I think the way to think about it is that as we
25 planned our network, we were -- we were quite careful to

1 think about the markets where we would -- where we would
2 grow and the rate at which we would grow in order to ensure
3 that we didn't let supply outstrip demand. And I think in
4 that regard, we believe that -- that to the extent that
5 there should not be a -- an impact on equilibrium, it could
6 be something that could be absorbed by the industry in -- in
7 the -- in the way that we've brought it forward.

8 Q So the assumption is that competitors will respond, but
9 they'll respond proportionality to the balance in the
10 market?

11 MR. CLAYMAN: Your Honor, I just would object and
12 there's a limit --

13 THE COURT: Sustained.

14 MR. CLAYMAN: -- our meaning --

15 THE COURT: It's -- it's redirect. Ask her a
16 question. Who, what, where, why, when and she'll tell you
17 what she thinks.

18 MR. FLICKER: Okay. I'm going to let the
19 witness's answer stand and I have -- I have no further
20 questions.

21 THE COURT: All right. Any recross?

22 MR. FLICKER: At this time, Your Honor, I would
23 like to move into evidence Goulet 100-A and the exhibits
24 that were sponsored by this witness which are 101 through
25 135-A.

1 THE COURT: All right. Let's take the direct
2 testimony first in 100-A, and I believe you can step down,
3 ma'am.

4 THE WITNESS: Thank you.

5 THE COURT: Any objection to the direct testimony?

6 MR. DEAN: No objection.

7 THE COURT: All right.

8 MR. MEYERHOFF: Your Honor, if I may? Sorry to
9 interrupt. I will be brief. On behalf of PBGC we have some
10 objections to the direct, but I would want to address them
11 quickly.

12 THE COURT: All right. Have at it.

13 MR. MEYERHOFF: It will take a second.

14 Your Honor, there -- there are a couple of -- Gary
15 Meyerhoff from SNR Denton on behalf of the PBGC.

16 THE COURT: Ma'am, you can -- you can --

17 THE WITNESS: Okay.

18 THE COURT: I would get while the getting's good.

19 (Laughter)

20 MR. MEYERHOFF: There are a couple of paragraphs
21 in the -- in the Goulet declaration and one exhibit that
22 relate to pension obligations, which is why we objected.
23 But heeding the Court's request to try to limit our
24 intrusions, and since this is the first time the issue has
25 arisen, I think what we would like to do is proceed as

1 follows:

2 We would like to point out that the PBGC is
3 relying on Paragraph 8 of the Court's order which governs
4 these proceedings and says, in sum and substance, that the
5 record established here shall not be preclusive or binding
6 in other proceedings in the case. And with that in place
7 and the PBGC relying on it, instead of arguing evidentiary
8 issues that we have, we request that our objections on Ms.
9 Goulet's declaration be preserved and that we'll present
10 contrary evidence in our --

11 THE COURT: If the need arises.

12 MR. MEYERHOFF: -- submissions and argument as to
13 why it might not be relevant, and that that way we can try
14 to keep our -- away -- keep out of the way of the evidence.
15 As long as the debtor is comfortable with that, that's how
16 we --

17 THE COURT: Any --

18 MR. MEYERHOFF: -- would like to proceed.

19 THE COURT: -- objection to that --

20 MR. FLICKER: No, Your Honor. No objection.

21 THE COURT: -- with it proceeding -- no. Again,
22 since I don't think we heard any testimony other than
23 perhaps inadvertently as a matter of background on this
24 particular issue, it seems like a prudent way to proceed.

25 MR. MEYERHOFF: And we will have similar

1 situation with some of the remaining witnesses and we'll --
2 assuming the evidence comes in in a way that allows us to
3 take the same position we'll do so.

4 THE COURT: All right.

5 MR. MEYERHOFF: Thank you.

6 THE COURT: All right. I'll try this again. Any
7 -- any other objections to the direct testimony in the form
8 of the declaration that's 101-A --

9 MR. FLICKER: It's 100-A, Your Honor.

10 THE COURT: I'm sorry. 100-A?

11 (No verbal response)

12 THE COURT: All right. With a reservation of
13 rights of the PBGC consistent with the prior order that's
14 been entered I will admit the direct testimony.

15 (Debtors' Exhibit Number 100-A was admitted)

16 THE COURT: Any objection to the exhibits?

17 MR. DEAN: No objection, Your Honor.

18 THE COURT: All right. I will also receive those
19 into evidence as well.

20 (Debtors' Exhibit Numbers 101-135-A were admitted)

21 MR. FLICKER: And I have one question about the
22 housekeeping of receiving these exhibits. Obviously, the
23 books that we have given you include the exhibits that were
24 filed under seal subject to a -- a request for an order from
25 the Court on sealing.

1 For the -- for the clerk's office and the public
2 court file, do we need to do anything further to -- to deal
3 with the sealing?

4 THE COURT: I -- I would think that as a matter of
5 creating a public record, given interest in this case, that
6 what you could do is file -- if you have not already done
7 so, and I confess I haven't checked -- the exhibits in their
8 redacted form as they're admitted. And if there's any
9 particular nomenclature or magic wording, just chat with
10 each other just to make sure that everybody is on the same
11 page because I imagine that's exactly -- you'll -- you'll
12 face the same issues -- you'll face the same issues if we're
13 back here again in a couple of weeks.

