

**TWA/AMERICAN AIRLINE WORKFORCE  
INTEGRATION**

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**HEARING**  
OF THE  
**COMMITTEE ON HEALTH, EDUCATION,  
LABOR, AND PENSIONS**  
**UNITED STATES SENATE**  
**ONE HUNDRED EIGHTH CONGRESS**

FIRST SESSION

ON

EXAMINING CERTAIN ISSUES RELATIVE TO TWA/AMERICAN AIRLINE  
WORKFORCE INTEGRATION

—————  
JUNE 12, 2003  
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## **TWA/AMERICAN AIRLINE WORKFORCE INTEGRATION**

THURSDAY, JUNE 12, 2003

U.S. SENATE,  
COMMITTEE ON HEALTH, EDUCATION, LABOR, AND PENSIONS,  
*Washington, DC.*

The committee met, pursuant to notice, at 2 o'clock p.m., in room SD-430, Dirksen Senate Office Building, Senator Bond presiding.  
Present: Senator Bond.  
Also Present: Senator Talent.

### OPENING STATEMENT OF SENATOR BOND

Senator BOND. [presiding]. Ladies and gentlemen, the Senate Committee on Health, Education, Labor, and Pensions will come to order.

This afternoon, we will receive testimony from those people affected by the fallout from the integration of American Airlines and the former Trans World Airlines. We have been advised that Senator Kennedy has other commitments, and he may or may not make it, so we are going ahead without him. We do appreciate his cooperation and the cooperation of the chairman of the committee, Senator Judd Gregg, who authorized this hearing and permitted me to serve as the hearing officer today.

I am very pleased to be joined by my colleague, Senator Jim Talent of Missouri. I have extended an invitation personally to other Senators who have expressed an interest in this matter in the debates and discussions we have had on the Senate floor and elsewhere. This is a very busy day for the Senate, but I am hoping that some of these people will be able to join us. In any event, this record will be available for all members of the committee and all Members of the Senate, and we will ask explicitly both panels if they would agree to respond to written questions that may be submitted up to a week after this hearing and to be included as part of the record, and we would ask that those who submit testimony agree to that provision.

What we are going to hear today is a story of how the once promising combination of two great airlines turned into a disaster for so many former TWA employees. Over the last 2 years, we have seen the promises turn into pink slips. Today is our first opportunity to hear directly from all sides.

First, we intend to get to the bottom of what promises were made. Second, we need to give former TWA pilots and flight attendants the opportunity to tell their story. Third, we want to hear

from American Airlines, their employees and unions, their positions and their perspectives.

In summary, we want to know why former TWA flight attendants and pilots never received the comparable seniority status at American Airlines that was promised to them.

These are important and painful questions for many families in Missouri and across the Nation, and as I indicated earlier, I am most grateful to the leadership of this committee for their willingness to allow us to hold this hearing.

I am delighted, as I said, to be joined by Senator Talent today.

All of us on this committee and indeed, all of us in the Senate, certainly understand how tough times are right now for our Nation's airlines. We understand how cutbacks in personnel as well as cutbacks in other expenses have been needed in order to keep the airlines in the air. There is no question that this is a difficult time, and we sympathize with all in the airline business.

Unfortunately, we have seen in Missouri that when it came time to cut at American Airlines, the blade fell almost exclusively on the former TWA workers, including pilots, flight attendants, and to some extent, baggage handlers and ground crews.

As most of you in this room know, on April 9, 2001, American Airlines closed an asset acquisition deal ending a 75-year history of TWA as an independent operation. At that time, I offered my full support to and was a committed advocate of the acquisition, and I pledged to the parties that I would do whatever I could to help.

Thus, I was very pleased to hear the testimony of former American Airlines CEO Don Carty before the Senate Commerce, Science, and Transportation Committee when he stated: "We look forward to adding TWA's 20,000 employees to the American Airlines family. We are keenly aware of TWA's illustrious history and know that were it not for the hard work and great performance of the people throughout TWA, they would not be the perfect fit for American that we believe they are. We also recognize what a good corporate citizen TWA has been in the State of Missouri, and I can assure you that our company will be as well."

Now, in the lead-up to the bankruptcy court approval of American's acquisition of TWA assets, a number of good faith steps were taken by TWA. In particular, TWA, at the request of American, agreed to enter into bankruptcy in order to shed some of its other obligations. TWA employees, particularly the pilots and flight attendants represented by their respective unions, agreed, again at the request of American, to waive the Allegheny-Mohawk provisions in their contracts in exchange for written promises and assurances from American Airlines that they would be integrated fairly into American Airlines' workforce.

The Allegheny-Mohawk provisions in their contracts guaranteed TWA pilots and flight attendants the option to have their integration into a purchaser's workforce decided by an independent neutral third party provided no agreement on integration could be reached between TWA's and the purchaser's unions. According to the provisions, this independent arbitration would be binding.

These steps were taken with some risk to TWA and its employees, but in the interest of integrating the two airlines quickly and smoothly, the TWA pilots and flight attendants in good faith placed

their trust in assurances made to them by American Airlines, its management and unions.

It is precisely what was conveyed by those assurances, who made them, why they were needed, and what their substance was that is at the heart of the matter before us today. In particular, in a letter dated March 17, 2001, American Airlines assured the TWA pilots that it would “use its reasonable best efforts with its labor organizations representing the airline pilots craft or class to secure a fair and equitable process for the integration of seniority.”

Since then, and in the wake of the airline industry’s slump following the 9/11 attacks, it is crystal clear that those best efforts were not good enough. The simple fact is that there was no significant integration of the seniority lists. The flight attendants and most pilots were simply stapled to the bottom of the senior lists, and when the cuts came, they came from the bottom up.

The result—60 percent of all former TWA pilots were stapled to the bottom of the seniority list at American Airlines. Of the 40 percent of TWA pilots who were integrated, more than half of these pilots—about 400 flyers—were actually slated for mandatory retirement before the integration actually took place. And for those few TWA pilots who did make it, they were given seniority far below their counterparts of equal experience. For example, the senior-most former TWA captain, hired in 1963, was integrated into the same bracket as a 1985-hire American captain.

The result is that many former TWA pilots with much more flying experience and cockpit seniority actually have a lower seniority rank than the first officer sitting in the copilot seat next to the actual pilot. And ultimately, most of these former TWA pilots are now out of a job, including many of our friends here today.

However, as poorly as the pilots were treated, it has been much worse for TWA’s flight attendants. As of July 2, 2003, 100 percent of all former TWA flight attendants will have been furloughed by American Airlines—nearly 4,200 employees. Let me repeat that—100 percent furloughed, 4,200 employees. Best efforts, indeed.

Because of this, I and others attempted on numerous occasions to reinstate the concept of fair and equitable. On October 1, 2001, I introduced S. 1479, the Airline Workers’ Fairness Act, with four of my colleagues in the Senate. The following day, my colleague from Missouri, Congresswoman Jo Ann Emerson, introduced the same legislation in the House. The House bill had 31 cosponsors.

Late in October, I organized a marathon meeting between the APA and ALPA—the two unions representing the pilots—here in Washington. The meeting last for more than 36 hours, but a resolution to the integration issue was not achieved. Some of here in the room today participated in that meeting.

In December of 2001, I offered the Airline Workers’ Fairness Act as an amendment to the Department of Defense appropriations bill. The amendment was adopted in the Senate, but the provisions were removed in conference with the House.

On January 31, 2002, I sent a letter to the chairman of the National Mediation Board, Frank Dugan, supporting the response filed with the board by the ALPA—that is the TWA pilots’ union—in opposition to the determination that American and TWA had achieved single-carrier status.

On February 14, I sent another letter to Chairman Dugan supporting the International Association of Machinists and Aerospace Workers on behalf of TWA's flight attendants and the board's determination of whether TWA and American had achieved single-carrier status.

Again this year, Senator Talent and I have been exploring legislative options, including a revised version of S. 1479, and we continue our efforts in this area.

It is clear to anyone who has watched this painful process over the past 2 years that lives have been disrupted and in some cases destroyed by what has transpired—jobs lost, promises not met, anger, disillusionment, and despair replacing the feelings of hope and sense of opportunity that the initial TWA-American announcement had been greeted with.

Nothing we say or hear today can put the genie back into the bottle. We cannot repair the relationships or restore the trust, but we can lay out the facts and perhaps learn enough so that no other family or employee will face this travesty again.

I thank all of you who have agreed to testify today. In some cases, your testimony may open old wounds that you wish to have left alone, but if we are to get to the facts, we must hear your personal stories and must have the opportunity to question those who are involved.

I am disappointed that neither Don Carty nor Bill Compton are here today. I worked with both men extensively, developing admiration and respect for them. To be honest, I trusted them, as did their employees. We invited both. They were certainly integral to the agreements that created the acquisition, but their absence today does not lessen my interest or ability to get the full facts on the table.

So again, I want to thank all of you who have agreed to be here. I give you my assurance that while we hope our questioning will be thorough and professional, it will be courteous and fair.

With that, I will turn to my colleague from Missouri, Senator Talent, for his opening comments.

#### OPENING STATEMENT OF SENATOR TALENT

Senator TALENT. Thank you, Mr. Chairman.

I want to thank you for your work on this issue which goes back several years. Also, I am grateful to Chairman Gregg and Senator Kennedy for allowing me to sit in today even though I am not a member of this committee; but I do have great interest in this issue, both as a Senator from Missouri and also as somebody who thinks this situation is quite unjust to a lot of people.

I am not going to go over everything that Senator Bond did in summarizing the events that brought us to this hearing today. Just suffice it to say that American acquired TWA in March of 2001. We all thought that was a good thing. We still want it to be a good thing for everybody.

At the time, American promised TWA and the TWA employees that they would be treated fairly as a result of the buyout, and that promise was one of the conditions of the Federal approval of the buyout. I do not think any of this is contested. Certainly the expectation was that when the representative employee groups merged,



their seniority lists would be dovetailed in the normal fashion, that the years of service for TWA employees would count in the merged company and the years of service for former American Airlines employees would count in the merged company.

And, for whatever reason, which is I guess what we are here to explore today, that did not happen, and nothing even close to it happened. The former TWA flight attendants were stapled to the bottom of the merged seniority list, and most of the TWA pilots were also stapled to the bottom of the merged seniority list.

I do not mean any disrespect to anybody here who was involved in that, but in all my years in public office and in the years when I practiced labor law, I have never seen a merger that was a disadvantageous to one of the former employee groups as this one was.

The effect is that employees who have been working for TWA for decades are placed behind on the seniority list employees who have only been working for American Airlines a year or two.

I do not think I go on a flight when a flight attendant does not come up to me and tell me a story like, "I have been flying for 25 years for TWA, and I am about to be laid off, and there are people who have been flying for only one or 2 years who are not going to be laid off."

But when you have layoffs and when you have a lot of layoffs, the situation is not easy for anybody. We all recognize that. I have spent 18 years in public life, and I try not to get involved in these kinds of situations except to be an honest broker where I can because I know it is difficult. However there are thousands of people here who are in a uniquely difficult situation because they have 10 or 15 or 20 years of seniority with a company, and when you get seniority with a company like that, you believe reasonably—you develop a reasonable expectation—that you have some protection in the event of layoffs, and you order your life around that. You get mortgages; your kids go to school; and then, all of a sudden, when the rug is pulled out from under you, you have a reason to ask what happened.

Thousands of people who worked for TWA for years and years and years are in that position, and it is especially bad because promises were made that would lead a reasonable person to believe that that was not going to happen, that the opposite of that was going to happen.

It is just clear to me that for some reason—I do not know why—the people who were supposed to represent the interests of the TWA employees in this process—the management, the union, the NMB, for some reason did not, so they are now facing layoffs, contrary to what I think were very reasonable expectations, and I look forward to exploring these issues in a fair and impartial way, and I know Senator Bond feels the same way.

Thank you, Mr. Chairman.

Senator BOND. Thank you very much, Senator Talent.

We have all of your full statements in the record, and we would ask you to try to summarize your statements in about 5 minutes.

I am reminded that while I promised that questions for the record would be submitted within a week, the hearing record will actually be left open for 2 weeks.

The first panel includes Mr. Ted Case, who is married and a father of two and a graduate of Georgia State University. He became a commercial pilot and started flying passenger jets in 1985 joined TWA as a commercial pilot in 1990. He served as a union representative for TWA pilots in multiple capacities, most recently as secretary-treasurer of the TWA Master Executive Council, the TWA branch of ALPA, and was one of the representatives on a TWA panel that directed and supervised the pilots' merger committee discussions with American Airlines.

Our next witness is Ms. Sherry Cooper, a 27-year seniority flight attendant hired by TWA in 1975. During her career, she served as president of the Independent Federation of Flight Attendants, president of the local lodge. She was a labor director serving on the TWA board of directors from 1998 to 2001 and directly participated in the negotiations leading up to American Airlines' acquisition of TWA.

Ms. Karen Schooling, a former TWA flight attendant, was initially hired by Ozark Airlines in 1975. She has 28 years of seniority. She and her sister were both former Ozark flight attendants and were given full-seniority credit when Ozark was acquired by TWA. Ms. Schooling is a widow—her husband passed away 3½ years ago—and she has a son with great medical challenges that I will let her describe.

These three witnesses all have one unfortunate thing in common. They either will be furloughed on July 1, 2003 or have already been furloughed.

Before we begin I have a statement from Senator Kennedy.  
[The prepared statement of Senator Kennedy follows:]

#### PREPARED STATEMENT OF SENATOR KENNEDY

I welcome this hearing on the effects on employees of American Airlines' purchase of TWA assets in 2001.

The employees of TWA hoped to continue their careers with American. But 9/11 and the severe downturn in the economy had an especially serious effect on the airline industry, and many of the former TWA employees lost their jobs, as have many other workers in other parts of the economy.

The economy continues to be troubled, and millions of unemployed Americans are paying the price. The unemployment rate is the highest in 9 years. Despite all the tax cuts that the President says will produce jobs and growth, the fact is that today nine million Americans are out of work, and one in five of those Americans has been out of work for more than six months.

The airline industry has been hard-hit. Since 9/11, over 200,000 workers in the airline and related industries have lost their jobs. American Airlines hopes to stave off bankruptcy, and has recently insisted on concessions in wages and benefits from its workers. As part of these concessions, thousands of workers will be laid off. Over 7,500 American flight attendants and 3,000 pilots will soon be out of work.

TWA employees were in an especially difficult situation. In early 2001, the airline was in bankruptcy. Liquidation seemed likely, and the TWA employees would have lost their jobs and many other benefits. In these circumstances, when American Airlines offered to

purchase the TWA assets, the TWA employees voluntarily and specifically waived their right to any arbitration of their seniority.