14 So -- but I do think it's appropriate to make a
15 record. I obviously have, for lack of a more artful term, a
16 pile of things and what I'll ask is at the end of the
17 proceeding that the parties work out and let me know and
18 submit a joint list of everything that's been submitted into
19 evidence so that I absolutely, positively have it right. I
20 have a running total, but it's always helpful to have the
21 parties' list just as a backup to make sure I don't stray.

22 MR. FLICKER: Yes, sir.

23 And from the debtors' case so far I believe every
24 exhibit that we have offered up has been filed in a -- in a
25 redacted version in the public docket as well.

1 THE COURT: All right.

2 All right. And I -- I think, as a matter of the
3 sort of public record, the pleading that would essentially
4 list what's come in would -- would -- might be helpful to
5 somebody somewhere in terms of -- of looking at documents.

6 So we could --

7 MS. KRIEGER: Your Honor --

8 THE COURT: -- do this one of two ways. If the
9 debtors want to submit a list at the end of this week of
10 everything that's come in this week or you want to wait
11 until the end of the case, I'll leave it to your collective
12 wisdom on what makes the most sense.

13 MS. KRIEGER: Thank you, Your Honor.

14 I was going to also raise the issue of finding a
15 way to true up the record, what is the official record --

16 THE COURT: Yes.

17 MS. KRIEGER: -- of this hearing.

18 THE COURT: No. I -- I think it's important to do
19 that.

20 MS. KRIEGER: Yeah.

21 THE COURT: So maybe what you can do is at the end
22 of this week get together, agree on what the list is, and
23 submit it sometime next week. And then if -- if we end up
24 going forward, then you can submit an amended supplemental
25 updated -- we can name it how you like --

1 MS. KRIEGER: I like the idea --

2 THE COURT: -- version.

3 MS. KRIEGER: -- of a rolling document.

4 THE COURT: Right. But then that way it -- I
5 think it is a little bit helpful. It's always helpful to
6 make those lists right after the event happens because
7 otherwise there's -- when I was a trial lawyer I could never
8 keep track of it after -- after a week or two. It was -- it
9 was gone. So maybe you're smarter than I am, but that's
10 just easier to do it as you go.

11 All right. I just wanted to chat briefly about
12 witnesses for the rest of the week. We've now gone through
13 three witnesses. We have three more witnesses on the
14 business case, I understand, whose names have been invoked
15 numerous times and I imagine they would each take about a
16 half a day, give or take. I won't hold anybody to what the
17 precise time limits are.

18 Then what I was a little less clear about is what
19 the plan is in terms of the union-specific witnesses in
20 light of some of the developments that were discussed
21 earlier.

22 MR. GALLAGHER: For the record, Your Honor, Jack
23 Gallagher, for the debtors.

24 The company's witnesses will be in this sequence:
25 David Resnick from Rothschild, hopefully tomorrow morning;

1 Virasb Vahidi from American tomorrow afternoon; followed by
2 Alex Dictor from McKinsey, presumably Thursday morning.
3 Then we will -- that will conclude our business side
4 witnesses and then we will have Mr. Brundage who is the
5 senior vice-president of labor relations, followed by Mr.
6 McMenemy from the finance department, and I -- am I missing
7 one? I think --

8 MR. DEAN: Newgrin and Vaughn, if --

9 MR. GALLAGHER: Oh --

10 MR. DEAN: We reserve the right on --

11 MR. GALLAGHER: Yes.

12 THE COURT: Yeah. I -- I think there -- there was
13 essentially two lists that I saw: One was in the Volume I
14 index; that is the folks who are listed there who are on the
15 business plan and issues common to all unions; and I think
16 when you identify Mr. Resnick's -- Mr. Vahidi, is it --

17 MR. GALLAGHER: Vahidi.

18 THE COURT: -- Vahidi and Mr. Dictor and Mr.
19 Brundage all fall into that -- these umbrella categories.

20 MR. GALLAGHER: Yes, Your Honor.

21 THE COURT: And then after that I think the rest
22 of the witnesses were union-specific?

23 MR. GALLAGHER: Well, I think Mr. McMenemy is
24 probably across the board as well, Your Honor.

25 THE COURT: Oh, I think -- yeah. You are correct.

1 Thank you. I --

2 MR. GALLAGHER: Uh-huh.

3 THE COURT: -- I missed that.

4 MR. GALLAGHER: And the names that were just
5 mentioned are following -- I think with the -- as I
6 understand the union's position if Mr. Brundage is able to
7 answer all of their questions, they may not require the
8 individual -- the lead negotiators for each of the
9 individual unions. But if -- if after hearing Mr. Brundage
10 they still want to cross-examine the lead negotiator for the
11 company at each particular table for the pilots and the
12 flight attendants, we will make those individuals available,
13 and that would be Dennis Newgrin (ph) for the pilots and
14 Taylor Vaughn (ph) for the flight attendants.

15 THE COURT: All right. All right. That -- thank
16 you. That is helpful. So it -- it could be, depending on
17 how things go, that we're looking at one, two, three, four,
18 five other witnesses with the right, if -- if Mr. Brundage
19 doesn't answer all the questions that need to be answered,
20 the right to call Mr. Newgrin or Taylor Vaughn.

21 MR. GALLAGHER: Correct, Your Honor.

22 THE COURT: All right.

23 Does that comport with what folks understand?

24 MR. DEAN: Almost. We would be -- not -- actually
25 made a condition that if -- it had to do with whether or not

1 Mr. Brundage could answer all our questions. We did want to
2 take a look at what they've put into the record at the
3 conclusion of Mr. Brundage's testimony to see if we need to
4 exercise the right to --

5 THE COURT: That's fair. That's fair. No. I
6 assumed it was essentially at -- when they finished all
7 those witnesses you would decide whether you wanted to -- to
8 talk to anybody else.

9 MR. DEAN: Correct, Your Honor.

10 THE COURT: That -- that's fair.

11 MR. TEELE: And, Your Honor, since we're talking
12 about Mr. Brundage, just so the record is clear, we have an
13 agreement with the debtors that he would come back in Phase
14 II, if necessary, with respect to the TWU case.

15 THE COURT: No. No. I realize that you're in an
16 unusual circumstance and it doesn't -- doesn't seem
17 appropriate to - to go the full mile on -- on these issues.
18 So that seems sensible. And I assume that that's the reason
19 why we haven't discussed James Wheele (ph) or Mark Berdette
20 (ph).

21 MR. GALLAGHER: Absolutely, Your Honor.

22 THE COURT: All right.

23 MR. GALLAGHER: That's correct.

24 THE COURT: All right.

25 All right. So if -- if we take those five folks,

1 subject to the right to call other folks, we -- we would, I
2 think, be able to get done by the end of the week, and even
3 if we need to call some other folks, it might be more
4 limited. But I guess we'll see how it goes.

5 And, certainly, I know I'm -- I'm trying to move
6 people along and I -- I'm not -- I -- as a -- when I was a
7 trial lawyer I always hated when judges wouldn't let you put
8 on your case, so I'm not trying to do that. I'm just trying
9 to essentially move things along where I think you're
10 absolutely doing no harm to your case to -- to skip certain
11 areas.

12 And, again, if I'm wrong about that I expect you
13 to tell me and say, no, there's a reason I want to go
14 through this. And, again, I'm -- I'm a bit hamstrung by not
15 having papers from the union side in terms of connecting the
16 dots; again, understandable and probably the lesser of two
17 evils. But -- but if I have taken an intellectual liberty
18 in -- in characterizing the relevance of testimony, I trust
19 you'll straighten me out as to why it, in fact, is relevant.

20 But -- all right. Any other matters that we
21 should discuss before breaking for this evening?

22 (No verbal response)

23 THE COURT: So we will reconvene tomorrow at nine
24 to start the next witness. We'll break at ten for the
25 omnibus hearing, and then reconvene at eleven.

1 MR. GALLAGHER: Thank you, Your Honor.

2 THE COURT: Thank you very much.

3 MR. TEELE: Thank you, Your Honor.

4 MS. KRIEGER: Thank you.

5 (Proceedings concluded at 6:37 p.m.)

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T E S T I M O N Y

DEBTOR'S

WITNESS	EXAM BY	PAGE	LINE
Jerrold A. Glass	Mr. Dean	7	14
	Ms. Parcelli	11	16
	Mr. Teele	40	7
	Mr. Gallagher	63	8
	Ms. Parcelli	81	5
	Mr. Dean	83	12
Beverly K. Goulet	Mr. Flicker	90	23
	Mr. Clayman	118	8
	Ms. Krieger	194	9
	Mr. Teele	265	4
	Mr. Flicker	280	16

E X H I B I T S

PARTY	NO	DESCRIPTION	ID.	EVID.
Debtor	800B	Declaration of		
		Mr. Glass	--	89
	801-			
	830	Exhibits to Declaration	--	90
	100A	Declaration of		
		Ms. Goulet	--	284

1		101-			
2		135A Exhibits to Declaration	--		284
3		1302 Rob DeLucia Proffer	--		89
4					
5	PARTY	NO	DESCRIPTION	ID.	EVID.
6	APA	1	Photograph of Aircraft	--	10
7		2	4/17 Scope Proposal	--	10
8		3	Page of US UA CBA	--	10
9		4	Document	--	255
10					
11	PARTY	NO	DESCRIPTION	ID.	EVID.
12	APFA	1	Statement from Web		
13			Site	122	127
14		2	10K	126	
15		3	November 2011 presentation		177
16		4	Document		186
17		5	Letter		188
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C E R T I F I C A T I O N

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I, Dawn South, certify that the foregoing transcript is a true and accurate record of the proceedings.

AAERT Certified Electronic Transcriber CETD-408

Also transcribed by:

Sherri L. Breach

AAERT Certified Electronic Reporter & Transcriber CERT*D-397

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