The seniority rule applied by American was negotiated in arm's-length collective bargaining with the Allied Pilots Association and the Association of Professional Flight Attendants. The National Mediation Board determined that TWA had become fully integrated into American Airlines as a single carrier, and the TWA employees became subject to the seniority rule that had been negotiated to address the issue.

Unfortunately, some former TWA employees believe that American promised them a different seniority result. Others say that the TWA and American Airlines unions had a duty to achieve a different result. The employees have raised their claims in federal court, and next Monday, the federal district court in New York will hold a hearing on the flight attendants' request for an injunction to stop lay-offs based on the current seniority rule. Lawsuits have also been filed in St. Louis, Chicago, and New Jersey, so the courts are clearly well underway in considering these fact-intensive issues.

I'm concerned about Congress rushing in when the courts are already well underway in considering these issues, and when the controlling agreement was achieved through arm's-length collective bargaining. It's particularly difficult for Congress to step in when the employees themselves have waived their right to arbitration. In the past, Senator Bond has proposed legislation to reopen the seniority issue and send it to third-party arbitration. We all wish that all the TWA employees and all the American employees could keep their jobs. But Congress should not try to tilt the balance, when our action would only jeopardize more American Airlines employees' jobs, and ignore decisions already made by the former TWA employees.

Senator BOND. With that introduction, I would invite Mr. Case to begin his testimony.

**STATEMENTS OF THEODORE A. CASE, SNELLVILLE, GA, FORMER SECRETARY-TREASURER, TWA MASTER EXECUTIVE COUNCIL, AIRLINE PILOTS ASSOCIATION; SHERRY COOPER, JUPITER, FL, FORMER IAM GENERAL CHAIRPERSON, TWA FLIGHT ATTENDANTS UNION AND FORMER MEMBER, TWA BOARD OF DIRECTORS; KAREN SCHOOLING, INDEPENDENCE, MO, TWA FLIGHT ATTENDANT**

Mr. CASE. Chairman Bond and members of the committee and guests, I sincerely appreciate the opportunity to appear before you today. On behalf of my fellow pilots who were formerly employed by Trans World Airlines, we welcome the opportunity to testify on the record about the whole story, the real story behind the most shamefully flawed seniority integration in United States airline history.

Many of you are already familiar with some of the facts of this crisis. To date, thousands of ex-TWA workers, including ground workers, flight attendants and their families, have suffered as a result of layoffs. The great State of Missouri and the entire St. Louis region has felt a sharp economic shock and emotional trauma caused by these massive job cuts.

The uniform hat that you see here today symbolizes thousands of men and women who built TWA over more than 75 years and who now have seen American Airlines' promises disappear.

I believe, like so many of my colleagues, that we became pilots to serve the flying public, safely and responsibly, to the best of our ability. I am honored to have been selected by my fellow pilots to speak on their behalf today.

I am a married father of two, a graduate of Georgia State University and have served as a representative of the TWA pilots in multiple capacities. My interest in flying began as a young boy watching my father fly as a pilot for Eastern Airlines. I began flying when I was 20 years old and became a commercial pilot in 1983, began flying for TWA in 1990. I loved my job; I respected my employer; and above all, I believed in my customer service mission for the past 13 years.

My world, and the lives of all of my former TWA colleagues, dramatically changed in April 2001 when American Airlines acquired TWA. As part of the acquisition, American offered virtually all former TWA pilots employment. Quoting from portions of the Bankruptcy Asset Purchase Agreement: "Purchaser officers to offer employment benefits and postretirement benefits to all employees actually hired by Purchaser at levels substantially no less favorable than those benefits provided to Purchaser's similarly-situated employees."

TWA employees took that promise to heart. When the transaction was announced, I was a 10-year Boeing 767 international first officer. My American counterpart was also a 10-year Boeing 767 international first officer. Just last week, I received a furlough notice, while my similarly-situated American counterpart enjoys his or her continued employment.

To put this in a personal perspective, a good friend of mine, Sally Young, a single mother of two and a 14-year veteran and former TWA captain, will lose her job on July 2. I too will lose my job on July 2 after 16 years as a career jet airline pilot with over 13 years of seniority and experience with TWA and American Airlines.

On April 9, 2001, the day before the transaction closed, American hired Mr. B.D. White. Today, Mr. White, who has 2 years and 2 months of American Airlines experience and seniority, continues to fly while Ms. Young, myself, and hundreds more former TWA pilots like us are being furloughed.

Touching on Senator Bond's earlier comments, in February 2001, many of you heard Don Carty, former AMR CEO, State before the U.S. Senate Committee on Commerce, Science, and Transportation his commitment to "adding TWA's 20,000 employees to the American Airlines family," a willing commitment "to the 20,000 TWA employees and their families that no one else would make."

Obviously, Mr. Carty said what the Senate Committee and the bankruptcy court needed to hear to approve the deal, with no intention whatsoever of living up to those commitments.

Unknown to us at the time American made those promises to TWA employees, Congress, and the bankruptcy court, they were also making promises to their unions. American's promises to their unions empowered them to hijack the experience and seniority of the TWA pilots and employees. It is now clear that American's

promise of employment was a hollow one designed only to quell Congress' concerns and clear regulatory hurdles to close the transaction.

American Airlines walked away with billions of dollars' worth of TWA assets and market share. Once this was accomplished, and the deal was no longer news, or under the watchful eye of legislators, American callously discarded the TWA employees.

Although American pilots claim to be "sharing the pain" of the airline's troubles, more than 87 percent of the pre-transaction American pilots will retain their employment while only 23 percent of the former TWA pilots will remain employed by May 2004, as this chart indicates.

Members of the committee, we are not here seeking sympathy or pity. We are here in the name of justice and fairness. We are here in hopes that Congress can rectify this atrocity and act so this tragedy can never again be repeated in another workplace to the detriment of another working man or woman. We ask only that our all-important seniority rights be handled fairly and equitably as promised—no more, no less.

I hope that you and the American people can now clearly see that our seniority was handled unfairly and inequitably by an airline that can now only be called "un-American Airlines."

I thank you for the opportunity to speak before this committee today, and I am happy to answer any questions.

Senator BOND. Thank you very much, Mr. Case.

Ms. Cooper?

[The prepared statement of Mr. Case may be found in additional material.]

Ms. COOPER. Thank you, Senator Bond.

First of all, I am very honored to be here to speak to you since I know how important this issue is to both you and Senator Talent. This affects not only the lives and futures of the TWA employees but the City of St. Louis and the State of Missouri. I thank both of you for being here today to listen to our comments.

On May 3, 2003, I received my 28th anniversary service announcement; that very same day, I also received my furlough notice as an American Airlines flight attendant.

Perhaps more than anyone else here today, I served in a unique position at TWA. Not am I a soon-to-be-furloughed TWA flight attendant, but I also sat on the TWA board of directors.

In January of 2001, I received a telephone call from Mr. Bill Compton, former president of TWA. He told me there was a "great deal" for the TWA employees. First of all, he advised me that all TWA employees would be protected, all retirees would be protected, that the unionized employees would receive greater job security and guaranteed jobs. We were told that all TWA employees would receive greater pay and greater benefits—in summary, that TWA employees would be better-off through the agreement that he had reached with American Airlines.

There was only one catch. Even though American and TWA had struggled very mightily to come up with a straight merger transaction, there was a stumbling block. That stumbling was Carl Icahn and his Karabu ticket agreement. The only way that American could see fit to do the deal was to take Karabu out for bank-

ruptcy. Thus begins the biggest myth of all—that American Airlines saved TWA from bankruptcy. I want to make it perfectly clear to everyone—at the time of the agreement, TWA was not in bankruptcy.

The asset purchase agreement guaranteed that all unionized employees would be employed by American Airlines. Mr. Carty, then CEO of American Airlines, promised that TWA employees would receive the same benefits that the American Airlines employees received. Our union contracts would need to be modified in order to mirror those of the American employees.

Importantly, American Airlines agreed and insisted that all seniority integration matters be worked out between the unions. American agreed that there would be a fair and equitable procedure and that it would adopt whatever process came out between the facilitated talks of the two unions. For the flight attendants, there simply were no talks.

The merger of a relatively small of senior flight attendants from TWA would have had very little impact on the overall picture, because most flew out of St. Louis, MO, a non-American Airlines base. Unlike other carriers who went out of business, the TWA employees were coming to the acquisition with planes, routes, airport slots, reservation and maintenance facilities, and the prized St. Louis hub. It was for all intents and purposes our “dowry.”

It is well-chronicled that American Airlines and Don Carty touted the TWA purchase as a great acquisition. In his own words, Mr. Carty stated, and I quote: “American gains many great assets from TWA but none as important as its talented team of employees.”

American Airlines broke its written agreement with TWA flight attendants by engaging in secret talks with APFA, the American Airlines union. It negotiated an agreement that stapled to the bottom of the APFA seniority list all TWA flight attendants.

At the same time, APFA had agreed that it would allow those former TWA flight attendants based in New York and St. Louis some job protection. They would maintain that job protection as long as we remained in our two hubs.

By contrast, when TWA purchased Ozark, all former Ozark flight attendants received full seniority. Even APFA, when American Airlines acquired both Air Cal and Trans-Caribbean, agreed that those flight attendants would retain credit for their years of service at those carriers. Ironically, even American Airlines voluntarily provided full credit for seniority to TWA nonunion and management personnel.

Following the aftermath of September 11, American Airlines decided to shut down the New York TWA operation. It transferred the former TWA flight attendants to St. Louis and took the former TWA flights and gave them to more junior American flight attendants. The New York flight attendants had two options—transfer to St. Louis or be sent to the streets without a paycheck.

Many of our former New York flight attendants did in fact transfer and move to St. Louis. We began operating on the TWA flights because we would retain our job security at St. Louis as long as we flew on TWA LLC aircraft. Apparently, we were wrong.

They have now determined that all remaining TWA LLC flight attendants, ranging from senior of 27 years to 49 years of seniority,

will be furloughed effective July 2. Eighteen hundred flight attendants with more than 50,000 years of service to their communities will be losing their jobs. They will be joining the other 2,400 TWA flight attendants on the streets. At the same time, American flight attendants with less than 3 years of seniority will be flying on TWA LLC aircraft out of St. Louis.

To add insult to injury, for the first time in American Airlines history, TWA flight attendants will be sent to the streets without furlough pay. What makes it even worse is that for the first time in American Airlines history, employees will be losing 60 days of medical benefits.

For the most part, our group to be furloughed are women, 50 and over, who are primary caretakers for their children, for their parents, and even for their grandchildren. We are facing an uncertain future with one thing for certain—we have certain personal and financial ruin. At the same time, American Airlines admitted that it was funding pensions for more than 45 of its top executives.

It should be clear to everyone in this room that when American Airlines promised “two great airlines—one great future,” it was a lie. It undertook a pattern of activity designed to solely eliminate the former TWA employees that it once called TWA’s greatest asset.

When American Airlines came to Congress asking for financial aid after September 11, it received financial assistance based in large part upon the TWA route structure. When it sought reimbursement for security costs, it received its reimbursement due in large part based on the TWA operation. At the same time, it has taken our routes, our jobs, our planes, our St. Louis hub and has handed us a pink slip.

I am a taxpayer who has paid taxes for more than 35 years. Like all Americans, I have gone to work on a daily basis and performed a meaningful job for a fair day’s pay. I expected fair wages. I have watched my tax dollars be spent to help American Airlines survive this troubled industry. I have asked for nothing in return but fairness. Both are tragically and horribly missing in the TWA integration. There has been no integration.

It has been reported that there is nothing this committee can do, and my question is simple: Why not? We travel halfway around the world to save the rest of the world for freedom. At the same time, we are witnesses to an incredible injustice in our own back yard. We are the greatest Nation on Earth. What makes us so great is that we place our highest value on human life. It realizes that the valuable citizen is what keeps us strong. We are best-known for how we treat our most vulnerable citizen, not our most powerful.

On behalf of the 20,000 TWA employees, I want more than your sympathy. There would be no reason to be here today if American Airlines had honored its commitment. We are asking Congress to honor all that is right about America. We are asking you to intercede on our behalf and restore the agreement to a fair and equitable seniority integration.

Thank you.

Senator BOND. Thank you, Ms. Cooper.

[The prepared statement of Ms. Cooper may be found in additional material.]

Senator BOND. I will indicate that a vote has started, and we want to hear Ms. Schooling's testimony. Senator Talent and I will have to go and vote, so we will ask that the committee stand in recess, and we will come back for questions.

Ms. Schooling, we want to give you full time for your statement, if you could make it 5 minutes, before we go vote.

Ms. Schooling?

Ms. SCHOOLING. First of all, I want to thank you for taking time to listen to my story. While mine may be an extreme case of the hardship that the former TWA flight attendants are facing, it nonetheless represents the hardship that all of us will be facing on July 2, 2003.

I began my career in 1975 when I was 19 years old. I am from Missouri, and the natural choice was to begin flying for Ozark Airlines. When TWA acquired my airline in 1987, I had been flying for 12 years. Instead of being stapled to the bottom of the seniority list, I was given my full seniority. It made all the difference in the world.

My younger sister, Maureen Short, also flew for Ozark and became a TWA flight attendant. With her 25 years of combined seniority, Maureen has already been furloughed to the street in May.

I am a single mother of a son who has a rare condition causing him to be profoundly disabled, both mentally and physically. My son is 17 years old; he weighs 32 pounds; he is fed through a feeding tube and is in diapers and requires constant care. My husband died 3 years ago of cancer. Many of you would look at me and tell me how sorry you are for what has happened to me in my personal life with my husband and my child, but I see it as a challenge. Perhaps it is because of my upbringing, and perhaps it is because of growing up in the Midwest in the great State of Missouri, but I do not question why God has given me this life. I love my child, and I love my career.

What I do not understand is why both American Airlines and the union that represents me have chosen to eliminate my career. When American Airlines announced the TWA acquisition, it promised "two great airlines—one great career." It has broken its promise to every TWA employee and spun a web of deception that has broad social as well as safety issues.

I am scheduled to be furloughed on July 2, 2003. I will lose my health insurance coverage for myself and my son. Instead of providing 90 days of medical coverage, which it did for all other furloughed employees prior to June 2003, it has now determined that it will only provide 30 days' worth of coverage. On top of that, both the company and the union agreed that I would not receive any severance pay. Every other employee prior to June 2003 received severance pay to help defray the costs of a job loss.

I am facing total and complete financial devastation. Because I took leave to care for my son, I will not even receive full unemployment benefits to cover Ryan's care, let alone household expenses. For most flight attendants, the maximum we can receive weekly is \$250. I can tolerate financial downturn, and I can tolerate economic hardship. What I cannot tolerate is the fact that American Airlines has broken its commitment to all former TWA employees



when it promised a “fair and equitable” process to determine seniority integration.

I will not sit idle and tolerate the life-threatening hardship that it will cause my son Ryan.

We are asking for your support to right the wrong. If I have learned anything from what I have experienced personally, it is that everyone deserves to be treated fairly and with respect.

Thank you.

Senator BOND. Thank you very much, Ms. Schooling.

We will now declare a recess in the hearing in order for us to go over and cast our votes. We will be back as quickly as we can, which will probably take about 10 minutes, and we will resume at the call of the chair.

We stand in recess.

[Recess.]

Senator BOND. The hearing will come to order, and we thank you all for your patience and indulgence.

We will go back and forth with 5 minutes of questions and probably go for two rounds, so we can get on to the second panel as well this afternoon.

Mr. Case, in the written statement that has been presented to us by Mr. White, he says on the supplemental CC that “the methodology drew considerably on the thinking and proposals of the TWA pilots’ own representatives and expressed in approximately 25 negotiation sessions. Their thinking and concerns went into both the construction of the seniority list itself and also into the conditions and restrictions applied to give added protection to the TWA pilots. There are only minor differences between the two sides’ positions.”

You were there, weren’t you?

Mr. CASE. Yes, sir, I was there in the background, coaching or assisting our merger committee.

Senator BOND. Was that the case?

Mr. CASE. No, sir, absolutely not. If they were minor differences, I do not think the current employment situation would be what it is. There were miles between the two parties. There was never an agreement reached between the two parties. As a matter of fact, American Airlines’ vice president of employee relations, when asked, replied that “This is not a fair deal.”

Senator BOND. Would that be Mr. Brundage?

Mr. CASE. That would be Mr. Brundage.

Senator BOND. Did the TWA MEC Branch of ALPA ever agree to any integration plan with American Airlines pilots’ union, APA?

Mr. CASE. No, sir. There were multiple offers and counter-offers that went back and forth across the table, and as a matter of fact, through fax machines, city-to-city, and there was never an agreement reached.

Senator BOND. All right. Let me go to Ms. Cooper. Would you please tell the committee the assurances you received of American that you would not be stapled to the end of the seniority list?

Ms. COOPER. Well, first of all, it is important to understand that no union group at TWA gave American Airlines a blank check. They made written assurances to us in exchange for our board votes. They promised that there would be a process. They promised

that, first of all, they would stay out of the process. They promised that we would have benefits that mirrored those of American Airlines flight attendants. And they promised that only after the two unions met and reached an agreement would they adopt whatever agreement came out of those talks. In our case, there were no talks.

We repeatedly demanded that American Airlines honor its commitment to us that we be allowed to attend talks. They instead chose to hold secret talks in which they stapled us. So they in fact broke the agreement.

Senator BOND. Let me follow up on that. Secret talks—obviously, they were kept secret—how did you find out about them, and what information do you have on those talks?

Ms. COOPER. How I found out was that after the fact, there was an announcement that an agreement had been reached, and 2 days after that, I confronted Mr. Brundage in person demanding to know what talks had in fact taken place, when they had met, how often they had met, what times they had met. And he indicated that the talks had gone on, and he admitted that despite the letters that were sent to him demanding our right to attend the meetings, they ignored those demands and chose to meet in secret. So that is how I found out, was through a press release.

Senator BOND. Could you by any chance supply a copy of the press release to the committee?

Ms. COOPER. I certainly can.

Senator BOND. Thank you.

[Document follows:]

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June 30, 2001, Saturday

**SECTION: FINANCIAL NEWS****DISTRIBUTION: TO BUSINESS, LABOR AND TRAVEL EDITORS****LENGTH: 487 words****HEADLINE: American Airlines and APFA Reach Tentative Agreement On a New Flight Attendant Contract****DATELINE: WASHINGTON, June 30****BODY:**

American Airlines today announced it has reached an agreement in principle with the Association of Professional Flight Attendants (APFA) on a tentative agreement for an exceptional new contract for the airline's 23,000 flight attendants.

American said the agreement was reached at 6:00 p.m. EDT, and further details of the tentative agreement would be available subject to finalization of contract language and approval by the APFA Executive Committee, a process expected to take approximately 10 days.

"We are very pleased to have reached an agreement with the APFA," said Sue Oliver, senior vice president of human resources at American and the airline's chief negotiator in the talks. "Our flight attendants do a terrific job for our customers, and this deal provides rewards for all of their hard work."

American commended the efforts of the Secretary of Transportation Norman Mineta, National Mediation Board (NMB) Member Magdalena Jacobsen, and Mediator Linda Fuchsala for their efforts in bringing these talks to a successful conclusion. "The Transportation Secretary and the NMB worked very hard to help the parties conclude a voluntary agreement and we appreciate all of their efforts."

"I am delighted that during the last week we have concluded not one, but two tentative agreements covering more than 38,000 of American's employees," said Don Carty, chairman and chief executive officer, referring to the June 23 agreement reached for mechanics with the Transport Workers Union (TWU).

American said the agreement reached today with the APFA was now subject to approval by the APFA's leadership, followed by a flight attendant ratification vote.

The APFA's contract with American became amendable in November, 1998. The parties reached their first tentative agreement in May of 1999, which failed membership ratification. After the APFA made changes in its negotiating committee and elected new national officers, the talks began again in March of 2000. American petitioned for mediation seven months later to keep the talks progressing.

The tentative agreement was reached on the last day of a 30-day cooling-off period that was set to end at 12:01 a.m. EDT on July 1. President Bush had announced his intention to appoint a Presidential Emergency Board if necessary to avert a strike. The airline said that with the agreement there will be no strike or disruption in service, and its customers can continue to book and fly American with confidence.

Current AMR Corp. news releases can be accessed via the Internet. The address is <http://www.amrcorp.com/corpcomml.htm>

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Senator BOND. What negotiations did you participate in with your counterpart American flight attendants?

Ms. COOPER. Zero, none, nada. There were no talks.

Senator BOND. Did American Airlines in any way attempt to facilitate any such meetings?

Ms. COOPER. To the best of my knowledge, no. We repeatedly asked American Airlines to set up the talks, and that is when we discovered after the fact that talks had taken place without us, and the only way we found out that there were talks was through the press release that I stated earlier.

Senator BOND. Thank you.

Very quickly, Ms. Schooling, you were at Ozark, and you were part of the acquisition by TWA. How was that acquisition handled with respect to seniority rights?

Ms. SCHOOLING. We got our full seniority at TWA.

Senator BOND. So you were given credit for the time you spent at Ozark.

Ms. SCHOOLING. Every year that we flew, yes.

Senator BOND. I assume you believe that that would be the same process followed by the acquirer in this instance?

Ms. SCHOOLING. That would be the best scenario. I just think that being stapled to the bottom is totally unfair and unacceptable.

Senator BOND. Thank you, Ms. Schooling.

I will now turn to Senator Talent for his questions.

Senator TALENT. Thank you, Mr. Chairman.

I want to go a little bit into the whole issue of the status of TWA at the time that this filing occurred, and I am going to read from Mr. White's statement.

"Let us keep in mind the following: In light of the fact that TWA was teetering on the verge of collapse and dissolution at the time of the asset purchase"—is that true? Is that an accurate description of the situation in our view? I will ask Ms. Cooper and Mr. Case.

Ms. COOPER. That is not correct. In fact, at the time, in December 2000, the unions had reached agreements with various lessors to restructure the financial debt of TWA. In fact, I was a direct participant in a search committee that had selected a new president to take over TWA.

We also had an agreement with the unions to roll back certain of our contracts—we had all hit our target amount. We had hired someone to take over the company, and we were looking to going forward. Mr. Compton would have been replaced in this scenario, and we found out at the end of December that he in fact was engaged in other talks, and it was only after I had seen CNN that he reported to me as a member of the board of directors that he had negotiated another deal.

Senator TALENT. And in fact, American described TWA at the time as a "valuable asset," an important acquisition. They did not treat it as a company about to go out of business that they were going to—

Ms. COOPER. In fact, if I could follow up, I had been given a copy of a powerpoint presentation that I believe American presented to its own board of directors, claiming what a great deal it was, how they had gotten TWA for less than its real value, and that they believed that this was a great transaction for them because they were, among other things, becoming the world's largest airline and were acquiring the all-important St. Louis hub. So they said it was a good deal, and they said they got it for less than what it was truly worth.

Senator TALENT. If you have a copy of that, I would like it for the record—if that is all right, Mr. Chairman.

Senator BOND. We will accept it without objection.

Ms. COOPER. I will send that.

[Document follows:]

**ANALYST BRIEFING  
TWA LLC INTEGRATION**

**MAY 10, 2001**



**SAFE HARBOR**

- This presentation contains forward-looking statements within the meaning of the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995. These statements are based on current expectations or beliefs of management and are subject to a number of factors and uncertainties that could cause actual results to differ materially from those described in this presentation. The forward-looking statements contained in this presentation address the anticipated benefits of acquiring TWA's assets, the proposed acquisition of assets from United/US Airways, and the future financial and operating results of American with the acquired assets. Management undertakes no responsibility to update the information presented in these materials.
- The following factors, among others, could cause actual results and benefits to differ materially from those described in this presentation: the inability to successfully integrate the operations of TWA; the ability of American to acquire and integrate assets from United/US Airways or the Northeast Shuttle operations into American's existing operations; the inability of American to successfully integrate the workforce of TWA or any United/US Airways pilots to be employed by American; higher than expected acquisition costs for any of the described transactions; actions of competitors, including competitive or strategic responses to the pending transactions; and other factors, including but not limited to, those discussed in the section entitled "Forward-Looking Information" in Item 7 of the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2000, which section is incorporated herein by reference.

## **OVERVIEW**

- **TRANSACTION SUMMARY**
- **FLEET PLAN UPDATE**
- **REVENUE SYNERGIES**
- **COST IMPLICATIONS**
- **INTEGRATION COSTS**
- **FINANCIAL IMPACT**
- **INTEGRATION PLAN**
- **GUIDANCE**

## **TRANSACTION SUMMARY**

## **TRANSACTION SUMMARY**

- **ON JANUARY 10TH WE ANNOUNCED A SERIES OF THREE TRANSACTIONS DESIGNED TO STRENGTHEN THE AMERICAN NETWORK IN LIGHT OF COMPETITIVE CHANGES IN THE INDUSTRY**
  - **FIRST, AMERICAN AGREED TO PURCHASE SUBSTANTIALLY ALL OF THE ASSETS OF TWA, IN CONJUNCTION WITH ITS CHAPTER 11 BANKRUPTCY**
  - **SECOND, AMERICAN ALSO AGREED TO ACQUIRE KEY STRATEGIC ASSETS FROM UNITED/US AIRWAYS, INCLUDING UP TO 86 AIRCRAFT, GATES AND SLOTS AT FACILITY CONSTRAINED AIRPORTS, AND ONE-HALF OF THE US AIRWAYS SHUTTLE OPERATION**
  - **FINALLY, AMERICAN AGREED TO ACQUIRE A 49% STAKE IN DC AIR, WITH WHICH AMERICAN WOULD ENTER INTO AN EXCLUSIVE MARKETING AGREEMENT**

## **TRANSACTION SUMMARY**

- **THESE TRANSACTIONS WOULD PROVIDE AMERICAN SUBSTANTIAL BENEFITS:**
  - **ENHANCED SCOPE AND SCALE OF THE NETWORK**
  - **A THIRD MID-CONTINENT HUB TO AUGMENT DALLAS AND CHICAGO**
  - **GATES AND SLOTS AT KEY FACILITY CONSTRAINED AIRPORTS TO SUPPORT AMERICAN'S GROWTH**
  - **ACCESS TO A VALUABLE NORTHEAST SHUTTLE PRODUCT**
  - **THE LARGEST PRESENCE OF ANY CARRIER AT WASHINGTON REAGAN THROUGH THE DC AIR MARKETING AGREEMENT**
  - **ACCESS TO SUBSTANTIAL MAINTENANCE FACILITIES AND PERSONNEL TO SUPPORT INTERNAL GROWTH**
  - **WHILE MAINTAINING AMERICAN'S SOLID FINANCIAL POSITION AND STRATEGIC FLEXIBILITY**

## TRANSACTION SUMMARY

- THE FINANCIAL COMMITMENT ASSOCIATED WITH THE TRANSACTIONS WE PRESENTED IN JANUARY WAS PRUDENT

\$ CAPITAL (BILLIONS)	AA TRANSACTIONS
CASH	
TWA	0.5
UA/US	1.2
DC AIR	0.1
	1.8
ASSUMPTION OF LEASES	
TWA	3.0
UA/US	0.3
	3.3
TOTAL	5.1

## TRANSACTION SUMMARY

- SINCE THE TIMING OF THE TWA AND UNITED/US AIRWAYS DEALS HAS DIVERGED, WE WILL TODAY PROVIDE MORE SPECIFICS ON THE TWA DEAL ALONE

# TWA SUMMARY



### TWA DEAL SUMMARY

- IN JANUARY, WE ANTICIPATED THAT THE TWA TRANSACTION ITSELF WOULD HAVE A VALUE OF \$3.5 BILLION
  - \$0.5 BILLION IN CASH
  - \$3.0 BILLION IN ASSUMED LEASES
  
- THIS VALUATION ASSUMED WE COULD RENEGOTIATE TWA'S LEASES TO BETTER REFLECT AMR'S CREDIT RATING
  - OUR INITIAL ESTIMATE OF THESE LEASE SAVINGS ON AN ANNUAL BASIS WAS \$80-100 MILLION OR \$0.5 BILLION ON A PV BASIS
  - BY THE TIME THAT OUR LEASE RESTRUCTURING NEGOTIATIONS WERE COMPLETE, OUR ACTUAL LEASE SAVINGS EXCEEDED \$200 MILLION PER YEAR

### TWA DEAL SUMMARY

- THEREFORE, DESPITE INCREASING OUR CASH OFFER BY \$125 MILLION, THE TOTAL DEAL COST WAS REDUCED TO \$2.8 BILLION, WELL BELOW OUR INITIAL ESTIMATE OF \$3.5 BILLION

<b>DEAL VALUE SUMMARY</b>		
	<u>ORIGINAL</u> <u>ESTIMATE</u>	<u>FINAL</u> <u>VALUE</u>
	( \$ BILLIONS)	
CASH	0.5	0.6
AIRCRAFT LEASES	3.0	2.2
<b>TOTAL VALUE</b>	<b>3.5</b>	<b>2.8</b>

## TWA DEAL VALUATION

- **BASED ON COMPARABLE TRANSACTIONS, THE TWA TRANSACTION WAS COMPLETED ON FAVORABLE TERMS**

	<u>EV/EBITDAR</u>	<u>EV/REVENUE</u>
AMR/TWA	4.2	0.7
UAL/US AIRWAYS	8.6	1.3
CAL/NW	6.1	1.5
BA/USAIR GROUP	15.0	1.6
USAIR/PIEDMONT	7.3	1.3
DELTA/WESTERN	13.1	1.2
DELTA/COMAIR HLDG	8.0	3.4

## TRANSACTION STRUCTURE

- **THE TWA ACQUISITION WAS STRUCTURED AS AN ASSET PURCHASE IN BANKRUPTCY**
  - THIS APPROACH ALLOWED US TO SELECTIVELY ACCEPT ASSETS, LEASES AND OTHER CONTRACTS
- **THIS STRUCTURE INHERENTLY CREATED BUILT-IN SYNERGIES, FOR EXAMPLE:**
  - REVALUED OR REJECTED LEASES
  - ELIMINATED THE KARABU AGREEMENT
  - OFFERED THE OPPORTUNITY FOR OVERHEAD RATIONALIZATION

## TWA - WHAT WE ACQUIRED

- THE TWA DEAL ULTIMATELY PROVIDED AMERICAN:
  - A NEW HUB IN ST LOUIS
  - MAINTENANCE FACILITIES IN KANSAS CITY, LOS ANGELES AND ST LOUIS
  - APPROXIMATELY 18,000 HIGHLY TRAINED PROFESSIONAL LINE EMPLOYEES
  - A 26% STAKE IN WORLDSPAN
  - KEY GATES AND SLOTS

## TWA - WHAT WE ACQUIRED

- TWA HAD 188 LEASED GATES PRIOR TO THE TRANSACTION
  - AA ASSUMED LEASES ON 138 GATES
  - AA EITHER REJECTED LEASES OUTRIGHT OR NEGOTIATED A TRANSITION OUT OF 50 GATE LEASES TO BE COMPLETED BY YEAR END 2001

KEY FACILITIES GATES	
STL	57
LGA	4
PHL	4
DFW	3
LAX	2
DCA	2
BOS	2
SJC	1
EWR	1
ORD	1

### TWA - WHAT WE ACQUIRED

- THROUGH THE TWA TRANSACTION, AA ACQUIRED A TOTAL OF 171 SLOTS AT FIVE KEY AIRPORTS

KEY FACILITIES SLOTS		
JFK	84	
LGA	51	41 Jet/10 Cmtr
DCA	34	All Jet
ORD	2	

### TWA - WHAT WE ACQUIRED

- IN TOTAL, AA ACQUIRED 173 AIRCRAFT
  - ASSUMED LEASES ON 153 AIRCRAFT
  - PURCHASED 20 AIRCRAFT OFF LEASE
  - AA REJECTED 10 AIRCRAFT
    - 3 X DC9s
    - 7 X 767-200s

KEY ASSETS AIRCRAFT	
767-300	9
757-200	27
717-200	15
MD-80	103
DC-9	19
<b>TOTAL</b>	<b>173</b>

# FLEET SUMMARY

## FLEET SUMMARY

- **AMR's FLEET PLAN HAS THREE KEY OBJECTIVES:**
  - MINIMIZE THE NUMBER OF FLEET TYPES AND SUB-FLEET TYPES
  - PROVIDE FOR FLEXIBILITY TO SCALE THE SIZE OF THE FLEET AS MARKET CONDITIONS WARRANT
  - IMPROVE THE ONBOARD PRODUCT OFFERING AND CONSISTENCY
  
- **THE TWA FLEET INTEGRATION PLAN WAS STRUCTURED TO ENSURE CONSISTENCY WITH THESE KEY OBJECTIVES**

### TWA LLC FLEET SUMMARY

- **AT THE END OF 2000, THE TWA FLEET INCLUDED 183 ACTIVE AIRCRAFT, MOST OF WHICH WERE LEASED**

AIRCRAFT TYPE	ON-HAND YE 2000
767-300ER	9
767-200ER	7
757-200	27
717-200	15
MD-80	103
DC-9	22
<b>TOTAL</b>	<b>183</b>

- **IN ADDITION, TWA HAD FIRM ORDERS FOR 35 BOEING 717s, 38 AIRBUS 318s AND 25 AIRBUS 319s**
  - THE FIRM AIRBUS ORDERS WERE REJECTED

### **TWA LLC FLEET SUMMARY**

- **THE TERMS AND CONDITIONS OF TWA'S AIRCRAFT LEASES WERE RENEGOTIATED WITH THE FOLLOWING OBJECTIVES:**
  - **REDUCE LEASE COST TO A LEVEL CONSISTENT WITH AA'S CREDIT RATING**
  - **TAKE THE OPPORTUNITY TO BUILD THE FLEXIBILITY TO CONTINUE TO SIMPLIFY THE COMBINED AMERICAN AND TWA FLEETS ON AN ACCELERATED BASIS**
  - **MAINTAIN AS CLOSELY AS POSSIBLE THE SCALE OF TWA'S OPERATION BY KEEPING AS MANY OF THE TWA AIRCRAFT AS ECONOMICALLY JUSTIFIABLE FOR AT LEAST THE SHORT-TERM**

### **TWA LLC FLEET SUMMARY**

- **IN ADDITION TO SUBSTANTIALLY REDUCING THE OVERALL LEASE EXPENSE, WE WERE ALSO ABLE TO ADJUST THE LEASE TERMS FOR NON-COMMON AIRCRAFT, CONSISTENT WITH OUR FLEET SIMPLIFICATION GOALS**
  - **FOR EXAMPLE, DC-9 LEASES WERE SHORTENED. HOWEVER, MANY MD-80 LEASES WERE EXTENDED OR THE UNITS WERE PURCHASED**
- **ON AVERAGE AA'S NEWLY NEGOTIATED LEASE TERM WAS SIMILAR TO THAT UNDER TWA'S AGREEMENTS**

### **TWA LLC FLEET SUMMARY**

- **ALTHOUGH TWA OPERATES MANY OF THE SAME FLEET TYPES AS AMERICAN, IT WOULD NOT BE ECONOMICAL TO KEEP ALL OF TWA'S AIRCRAFT FOR THE LONG-TERM**
  - **TWA'S 16 BOEING 767s HAVE PRATT & WHITNEY ENGINES WHILE AMERICAN'S 767'S ARE GE POWERED**
    - **IT IS NOT PRACTICAL TO RE-ENGINE TWA'S AIRCRAFT**
    - **IN ORDER TO AVOID THE COMPLEXITY OF A SMALL FLEET OF UNIQUE AIRCRAFT, WE CHOSE NOT TO TAKE ANY OF THE SEVEN 767-200s**
    - **ADDITIONALLY, WE PRIORITIZED THE NINE 767-300s FOR SHORT-TERM REPLACEMENT**
  - **SIMILARLY, TWA'S 27 BOEING 757s HAVE DIFFERENT ENGINES FROM AA'S FLEET. THUS WE COMPLETED SHORT-TERM DEALS FOR ALL 27 AIRCRAFT WITH LEASE EXPIRATIONS BETWEEN 2004 AND 2007**

### **TWA LLC FLEET SUMMARY**

- **AT THE BEGINNING OF 2001, TWA OPERATED 22 DC9s - ALL BUT ONE OF WHICH ARE AT LEAST 31 YEARS OLD**
  
- **AMERICAN DOES NOT OPERATE ANY DC9s**
  - **WE REJECTED THREE UNITS WHICH WERE AWAITING HEAVY MAINTENANCE (SAVING \$3 MM/AIRCRAFT)**
  - **WE CONCLUDED SHORT-TERM LEASES ON THE OTHER 19 UNITS WITH LEASE EXPIRATIONS IMMEDIATELY PRECEDING THEIR NEXT HEAVY MAINTENANCE VISIT**
  - **AS A RESULT, THE ENTIRE DC9 FLEET WILL BE RETIRED BY YEAR-END 2003**

### **TWA LLC FLEET SUMMARY**

- **TWA's 103 MD80s WERE GOOD CANDIDATES TO KEEP IN THE FLEET LONG-TERM, SUBJECT TO ACCEPTABLE LEASE TERMS, GIVEN THEIR COMMONALITY WITH AA's MD-80s**
  - **ULTIMATELY, WE WERE ABLE TO REACH ACCEPTABLE TERMS FOR LONG-TERM COMMITMENTS ON 99 OF THE 103 TWA MD-80s**
    - **79 ARE ON LONG-TERM OPERATING LEASES**
    - **20 WERE PURCHASED OUTRIGHT**
  - **WE NEGOTIATED ACCEPTABLE SHORT-TERM LEASES ON THE REMAINING FOUR UNITS**
  - **IN ADDITION, AS PART OF THE OVERALL LEASE NEGOTIATION PROCESS, WE AGREED TO ENTER INTO SIX-YEAR OPERATING LEASES FOR FIVE INCREMENTAL MD80s**

### **TWA LLC FLEET SUMMARY**

- **AT YEAR-END 2000, TWA HAD 15 BOEING 717s IN THE FLEET AND ANOTHER 35 ON FIRM ORDER**
  - **WHILE THE 717 IS NOT COMMON WITH OTHER AIRCRAFT IN THE COMBINED FLEET, WE WERE ABLE TO STRIKE AN ATTRACTIVE DEAL WITH BOEING**
- **AS PART OF THE LEASE RENEGOTIATIONS, AA AGREED TO ACCEPT 15 OF THE 35 BOEING 717s WHICH TWA HAD ON ORDER. IN RETURN, AA RECEIVED:**
  - **A SUBSTANTIAL DISCOUNT ON TWA's LEASE RATES**
  - **VERY FLEXIBLE EARLY RETURN PROVISIONS**
- **ACCEPTING THE 717s THEREFORE PROVIDES AA WITH SIGNIFICANT FLEXIBILITY TO ADJUST CAPACITY**



### **ADDITIONAL FLEET CHANGES**

- **OUR GOAL OF ELIMINATING THE PRATT POWERED B767s FROM THE AA/TW FLEET CREATED AN OPPORTUNITY TO ADDRESS MULTIPLE FLEET PLANNING OBJECTIVES**
- **AS A RESULT, WE RECENTLY EXERCISED 15 767-300ER PURCHASE RIGHTS THAT WILL PERMIT THE FOLLOWING:**
  - **REPLACEMENT OF TW's NINE MORE EXPENSIVE AND NON-COMMON 767-300ERs, THUS ELIMINATING A SUB-FLEET TYPE**
  - **REDEPLOYMENT OF A300s FROM THE NORTH ATLANTIC TO THE CARIBBEAN, THUS BETTER MATCHING THE NEEDS OF THOSE MISSIONS, AND THEREBY ELIMINATING ANOTHER SUB-FLEET TYPE**
  - **IMPROVED SCHEDULE EFFICIENCY FOR OUR EUROPE FLEET - CREATING A SAVINGS OF TWO WIDEBODY AIRCRAFT**
  - **REALLOCATION OF EXISTING CARIBBEAN ASSETS TO DOMESTIC FLYING, THUS ELIMINATING THE NEED TO ACQUIRE 19 NARROW BODY AIRCRAFT**

### **ADDITIONAL FLEET CHANGES**

- **THE ARRIVAL OF THE NEW GE POWERED 767s WILL ELIMINATE THE NEED TO INTEGRATE A SMALL FLEET OF PRATT POWERED 767-300s FROM THE TWA LLC FLEET INTO AA's LARGE FLEET OF 767s**
  - **AS WITH TWA's 767-200 AIRCRAFT THAT WE DID NOT ACCEPT, IT IS NOT PRACTICAL TO RE-ENGINE THE PRATT POWERED AIRCRAFT**
  - **THE ECONOMICS OF THIS APPROACH WERE FURTHER ENHANCED BY THE FAVORABLE PRICING THAT BOTH BOEING AND GE WERE PREPARED TO PROVIDE**

### **ADDITIONAL FLEET CHANGES**

- **WE CURRENTLY OPERATE 10 AIRBUS A300s TO LONDON IN A 3-CLASS CONFIGURATION AND ANOTHER 25 A300s TO THE CARIBBEAN IN A 2-CLASS CONFIGURATION**
- **THE NEW WIDEBODY ORDER WILL ALLOW US TO REMOVE THE 10 3-CLASS A300s FROM EUROPEAN SERVICE AND REDEPLOY THEM TO THE CARIBBEAN - LEAVING ONLY 767-300 AND 777 AIRCRAFT IN EUROPE**
  - **DUE TO IMPROVED ROUTING EFFICIENCIES, THIS CHANGE RESULTS IN TWO LESS AIRCRAFT BEING NEEDED TO SUPPORT OUR EUROPEAN SERVICE**
  - **THIS APPROACH PROVIDES A MORE CONSISTENT PRODUCT FOR THE CUSTOMER**
  - **AND THE 10 EUROPEAN A300s WILL BE CONVERTED TO 2-CLASS SERVICE TO MATCH THE OTHER 25 UNITS, THEREBY ELIMINATING A SUB-FLEET TYPE**

### **ADDITIONAL FLEET CHANGES**

- **AS THE CONVERTED A300s BEGIN CARIBBEAN FLYING, THEY WILL FREE-UP NARROW BODY 757 AND 737 AIRCRAFT**
  - **THESE AIRCRAFT WILL FLOW BACK INTO THE DOMESTIC SYSTEM**

## ADDITIONAL FLEET CHANGES

- THIS REASSIGNMENT OF AIRCRAFT WILL HAVE NO IMPACT ON OUR DOMESTIC GROWTH PLANS
  - AA's DOMESTIC CAPACITY PLANS ARE CALIBRATED TO EXPECTATIONS FOR ECONOMIC GROWTH
  - THUS, THE SUBSTITUTION OF 767s FOR A300s ON THE NORTH ATLANTIC, WHICH LEADS TO THE SUBSTITUTION OF A300s FOR 757 AND 737 AIRCRAFT CURRENTLY OPERATING IN THE CARIBBEAN, ALLOWS AMERICAN TO AVOID ORDERING A SUBSTANTIAL NUMBER OF NARROW BODY AIRCRAFT
    - THE NARROWBODY AIRCRAFT WITHDRAWN FROM THE CARIBBEAN AND NOW AVAILABLE TO OPERATE DOMESTICALLY EQUATE TO APPROXIMATELY 19 737-800S

## RESULTING FLEET PLAN\*

	YE'00	YEAR-OVER-YEAR			YE'03
		'01	'02	'03	
<b>AMERICAN</b>					
B777	27	13	5	2	47
B767-300ER	49	-	5	10	64
B757	102	16	7	-	125
B737	51	26	28	12	117
OTHER	<u>488</u>	<u>(39)</u>	<u>(30)</u>	<u>(20)</u>	<u>399</u>
TOTAL	717	+16	+15	+4	752
<i>TWA (Plan for integration to AA's fleet not shown)</i>					
B767	16	(7)	(3)	(6)	-
B757	27	-	-	-	27
MD80	103	-	-	-	103
B717	15	15	-	-	30
DC9	<u>22</u>	<u>(13)</u>	<u>(1)</u>	<u>(8)</u>	<u>-</u>
TOTAL	183	(5)	(4)	(14)	160
INCR'L MD80	0	3	2	-	5
<b>COMBINED TOTAL</b>	<b>900</b>	<b>+14</b>	<b>+13</b>	<b>(10)</b>	<b>917</b>

\* FIRM ORDERS ONLY

## **FLEET SUMMARY**

- **BY YEAR-END 2003, THE VARIETY OF AIRCRAFT ACQUIRED FROM TWA WILL HAVE BEEN REDUCED FROM FIVE TO ONLY THREE FLEET TYPES**
  - **MD80s WHICH ARE COMMON WITH AA'S FLEET**
  - **717s WHICH WILL PROVIDE SIGNIFICANT FLEET FLEXIBILITY GOING FORWARD AND**
  - **757s WHICH HAVE A COMMON AIRFRAME BUT NON-COMMON ENGINES. WE HAVE THE FLEXIBILITY TO RETIRE THESE AIRCRAFT BETWEEN 2004 AND 2007**
- **IN ADDITION, WE WILL ELIMINATE ANOTHER SUB-FLEET TYPE AT AA - THE 3 CLASS A300**

## **FLEET SUMMARY**

- **WHILE MAKING SUBSTANTIAL PROGRESS TOWARDS FURTHER SIMPLIFYING THE COMBINED AA/TW FLEET, WE WERE ABLE TO REDUCE TW'S LEASE OBLIGATIONS BY APPROXIMATELY \$200 MILLION PER YEAR AND, VIA OUR 717 AGREEMENT, PROVIDE AMERICAN WITH SIGNIFICANT FLEXIBILITY TO RATCHET DOWN CAPACITY AS BUSINESS CONDITIONS WARRANT**

# **REVENUE SYNERGIES**

## **REVENUE SYNERGIES**

- **REVENUE SYNERGIES ARE A KEY COMPONENT OF THE VALUE OF THE TWA TRANSACTION TO AMR**
  - **TWA'S REVENUE ON A STAND ALONE BASIS WAS LIMITED BY:**
    - **KARABU TICKETING AGREEMENT**
    - **SINGLE-HUB NETWORK**
    - **LIMITED MARKET PRESENCE OUTSIDE ST LOUIS**
    - **A RELATIVELY WEAK FREQUENT FLYER PROGRAM**
    - **FEW AIRLINE PARTNERS, EITHER INTERNATIONALLY OR DOMESTICALLY**
    - **A RELATIVELY LIMITED NUMBER OF CORPORATE CONTRACTS**
  - **REVENUE SYNERGIES WILL ALSO ACCRUE TO AA**

## **REVENUE SYNERGIES**

- **REVENUE SYNERGIES ARE EXPECTED TO GENERATE \$400-500 MILLION ANNUALLY ON A STEADY STATE BASIS**
- **THESE SYNERGIES WILL BE DRIVEN BY THE FOLLOWING FACTORS:**
  - **ELIMINATION OF THE KARABU TICKETING AGREEMENT**
  - **SCHEDULING EFFICIENCIES**
  - **SHARE SHIFT/CITY PRESENCE ENHANCEMENT**
  - **YIELD IMPROVEMENT RESULTING FROM:**
    - **INCREASED SHARE OF PREMIUM TRAFFIC AT TWA**
    - **AADVANTAGE PROGRAM**
    - **ALLIANCE RELATIONSHIPS**

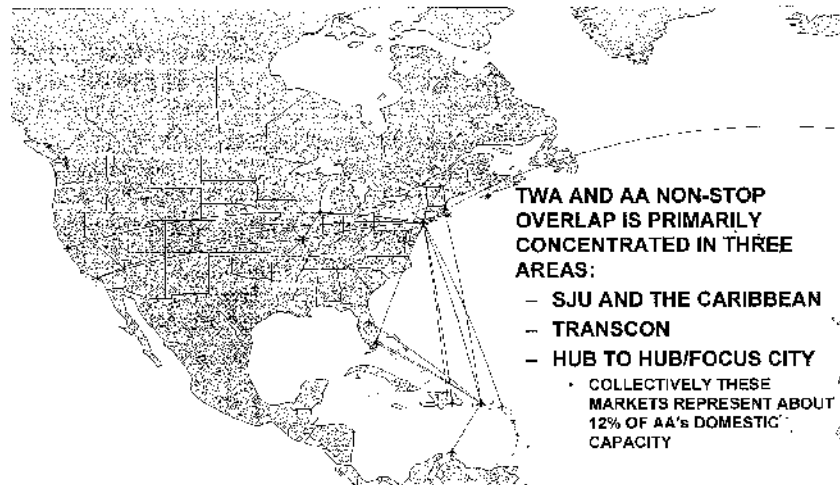
## **REVENUE SYNERGIES**

- **THE KARABU TICKETING AGREEMENT WAS ESTIMATED BY TWA TO BE COSTING THEM \$80-100 MILLION PER YEAR IN LOST REVENUE**
  - **WHILE IT IS DIFFICULT TO PRECISELY VALIDATE, OUR ESTIMATES INDICATE THAT THESE NUMBERS ARE REASONABLE**
  - **BASED ON TWA'S FULL-YEAR 2000 REVENUE, THE KARABU AGREEMENT REPRESENTED A 3% DILUTION TO PASSENGER REVENUE**

## **REVENUE SYNERGIES**

- **SCHEDULE EFFICIENCIES WILL ULTIMATELY ACCRUE TO BOTH TWA AND AA AS THE COLLECTIVE CAPACITY IS BEST ALLOCATED ACROSS THE ENTIRE NETWORK**
  - **SOME OF THESE CHANGES ARE ALREADY OCCURRING, INCLUDING SOME RECENTLY ANNOUNCED REDUCTIONS IN SAN JUAN FLYING**
  - **ADDITIONAL SCHEDULE ADJUSTMENTS WILL OCCUR OVER THE NEXT SEVERAL MONTHS**
- **FURTHER REVENUE SYNERGIES WILL BE DERIVED AS THE NETWORKS ARE ULTIMATELY INTEGRATED**

### AA AND TWA NON-STOP OVERLAP



### REVENUE SYNERGIES

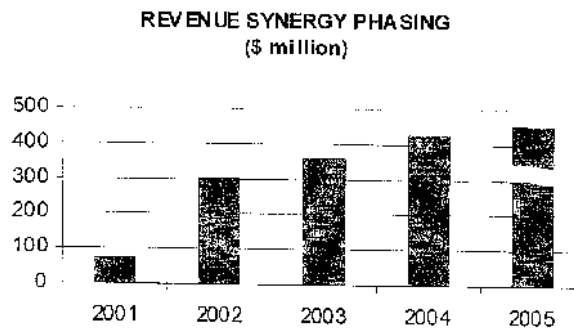
- REVENUE INCREASES RESULTING FROM ENHANCED CITY PRESENCE OR SHARE SHIFT SHOULD ACCRUE TO BOTH THE TWA LLC AND AA NETWORK
  - AS DISCUSSED EARLIER, TWA BOLSTERS AA'S MARKET POSITION IN ALL KEY FOCUS CITIES
    - FOR EXAMPLE, IN LOS ANGELES, AA'S DOMESTIC MARKET SHARE WILL RISE FROM 16% TO 20%. BASED ON 'S-CURVE' ECONOMICS, THIS SHOULD RESULT IN AN EVEN LARGER INCREASE IN REVENUE SHARE
  - ADDITIONALLY, TWA'S HISTORIC REVENUE BASE WAS LIMITED BY A LACK OF SIGNIFICANT MARKET PRESENCE OUTSIDE OF ST. LOUIS

## REVENUE SYNERGIES

- TO PUT THE COLLECTIVE REVENUE SYNERGIES IN CONTEXT, TWA'S UNIT REVENUE DEFICIT TO AA IN 2000, AFTER ADJUSTING FOR STAGE LENGTH AND CONFIGURATION, WAS 20%
  - OUR STEADY STATE REVENUE SYNERGY ESTIMATES EQUATE TO CLOSING TWO THIRDS, OR 12-15 POINTS OF THIS GAP
  - OR, PUT ANOTHER WAY, IT REPRESENTS A 2% UNIT REVENUE IMPROVEMENT ACROSS THE COMBINED AA/TWA NETWORK

## REVENUE SYNERGIES

- REVENUE SYNERGIES WILL PHASE IN OVER TIME
  - KARABU BENEFITS SHOULD COME EARLY ON
  - SHARE SHIFT AND YIELD IMPROVEMENT SHOULD GROW OVER TIME



# COST IMPLICATIONS



## **COST IMPLICATIONS**

- **WHILE REVENUE SYNERGIES ARE LARGE, THE COST IMPACTS ARE MORE OF A MIXED BAG**
  - **THERE WILL BE LABOR COST INCREASES AS TWA LLC'S UNION EMPLOYEES ARE MOVED TO AA CONTRACTS**
  - **HOWEVER, THERE ARE SOME CLEAR COST SAVINGS THAT DO RESULT FROM THIS TRANSACTION**

## **COST IMPLICATIONS**

- **LABOR COST INCREASES ARE EXPECTED AS TWA LLC EMPLOYEES ARE TRANSITIONED TO AA CONTRACTS**
  - **APPLICATION OF AA WAGE RATES AND WORK RULES IS EXPECTED NO LATER THAN JANUARY 1, 2002**
  - **ANNUAL COST OF THESE CHANGES IS ESTIMATED AT \$260 MILLION**

## **COST SYNERGIES**

- **OFFSETTING THE ADDED LABOR EXPENSE ARE ANNUAL COST SYNERGIES THAT ARE EXPECTED TO GENERATE MORE THAN \$150 MILLION ON A STEADY STATE BASIS (EXCLUDING THE LEASE SAVINGS NOTED EARLIER) DRIVEN PRIMARILY BY:**
  - **ELIMINATION OF DUPLICATIVE OVERHEAD**
  - **REDUCED AND RATIONALIZED FACILITY RENTS**
  - **CONTRACT PURCHASING**
  - **FUEL PROGRAMS AND HEDGING**

### **COST SYNERGIES**

- **BY CONSOLIDATING HEADQUARTER AND STAFF FUNCTIONS, WE WILL BE ABLE TO ELIMINATE A SUBSTANTIAL AMOUNT OF DUPLICATIVE OVERHEAD AND ASSOCIATED SPENDING**
  - **SOME OF THESE SAVINGS WILL OCCUR EARLY (E.G. ADVERTISING, LEGAL, FINANCE)**
  - **OTHERS WILL NOT MATERIALIZE UNTIL THE TWA LLC OPERATION IS FULLY INTEGRATED INTO THE SAME CRS HOST (SABRE) AS AMERICAN (E.G. COMPUTER SYSTEMS MAINTENANCE, INTEGRATED AIRPORT MANNING)**

### **COST SYNERGIES**

- **BY RATIONALIZING THE COMBINED AA/TWA FACILITY NEEDS, WE ARE ABLE TO REDUCE AIRPORT RENTS**
  - **A NUMBER OF AIRPORT LEASES WERE REJECTED OUTRIGHT DURING THE ACQUISITION**
  - **OTHER LEASES WERE MODIFIED AND SHORTENED AS NECESSARY TO FACILITATE A SMOOTH INTEGRATION IN AIRPORTS WHERE THE COMBINED SPACE WAS MORE THAN NEEDED**
  - **IN SOME AIRPORTS, LIKE DFW AND LGA, WE HAVE KEPT ALL OF TWA'S GATES DESPITE THE FACT THAT TWA'S OWN SCHEDULE DOES NOT JUSTIFY THEM. IN THESE CITIES, THE COMBINED ENTITY WILL GAIN IMPROVED UTILIZATION FROM THESE FACILITIES AS THE OPERATIONS ARE INTEGRATED**
    - **THIS REPRESENTS A SAVINGS OF \$85 MILLION ON A PRESENT VALUE BASIS**

### **COST SYNERGIES**

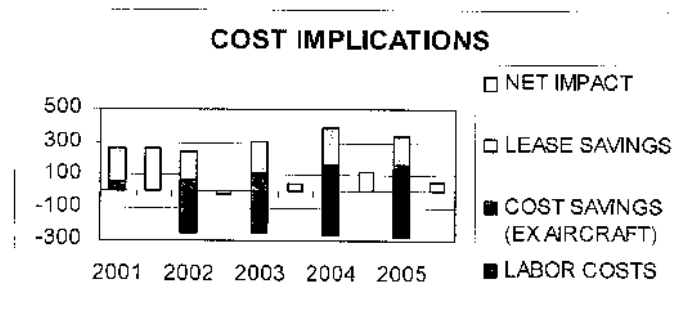
- **ADDITIONAL COST SYNERGIES WILL BE GAINED BY APPLYING AA'S CONTRACT PURCHASING PROGRAMS TO TWA'S PROCUREMENT**
  - **DUE TO LIMITED RESOURCES, TWA HAD ONLY 20% OF THEIR PURCHASING UNDER CONTRACT**
  - **AA PURCHASES ABOUT 70% OF ITS SUPPLIES UNDER CONTRACT**
  - **THE COMBINED ENTITY WILL ALSO ACHIEVE EVEN GREATER SAVINGS THROUGH AA'S PARTICIPATION IN CORDIEM**

### **COST SYNERGIES**

- **SAVINGS ARE ALSO EXPECTED FROM FUEL PURCHASING AND HEDGING**
  - **SOME SAVINGS WILL COME FROM LOWER INTO-PLANE FUEL EXPENSE AS TWA IS ROLLED INTO AA'S FUELING CONTRACTS**
  - **ADDITIONALLY, TWA LLC SHOULD BENEFIT FROM REDUCED EARNINGS VOLATILITY AS AMR'S HEDGE PROGRAM IS APPLIED TO THE LLC'S FUEL CONSUMPTION**
    - **IN ANTICIPATION OF THE TWA TRANSACTION CLOSING, AMR BEGAN INCREASING OUR HEDGE POSITIONS TO ACCOUNT FOR THE ADDED CONSUMPTION TWA WOULD BRING TO THE COMBINED ENTITY**

## COST SYNERGIES

- **AS WITH THE REVENUE SYNERGIES, COST SYNERGIES WILL PHASE IN OVER TIME**
  - **OVERHEAD RATIONALIZATION SHOULD BEGIN THIS YEAR**
  - **FUEL HEDGES SHOULD ALSO BRING EARLY BENEFITS**



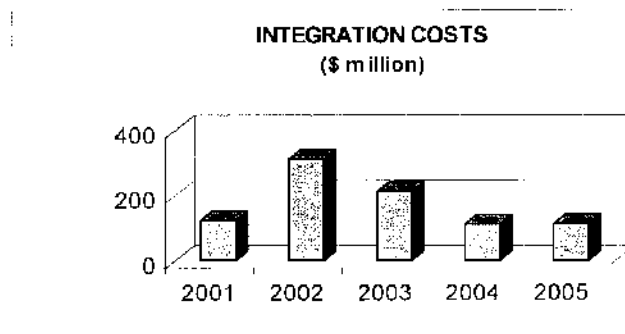
# INTEGRATION COSTS

## INTEGRATION COST

- **WHILE THE EXPECTED REVENUE/COST SYNERGIES ARE GREAT, THERE ARE A NUMBER OF INTEGRATION COSTS WHICH WILL IMPACT EARLY RESULTS:**
  - **REQUIRED FLEET MODIFICATIONS**
  - **FACILITY INTEGRATION**
  - **TRAINING**
  - **OTHER ONE-TIME ITEMS**
    - **FACILITY UPDATES**
    - **SYSTEM CONVERSION**
    - **SEVERANCE/RELOCATION**

## INTEGRATION COST

- THESE COSTS WILL PRIMARILY OCCUR DURING THE FIRST THREE YEARS



## INTEGRATION COST

- WE ARE CURRENTLY REFINING OUR ANALYSIS ON HOW THE VARIOUS INTEGRATION COSTS WILL BE TREATED FOR ACCOUNTING PURPOSES
- WHILE MOST OF THE INTEGRATION RELATED COSTS WILL LIKELY BE CAPITALIZED, WE DO EXPECT 15-20% OF THE COSTS TO BE EXPENSED
  - THE REMAINDER WOULD BE DEPRECIATED

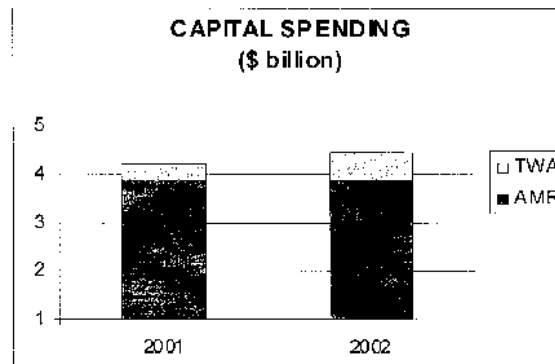
# FINANCIAL IMPACT

## CAPITAL SPENDING

- IN LIGHT OF THE TWA ACQUISITION, THERE WILL BE AN INCREASE TO AMR'S BASE, NON-AIRCRAFT CAPITAL EXPENDITURE AS WE MOVE FORWARD
- ADDITIONALLY, WHILE THE INCREMENTAL 767-300s WILL ADD MODESTLY TO TOTAL CAPITAL SPENDING, WE DO EXPECT OFFSETS IN TERMS OF LOWER NARROW-BODY ORDERS
  - BASED JUST ON RELATIVE SEATING CAPACITY, THE 10 REALLOCATED A300s WOULD EQUATE TO APPROXIMATELY 19 737-800s WORTH OF CAPACITY

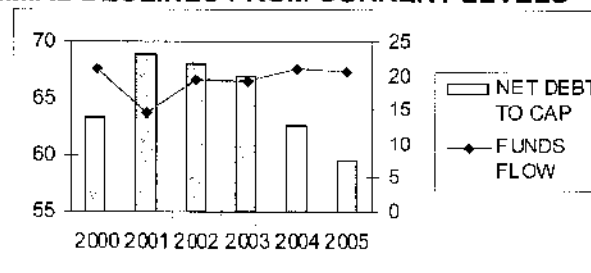
## CAPITAL SPENDING

- BASED ON THE ADDITION OF TWA, AND THE OTHER CHANGES WE HAVE MADE TO OUR PLAN, WE WOULD EXPECT THE FOLLOWING LEVELS OF CAPITAL SPENDING OVER THE NEXT TWA YEARS:



## BALANCE SHEET

- **DESPITE THE REVISIONS TO THE CAPITAL PLAN, WE WILL MAINTAIN A VERY STRONG BALANCE SHEET**
  - **LIQUIDITY REMAINS STRONG DUE TO AVAILABLE CASH AND UNENCUMBERED ASSETS**
  - **AMR's NET DEBT TO CAPITAL SHOULD PEAK AT 69% IN 2001**
  - **IN ADDITION, AMR's COVERAGE RATIOS SHOULD SEE MINIMAL DECLINES FROM CURRENT LEVELS**



## ACCRETION/DILUTION

- **WHEN WE ANNOUNCED THE TWA AND UNITED/DC AIR TRANSACTIONS BACK IN JANUARY, WE PROVIDED SOME EXPECTATIONS FOR ACCRETION/DILUTION**
  - **OUR ASSUMPTIONS WERE BASED ON ALL THREE DEALS GOING FORWARD UNDER A SIMILAR TIME FRAME**
- **SINCE THE TIMING OF THESE DEALS HAS DIVERGED, WE WANTED TO PROVIDE AN UPDATE ON THE TWA DEAL ON ITS OWN**

## ACCRETION/DILUTION

- **BASED ON THE SYNERGIES WE OUTLINED EARLIER, WE EXPECT TWA TO BE NICELY ACCRETIVE OVER TIME**
- **IN FACT WE INDICATED RECENTLY THAT THE DEAL COULD BE NEUTRAL TO EARNINGS IN 2001**
  - **WHILE WE ARE STILL HOPEFUL THAT THIS WOULD BE THE CASE, WE HAVE YET TO SEE SIGNS THAT THE WEAK UNDERLYING REVENUE ENVIRONMENT IS TURNING AROUND**
  - **SINCE THE GENERAL ECONOMIC CLIMATE WILL IMPACT TWA'S REVENUE BASE, AS IT DOES AMERICAN'S, THERE IS SOME EARNINGS RISK IN THE NEAR TERM**

## ACCRETION/DILUTION

- **NONETHELESS, WE DO EXPECT THAT AS THE REVENUE SYNERGIES BEGIN TO ACCELERATE IN 2002 AND BEYOND, THAT THE TRANSACTION WILL BE SUBSTANTIALLY ACCRETIVE TO EARNINGS**

ACCRETION



## INTEGRATING TWA INTO AA



## **OVERVIEW**

- **INTEGRATION PERSPECTIVES**
- **INTEGRATION PLAN**
- **LABOR INTEGRATION STATUS**

### **INTEGRATION PERSPECTIVES**

- **MERGING TWO AIRLINES IS EXTRAORDINARILY COMPLEX**
  - **IT REQUIRES CONSIDERATION OF COMPUTER SYSTEMS, CUSTOMER PROGRAMS, LABOR ISSUES, AND THEIR INTERDEPENDENCIES**
  - **AT THE SAME TIME, THERE EXISTS CONSIDERABLE FINANCIAL LEVERAGE TO MOVE FAST, PARTICULARLY ON MARKETING INTEGRATION**

### **RECENT AIRLINE INTEGRATIONS**

- **THE TRACK RECORD FOR RECENT AIRLINE INTEGRATIONS IS LESS THAN STELLAR**
- **FOR INSTANCE, AIR CANADA, DURING THEIR INTEGRATION OF CANADIAN LAST YEAR, CREATED SIGNIFICANT CUSTOMER SERVICE AND EMPLOYEE ISSUES**
  - **THESE ISSUES WERE DRIVEN LARGELY BY THEIR EFFORTS TO FULLY INTEGRATE SCHEDULES BEFORE LABOR AND SYSTEMS**

### **AA/TWA SUCCESSES TO DATE**

- **WITH THAT BACKDROP, IT IS WORTH REVIEWING OUR SUCCESSES TO DATE WITH AA/TWA INTEGRATION**
  - **OVER 14,000 CONTRACTS WERE REVIEWED, OF WHICH ROUGHLY 5,000 WERE REPLACED OR RENEGOTIATED WITHIN A SIX-WEEK DUE DILIGENCE PERIOD**
  - **THE DEAL CLOSED ON APRIL 9, THE EARLIEST DATE POSSIBLE BASED ON THE BANKRUPTCY COURT SCHEDULE**
  - **TWA OPERATED SUCCESSFULLY AFTER CLOSE, WHICH REQUIRED TRANSFER OF FAA OPERATING CERTIFICATE, DOT ROUTE AUTHORITIES, AND A MYRIAD OF OTHER PERMITS UNIQUE TO A BANKRUPTCY SALE**

# **INTEGRATION PLAN**

## **OVERVIEW**

- **WE HAVE NOW BEEN ENGAGED IN INTEGRATION PLANNING FOR ALMOST 5 WEEKS SINCE THE DEAL CLOSED. THE RESULTS OF THIS EFFORT ARE:**
  - **A DETAILED PICTURE OF THE INTEGRATION OF KEY MARKETING AND STRATEGIC FUNCTIONS INTO AA DURING THE NEXT 2 MONTHS, WHICH WE REFER TO AS PHASE 1**
  - **A CLEAR CONCEPT OF HOW THE INTEGRATION OF OPERATING FUNCTIONS SHOULD PROCEED, ALTHOUGH NOT YET TO THE POINT OF A DETAILED PLAN**

## **FUNCTIONS INVOLVED IN PHASE 1**

- **EARLY IN THE PLANNING PROCESS, WE IDENTIFIED SEVERAL STAFF DEPARTMENTS WHICH WE FELT WERE CRITICAL TO IMPROVING TWA'S PROFITABILITY AND WHICH COULD BE TRANSITIONED WITHOUT MAJOR LABOR OR COMPUTER SYSTEM ISSUES**
  - **MARKETING FUNCTIONS INCLUDE PASSENGER SALES, REVENUE MANAGEMENT, SCHEDULING, AND ADVERTISING**
  - **KEY FINANCIAL FUNCTIONS INCLUDE TREASURY, PROFITABILITY ANALYSIS, PURCHASING, AUDITS, AND DISBURSEMENTS**

## **PHASE 1 SCHEDULE**

- **WE ARE MOVING FORWARD WITH AN AGGRESSIVE SCHEDULE TO TRANSFER THOSE PHASE 1 FUNCTIONS COMPLETELY BY MID-JULY**

<b>LATE-MAY</b>	<b>TWA INFORMATION SESSIONS</b>
<b>EARLY-JUNE</b>	<b>INTERVIEWS FOR AVAILABLE POSITIONS</b>
<b>MID-JUNE</b>	<b>NEW ORGANIZATION FINALIZED</b>
<b>LATE-JUNE</b>	<b>WORK TRANSFER BEGINS</b>
- **TO ENSURE ACCURATE INTERNAL FINANCIAL DATA, THE SERVICES PROVIDED BY AA WILL BE TRANSFER PRICED BACK TO TWA AIRLINES LLC**

## **OVERHEAD SAVINGS**

- **IN THESE PHASE 1 FUNCTIONS BEING TRANSFERRED, TWA'S HEADCOUNT AVERAGED ABOUT 530 FULL-TIME EQUIVALENTS IN 2000**
- **ON A STEADY-STATE BASIS, AA WILL NEED FAR LESS HEADCOUNT TO PERFORM THIS WORK**
  - **THESE SAVINGS ARE GENERALLY DRIVEN BY EITHER EFFICIENCIES DUE TO AA'S MORE SOPHISTICATED AUTOMATION OR SIMPLE SCALE ECONOMIES**

## **TRANSITION PHASE**

- **WHILE MOST OF THESE HEADCOUNT SAVINGS WILL OCCUR IMMEDIATELY, SOME WILL BE GRADUALLY TRANSITIONED**
  - **FOR INSTANCE, APPROXIMATELY 80 TRANSITION HEADS IN THESE GROUPS WILL NEED TO REMAIN AT TWA SIMPLY BECAUSE TWA IS CURRENTLY HOSTED IN WORLDSPAN**
- **HEADCOUNT SAVINGS IN JULY 2001 IN THESE PHASE 1 FUNCTIONS, HOWEVER, WILL STILL BE SIGNIFICANT**

## **PHASED INTEGRATION**

- **WE ARE CONVINCED THAT A PHASED INTEGRATION MAKES THE MOST SENSE**
  - **PHASING ALLOWS US TO PROVIDE MANY OF THE CUSTOMER BENEFITS AND LEVERAGE THE AA BRAND QUICKLY**
- **IN CONTRAST, MOVING QUICKLY ON OPERATIONS INTEGRATION IS SIMPLY NOT POSSIBLE, GIVEN OUR DIFFERENT AIRCRAFT AVIONICS, AIRCRAFT INTERIORS, CREW TRAINING, AND OPERATING PROCEDURES**
  - **FORTUNATELY, THE FINANCIAL LEVERAGE INVOLVED WITH INTEGRATING OPERATIONS IS NOT AS GREAT AS IT IS WITH MARKETING INTEGRATION**

## **MARKETING STEPS TO DATE**

- **BEFORE DISCUSSING OUR THOUGHTS ON OPERATIONS INTEGRATION, IT IS WORTHWHILE REVIEWING THE MARKETING STEPS WE HAVE TAKEN TO DATE**
  - **RECIPROCAL FREQUENT FLYER PROGRAMS**
  - **EXTENSION OF AA CORPORATE AND TRAVEL AGENCY PROGRAMS TO TWA FLYING**
  - **COMBINABLE FARES AND CONSISTENT FARE RULES**
  - **RECIPROCAL AIRPORT CLUB ACCESS**

## **MARKETING STEPS IN 2ND HALF 2001**

- **DURING THE 2ND HALF OF 2001, WE EXPECT TO CONTINUE WITH ADDITIONAL MARKETING STEPS**
  - **MORE ROOM RECONFIGURATION ON TWA LLC AIRCRAFT WILL BE EXPEDITED, WITH THE GOAL TO COMPLETE ALL AIRCRAFT THIS YEAR**
  - **INFLIGHT PRODUCTS AND SERVICE LEVELS WILL BE MODIFIED TO CONFORM TO AA's WHERE POSSIBLE**
  - **AIRPORT CO-LOCATION AT SEVERAL AIRPORTS WILL LIKELY BE POSSIBLE BY YEAR-END, WITH SPECIAL ATTENTION FOCUSED ON HUB CITIES**

## **OPERATIONS INTEGRATION OVERVIEW**

- **OPERATIONS INTEGRATION IS NOT ONLY COMPLEX BECAUSE WE HAVE DIFFERENT AIRCRAFT; WE ALSO CONTROL OUR OPERATIONS WITH DIFFERENT AUTOMATION SYSTEMS**
  - **THROUGHOUT INTEGRATION, WE MUST WORK HARD TO MINIMIZE CUSTOMER SERVICE FAILURES**
- **DESPITE THESE CHALLENGES, WE BELIEVE IT IS POSSIBLE TO INTEGRATE OPERATIONS AT A STEADY PACE AND TO START RECOGNIZING EFFICIENCIES THIS YEAR**
  - **THE KEY IS TO FULLY UNDERSTAND THE INTERDEPENDENCIES AND CRITICAL PATH ITEMS**

### **LONG LEAD TIME ITEMS**

- **OUR CURRENT THINKING IS THAT FULL OPERATIONAL INTEGRATION MAY TAKE AS LONG AS 3 TO 4 YEARS**
  - **THIS IS DRIVEN BY AIRCRAFT MODIFICATION, WHICH IS BASED ON PARTS DELIVERIES TAKING AS LONG AS 18 TO 24 MONTHS**
- **IF THIS PRELIMINARY DATA IS CORRECT, WE WOULD BEGIN CONVERTING AIRCRAFT TO AA SPECIFICATIONS IN LATE 2002 OR EARLY 2003**
  - **THE AIRCRAFT CONVERSION SCHEDULE IS SIGNIFICANT TO FLIGHT CREW AND MAINTENANCE INTEGRATION, BOTH OF WHICH ARE GOVERNED BY SPECIFIC FAA OPERATING PROCEDURES**

### **FLIGHT CREW/MAINTENANCE INTEGRATION**

- **CONCEPTUALLY, AS EACH AIRCRAFT IS MODIFIED TO AA STANDARDS, IT PASSES ACROSS THE "FENCE"**
  - **OUR CURRENT TENTATIVE AGREEMENT WITH OUR PILOTS UNION ALLOWS FOR A PILOT "FENCE" THROUGH DECEMBER 31, 2004**
- **TO THE EXTENT THAT EXISTING TWA AIRCRAFT ARE RETIRED OR MODIFIED FASTER THAN TWA PILOTS ARE RETIRING, TWA PILOTS WOULD BE ALLOWED TO CROSS OVER THE "FENCE"**
  - **THIS PROCESS ALLOWS THE EXISTING AA PILOT BIDDING SYSTEM TO CONTINUE, WHILE AVOIDING EXTRAORDINARY TRAINING REQUIREMENTS**

## **AIRPORT/RESERVATIONS INTEGRATION**

- **AIRPORT AND RESERVATIONS INTEGRATION CAN FOLLOW A MUCH DIFFERENT SCHEDULE**
  - **THE PRIMARY TECHNICAL ISSUES DRIVING AIRPORT AND RESERVATIONS INTEGRATION ARE AIRLINE MARKETING CODE AND CRS HOST CONVERSION**
- **IT IS TECHNICALLY POSSIBLE TO CONVERT TWA FLIGHTS TO PREDOMINANTLY AA MARKETED FLIGHTS (AA\*) VERY QUICKLY**
  - **THE QUESTION IS WHETHER WE CAN PRODUCE QUALITY CUSTOMER SERVICE AS QUICKLY**

## **CHALLENGES TO AIRPORT/RESERVATIONS INTEGRATION**

- **THE REAL CHALLENGE IN AIRPORT/RESERVATIONS INTEGRATION IS CONVERTING TO A COMMON REAL-TIME SYSTEM FOR OPERATIONS. WITHOUT THIS CHANGE:**
  - **AIRPORT AGENTS ARE LIMITED IN THEIR ABILITY TO PROVIDE SERVICE TO ALL CUSTOMERS**
  - **RESERVATIONS AGENTS FACE SITUATIONS WHERE THEY HAVE INCOMPLETE PASSENGER INFORMATION**
- **GIVEN THE CRITICALITY OF THIS ISSUE, WE HAVE FOCUSED CONSIDERABLE RESOURCE ON EXPEDITING THE CONVERSION OF TWA'S HOST SYSTEM TO SABRE**



## **KEY DRIVERS IN TWA'S SYSTEM CONVERSION**

- **WE DO NOT YET HAVE ALL THE ANSWERS, BUT FOUR KEY ISSUES SEEM TO DRIVE THE SYSTEM CONVERSION**
  - **INFRASTRUCTURE FOR NEW SABRE HARDWARE AT EACH TWA AIRPORT LOCATION**
  - **INTERFACES BETWEEN SABRE AND TWA'S COMMERCIAL SYSTEMS CONTROLLING OPERATIONS**
  - **TRAINING TWA'S OPERATING PERSONNEL, PARTICULARLY AIRPORT AND RESERVATIONS AGENTS**
  - **SABRE/WORLDSpan INTERFACE SOFTWARE TO ALLOW A PHASED AIRPORT CONVERSION**

## **TIMING OF SYSTEM CONVERSION**

- **GIVEN THAT WE DO NOT HAVE ALL THE ANSWERS AT THIS POINT, IT IS VERY DIFFICULT TO COMMIT TO TIMING OF CONVERSION**
  - **AT THIS JUNCTURE WE CAN COMMIT TO CONVERSION BY EARLY 2002, RECOGNIZING THAT IT WOULD BE QUITE CHALLENGING TO IMPLEMENT THIS CONVERSION DURING ANY PEAK TRAVEL PERIOD**
  - **WE ARE EXPEDITING THIS EFFORT WITH ALL AVAILABLE RESOURCES**

## **INTERIM CODESHARING PLANS**

- **DESPITE ALL THE CHALLENGES WITH DELIVERING PERFECT CUSTOMER SERVICE IN A CODESHARE PRIOR TO SYSTEM CUTOVER, WE WILL LIKELY START A FAIRLY MODEST LEVEL OF CODESHARING LATER THIS SUMMER**
  - **THIS WILL PROVIDE US SOME SCHEDULING FLEXIBILITY TO PURSUE BETTER OVERALL SYSTEM REVENUE OPPORTUNITIES**
  - **IT WILL ALSO GIVE US VALUABLE EXPERIENCE SHOULD UNFORESEEN EVENTS DELAY TWA'S CUTOVER TO SABRE**

# **LABOR STATUS**

## **LABOR INTEGRATION**

- **BRINGING TOGETHER TWA AND AA EMPLOYEES WILL BE KEY TO A SUCCESSFUL INTEGRATION**
  - **PRIOR AIRLINE MERGERS HAVE STUMBLER BECAUSE OF LABOR ISSUES**
- **HOWEVER, THE TRANSACTIONS WE ANNOUNCED IN JANUARY, INCLUDING TWA, WERE SPECIFICALLY CONSTRUCTED TO BE BENEFICIAL TO LABOR, AS WELL AS TO SHAREHOLDERS AND CUSTOMERS**

## **APA AGREEMENT**

- **ON APRIL 9, IN CONJUNCTION WITH THE CLOSING, AMR AND THE APA ANNOUNCED A TENTATIVE AGREEMENT ON TRANSITION RELATED ISSUES**
  - **THE AGREEMENT DID NOT ADDRESS SENIORITY INTEGRATION**
- **THIS AGREEMENT WOULD PROVIDE FOR THE SMOOTH INTEGRATION OF TWA INTO AMR WHILE ENSURING DESIRED PROTECTIONS FOR AA'S PILOTS**
  - **APA'S BOARD OF DIRECTORS IS SCHEDULED TO VOTE ON THIS AGREEMENT THIS MONTH**

## **LABOR INTEGRATION**

- **WHILE MANY ISSUES WOULD BE ADDRESSED WITH A RATIFIED APA AGREEMENT, THERE ARE STILL SOME OUTSTANDING ITEMS:**
  - **SENIORITY LIST INTEGRATION NEEDS TO BE DETERMINED BY THE UNIONS AT AA AND TWA**
    - **APA AND ALPA**
    - **APFA AND IAM**
    - **TWU AND IAM**
  - **AN INTEGRATION PLAN FOR AGENTS, WHICH ARE NOT UNIONIZED AT AA, BUT ARE REPRESENTED BY THE IAM AT TWA, NEEDS TO BE FINALIZED**

## LABOR REPRESENTATION

- **FOR THE IMMEDIATE TERM, TWA EMPLOYEES WILL CONTINUE TO BE REPRESENTED BY THEIR EXISTING UNIONS**
  
- **ONCE SENIORITY INTEGRATION ISSUES ARE RESOLVED, WE ANTICIPATE THAT AMERICAN'S UNIONS WILL PETITION THE NATIONAL MEDIATION BOARD TO ALLOW THEM TO REPRESENT THE TWA EMPLOYEES**

Senator TALENT. Mr. Case, ALPA gave up in the course of this Allegheny-Mohawk protections, isn't that right?

Mr. CASE. I would not directly say they gave up. Basically what happened was that all the labor-protective positions in our contract were required to be amended by American Airlines. That was part of the purchase agreement. And as a matter of fact—and I think this has escaped a lot of people—TWA was not in bankruptcy. Bankruptcy was a requirement of the asset purchase.

Senator TALENT. Right. Even if TWA had gone back into bankruptcy, that does not mean it was going to cease to operate. It could have been restructured and come out, as in fact it did.

Mr. CASE. Absolutely not. TWA had proven to be a very resilient airline, as a matter of fact, surfacing after two previous bankruptcies, and a lot of that resilience was based on the fact that the employees were very dedicated to making sure that the airline continued to fly. It was in my opinion in no way, shape, or form going out of business. And the bankruptcy was simply a design of the sale.

Senator TALENT. And what I was getting at was that even in the back of your mind, there was a concern that without the buyout, TWA might not be able to continue operating indefinitely—and let us face it—that concern had been with you guys for years and years; it was not an airline that was in great shape financially. Nevertheless, you gave up or sacrificed your employee protections, and I guess what I want to ask is would you have done that if you had known that this was going to be the result?

Mr. CASE. Absolutely not, and as a matter of fact, through that resilience, the employees had built an ability to have labor directors on the board of directors with transaction-blocking votes. There is absolutely no way that the employees at TWA would have allowed the transaction to go through had we known where we would be today.

Senator TALENT. Yes, because from your perspective, it could not have ended up worse than it did.

Mr. CASE. Absolutely not, and as a matter of fact, in exchange for our cooperation, for our amending our contract, what we exchanged those provisions for was promises from American of fairness and equity. And when their vice president of employee relations does not see this as a fair integration, how did they stand by

and continue to sign it? They did not have to sign the integration agreements with their labor unions; they could have held that as a caveat to ensure a fair seniority list integration.

Senator TALENT. There are a couple more points I want to bring up, and then I am done, Mr. Chairman, and I appreciate your indulgence.

Mr. Case, in your longer written statement, you indicated that American actually, just before the effective date of the combination of the companies, did not just hire—you mentioned one pilot that they hired who is going to keep flying when you are not—but actually, they hired more than one, didn't they? How many did they hire?

Mr. CASE. Yes. There were hundreds who had been hired, and as a matter of fact, on the specific date that you are talking about, there was what they called, paraphrasing, a "furlough exchange program." What happened was that some of the American pilots had been furloughed who had hire dates prior to April 10, 2001. There were 208 American pilots on furlough status that were all hired prior to April 10, 2001. With the implementation of Supplement CC, which was the integration imposed upon us, 1,240-plus TWA pilots received a hire date of April 10, 2001, so American was obligated to bring those 208 American pilots back and exchange them for some of staple-ees.

So around the May time frame, after a single carrier was determined, they exchanged 208 American pilots; they brought back Mr. B.D. White's group, and in exchange for that, they placed TWA pilots on furlough in their place.

Senator TALENT. Thank you.

One more thing, Ms. Cooper. In your exchange with Senator Bond, you talked about talks that were never held. I think it is important for the record if you could just set forth who was representing whom. In the case of the flight attendants, who represented each of the employee groups, and which of the representatives had talks with American and which did not. Everybody who knows the background knows that, but I do not know how clear that was for the record.

Ms. COOPER. The International Association of Machinists and Aerospace Workers represented the TWA flight attendants, and as general chair for the flight attendants, I sent notices and requests to American Airlines to hold the facilitated talks. APFA, the Association of Professional Flight Attendants, represented American flight attendants. We asked for those talks to commence with the facilitator. American apparently held talk with APFA; they held no talks with us. We attempted as a follow-up to hold talks with TWA LLC because we were still the bargaining representative. American showed up and refused to discuss it with us and did not allow even TWA representatives to meet with us over seniority.

Senator TALENT. Did you talk with the APFA people at all?

Ms. COOPER. In talks about seniority—absolutely not. There were no talks that ever took place on that issue.

Senator TALENT. Thank you.

Thank you, Mr. Chairman.

Senator BOND. Thank you, Senator Talent.

Ms. Cooper, we asked Mr. Case a similar question. Is it your belief that the American management could have refused to accept the so-called integration agreement allegedly between the employees of the two companies?

Ms. COOPER. Absolutely—and you do not have to take my word for it. Mr. Baker, who was then a senior vice president of American Airlines, clearly indicated that they had no obligation to reach any agreement with APFA. In fact, he stated that any agreements that would be reached would have to come from the unions. In that powerpoint presentation that I discussed earlier, it even points that out to the American Airlines board of directors.

What he indicated would happen if there were no agreement between the unions was the natural process of a national mediation board, and once there would have been a single-carrier determination, there would have been no conflict between the unions, and APFA would have necessarily owed an obligation to the TWA LLC flight attendants.

So American by its actions interfered. American by its actions we believe committed fraud. American by its actions broke its written agreement with us.

Senator BOND. Ms. Schooling, you are being furloughed July 2. How soon does your health care coverage expire?

Ms. SCHOOLING. We are covered for 30 days from the time of furlough.

Senator BOND. Do you have any employment lined up?

Ms. SCHOOLING. No. I have not given it much thought at this point.

Senator BOND. Thank you.

Mr. Case, did American Airlines ever bargain collectively with you over seniority?

Mr. CASE. No, sir, they did not. As a matter of fact, they specifically said that they had no duty to bargain with us over seniority and that it was specifically left between the two unions; however, there were some actions that they took that did not indicate that. Once again, if it was just simply between the two unions, they did not have to sign off on something that was not agreed to; they could have signed off after something was agreed to or ensure that there was a fair integration.

Senator BOND. Were there some provisions of American's contracts with its union, APA and APFA, that were modified by agreement between American Airlines and the unions before or during the asset acquisition of TWA?

Mr. CASE. Yes, sir, as a matter of fact, there were. The APA contract, like many major airline contracts, requires that all flying be done by the corporation's pilots. As such, the APA had to amend their collective bargaining agreement or waive a provision of their agreement to even allow TWA LLC to operate with TWA LLC pilots.

Senator BOND. So in fact the company did achieve a change in the labor agreement.

Mr. CASE. Yes, sir. As a matter of fact, they achieved that change by basically exchanging promises and guarantees with the APA—in other words, it is the “alter ego airline” fear. Most pilot groups and most flight attendant groups do not want to see management

start up an alter ego airline and operate a low-cost or a separate carrier under the guise of a wholly-owned subsidiary. So they put protective provisions in the contract to make sure that that does not happen.

Senator BOND. Mr. Case, why didn't your national union, ALPA help you? You were dues-paying members of ALPA, weren't you?

Mr. CASE. Yes, sir, we were. And as a matter of fact, on the face of things, they appeared to be helping. Unfortunately, there were multiple conflicts within the national union that prevented a lot of their participation and assistance with us.

Senator BOND. Senator Talent, do you have any further questions?

Senator TALENT. One real quick one, Mr. Chairman.

Ms. Schooling, you say that you are getting 30 days of health care?

Ms. SCHOOLING. Yes.

Senator TALENT. Is that what is typical for American employees, or is that less?

Ms. SCHOOLING. That went into effect in June 2003 with the agreement that our union made with the company on the concession package that we only get 30 days. It was 90 days' paid medical coverage, and then it went to 30 days.

Senator TALENT. Thank you.

Mr. CASE. Senator, might I add just one point that I left out a minute ago?

Senator BOND. Yes.

Mr. CASE. Without getting too vulgar, this integration was classified by American's vice president of employee relations as "a shit sandwich."

Senator BOND. Well, I was going to ask if there was anything else we need to add, but I think I will not ask that question. [Laughter.]

To be serious, you understand that the record will be open so that additional questions may be asked of each of you for the record, and we would ask that you respond to those questions in a full and timely manner.

Do you agree to accommodate that request?

Mr. CASE. Yes.

Ms. COOPER. We will.

Ms. SCHOOLING. Yes.

Senator BOND. Thank you very much. We very much appreciate your testimony, and we will now hear from the second panel.

Mr. CASE. Thank you.

Ms. SCHOOLING. Thank you.

Ms. COOPER. Thank you.

Senator BOND. Mr. Brundage, is there anything we can get for you to make that leg more comfortable?

Mr. BRUNDAGE. No, thank you, Senator.

Senator BOND. Having just gone through a similar experience, I understand that this is not an easy thing for you to do.

The second panel includes Mr. Jeffrey Brundage, vice president of employee relations, appointed by American Airlines in 2001, overseeing employee relations matters with all union-represented employee groups. Previously, he served as managing director of em-

ployee relations for flights since December 1999, and for 7 years prior to joining American, Mr. Brundage worked for the Airline Pilots Association International, most recently as senior collective bargaining coordinator. He began his aviation career as a pilot for Pocono Airlines before serving in the same capacity for Atlantic Coast Airlines. He resides in Cooleyville, TX.

Our second witness on this panel is Captain Edwin C. White, an airline pilot employed by American Airlines since December 1977, a captain since 1987, currently a Boeing 777 captain based in Dallas-Fort Worth. Prior to that, he served in the United States Air Force, the DC. Air National Guard, and the Air Force Reserves. He is a member of the Allied Pilots Association Collective Bargaining Representative, currently chairman of the APA Negotiating Committee. In 2001 he was chairman of the APA's Mergers and Acquisitions Committee; on behalf of the committee, he participated in extended negotiations.

Gentlemen, we welcome you, and I would like to call on Mr. Brundage first for his testimony. We will accept your full testimony for the record, and if you could summarize in 5 minutes or so, we would appreciate it. Unfortunately, we have gotten notice that there is going to be another vote coming up before long, so we will try to get this in as quickly as we can.

Mr. Brundage?

**STATEMENTS OF JEFF BRUNDAGE, FORT WORTH, TX, VICE PRESIDENT, EMPLOYEE RELATIONS, AMERICAN AIRLINES; AND EDWIN C. WHITE, JR., FORT WORTH, TX, ALLIED PILOTS ASSOCIATION**

Mr. BRUNDAGE. Senator Bond, Senator Talent, thank you very much for your invitation to speak on behalf of American Airlines.

I am Jeff Brundage, vice president of employee relations. I joined American Airlines in December 1999 after a career as a pilot and a union leader. At American, I was actively involved in the labor integration plan when the company acquired the assets of TWA in the spring of 2001.

As you know, these are extraordinarily difficult time in the U.S. airline industry. Since the events of September 11, 2001, the industry has lost more than 100,000 jobs and has suffered perhaps more than any other industry from the economic downturn, the effects of war and the threat of terrorism on travel. So we certainly understand and appreciate your concerns and Senator Talent's concerns about the jobs lost and the effect on the people and the communities that you both represent.

Today I want to use my time to offer you a little background on American's acquisition of TWA's assets during the early part of 2001 and our efforts to provide jobs to the 20,000 TWA employees who would have otherwise been facing the liquidation of their company.

It was always our intent to provide jobs to the TWA workers until their retirement, and we did everything we could to put our newest employees on par with all other American employees. In fact, we provided pay and benefits that represent one of the most generous employee packages in the history of corporate acquisitions.



Before TWA filed bankruptcy in January of 2001, it approached the other major U.S. airlines about entering into some kind of transaction whereby TWA could have continued to operate. Only American was willing to make a comprehensive proposal that saved the jobs of many TWA employees.

Under the asset purchase agreement, American voluntarily agreed to provide employment to all unionized TWA employees. The bankruptcy court found American's offer to be the only qualifying offer and approved the asset purchase agreement. The alternative was liquidation, and the immediate unemployment of 20,000 TWA workers.

Our goal was to successfully integrate the two airlines. We knew that we would not be successful unless we had the good will of the TWA employees. From the very beginning, we offered TWA employees compensation and benefits that rewarded them as if they had worked their entire career at American.

TWA employees were not brought on as new hires and lost no pay, benefits, accrued vacation time, or sick leave. We gave TWA employees full credit for their longevity for these purposes.

As of January 2002, we put all TWA employees on American's pay scale. Because TWA pay rates had been significantly lower than those at American, the majority received a substantial pay increase.

It is important to note that this was not a merger. As we began the asset acquisition process, we had longstanding obligations to the existing workforce at American of more than 100,000 employees and to the contracts negotiated with their unions.

But the challenge of integrating two workforces goes beyond matters of benefits and pay. It is the right and the responsibility of the labor unions that represent our employees to negotiate on their memberships' behalf on a wide range of other contract provisions, including seniority and job protection, and they are at issue today.

This, as you can imagine, was a difficult situation for all involved. We had competing unions with competing interests, and ultimately, these matters were resolved as internal union matters. The company's role in the process was to use our best efforts to facilitate the seniority integration process, and as one independent arbitrator ruled, we did just that.

Even though the seniority integrations varied with each work group—pilots, flight attendants and ground workers—American met its commitment to provide former TWA employees full credit for their years of service at TWA for all pay and benefit purposes.

At the time of this asset acquisition, no one foresaw the industry's impending financial crisis—a financial crisis that regrettably has led to the furloughing of so many employees throughout the industry, including at American.

The ultimate consequences for the TWA employees were not the result of the integration plan, but rather an economic downturn that forced layoffs and cutbacks throughout the industry. The pain has been spread far and wide.

I appreciate the efforts of this Congress to provide aid to the airline industry and assistance to the tens of thousands of workers who have lost their jobs. I hope that we can all soon anticipate bet-

ter times for the U.S. airline industry and begin to turn our focus toward recall our fellow workers.

Thank you for your attention, and I would be happy to address your questions.

Senator BOND. Thank you very much, Mr. Brundage.

Captain White?

[The prepared statement of Mr. Brundage may be found in additional material.]

Mr. WHITE. Thank you all for giving us this opportunity today.

My name is Edwin White. I have been an airline pilot since 1977 at American Airlines and a captain since 1987. During my tenure at American, I have been a member of the Allied Pilots Association, the union representing the pilots at American, and have served in a variety of official positions at the APA. Most pertinent to your purposes here, I served as chairman of the APA Mergers and Acquisitions Committee, and in that position negotiated the agreement known as Supplement CC that governed the seniority integration of TWA pilots into American after American purchased most of the TWA assets in a bankruptcy proceeding in 2001. I am here to address that seniority integration.

It is my understanding that a group of former TWA pilots has charged that the pilot seniority integration established in Supplement CC is unfair to them. I can tell you, Senators, that I have heard that same charge from some incumbent American pilots, namely, that the integration was unfair to the incumbent pilot group. Complaints of this sort are standard in any major seniority integration in the airline industry.

I take issue with those charges from both sides of the house. What we sought to achieve in Supplement CC and what I believe we did achieve, was an extremely fair expression of the legitimate and realistic career expectations of both pilot groups. The former TWA pilots were fully credited with what they brought to the combined carrier—that is, aircraft and sustainable jobs—and so were the American pilots. That to my mind is the essence of fairness in a matter like this.

In my written statement to the committee, I have gone into considerable detail on the significant research and thought that went into Supplement CC and how it was based on virtual mathematical projections of the career paths of every former TWA pilot and every American Airlines pilot as of the date American purchased TWA assets. That methodology drew considerably on the thinking and proposals of the TWA pilots' own representatives as expressed in approximately 25 negotiating sessions.

Their thinking and concerns went into both the construction of the seniority list itself and also into the conditions and restrictions applied to give added protection to the TWA pilots.

Although you would hardly know it through the public statements of some of the former TWA pilots, at the end of those negotiations, there were only minor differences between the two sides' positions. And as the TWA pilots informed us at the time, they were willing to sign off on the final product of those negotiations if American were willing to agree to certain conditions that went beyond our capacity as employee representatives to deliver.

Much of the unhappiness with Supplement CC of course derives from the fact that the entire airline industry has been in a tailspin since 9/11, resulting in massive furloughs throughout the industry. I personally find any furlough regrettable. No doubt the former TWA pilots have suffered significantly due to furloughs. But before we find something wrongful in that, let us keep in mind the following: In light of the fact that TWA was teetering on the verge of collapse and dissolution at the time of the asset purchase, the career expectations of the TWA pilots were infused with a much higher probability of furlough or, even worse, permanent unemployment, than the American pilots.

Moreover, the APA had succeeded in negotiating furlough protection for American pilots while the former TWA pilots' representatives were unsuccessful in doing so. As a matter of fundamental fairness, this aspect of the former TWA pilots' career expectations also had to get factored into the integration process.

Finally, although the TWA pilots knowingly and voluntarily gave up whatever right they may have had to arbitrate integration issues in order to save their jobs, the TWA pilots did not in any way give up their absolute right to challenge what they now call the defects of Supplement CC in the Federal courts.

Indeed, they are exercising that right right now in the Federal district court of New Jersey. As the courts have always done in this area, the court will determine what is just and proper in this situation, and it will do so not on the basis of emotion but on the considerable body of law that has been developed in scores of seniority integration cases. In short, if the former TWA pilots have not been accorded their due—and I sincerely believe they have—the court will provide the appropriate remedy.

Finally, their court case is significantly advanced. Motions to determine the claims of the former TWA pilots have been fully briefed, and the court should render a decision in the near future. With all due respect, I do not believe that Congress should intrude into that orderly legal process.

Thank you.

Senator BOND. Gentlemen, unfortunately, we have started another vote, but we will see how quickly we can go with the questioning. Actually, Senator Talent, do you want to go ahead and vote and come back?

Senator TALENT. I think it would be better.

Senator BOND. All right. Why don't you go ahead—

Senator TALENT. Oh—if you are going to stay, I will stay.

Senator BOND. All right.

Mr. Brundage, we have had an opportunity to work with you and have great respect for your confidence and your dedication and intellect. I was looking at page 3 of the summary of your written testimony, and it says: "The fact is that the unions negotiated and agreed to an integration plan that attempted to balance competing interests and preserve jobs."

Based on what we have heard, I do not see that there was any kind of agreement between the two sides on this most important issue of the seniority plan. Would you care to correct that statement based on what we have heard?

Mr. BRUNDAGE. Senator, the comment that I was credited with at the end of the last testimony was made in a private meeting with the TWA MEC, where I was attempting to encourage the MEC—and I was invited into that meeting by myself, with a group and their advisors, and this was at the conclusion of that 36-hour stint that you asked us to participate in over at the Mayflower Hotel. And the point that I was making was that under the agreement that American had with the APA, our only option would have been to have treated the TWA pilots as new hires. The company has the right to choose whom we hire, but our union contract dictates how they are placed on the seniority list.

The point I was making to the MEC was that however they viewed the deal that had been discussed at the Mayflower, it was clearly better than the alternative that American had available to it in terms of how we put these people on the list. And they then, after hours of deliberation and another day, sent a letter by fax to me at American Airlines and to the APA where they accepted the APA's integration agreement as it was discussed at the Mayflower Hotel, but they also added to that letter a number of conditions that they wanted to impose upon American, some significantly burdensome economic conditions in terms of how pay would be adjusted and those types of things. So had I signed that letter when I received it, had it not included those new conditions we had never discussed, those economically burdensome conditions, and if the APA had signed that letter—and I cannot attest to whether they would have or not—as a result of the meetings you commissioned, we would have had a voluntary agreement between the two parties.

Senator BOND. Excuse me, Mr. Brundage, but when you make an offer to one party and they come back with a counter-offer, if you like some terms of the counter-offer and do not like some other terms and you do not accept it, that is not an agreement. I would like to see where they agreed to this proposition. The fact that they say, OK, we will take this if you will do this does not mean that you can say, Well, okay, they agreed to take this, and we just decided we were not going to consider it—

Mr. BRUNDAGE. Senator, I must have misunderstood your question. I thought your question was whether or not they have agreed to the APA's proposal as to how to integrate seniority.

Senator BOND. I asked whether they had come to an agreement on that proposal. Apparently, their somewhat positive response was conditioned on other items which you and/or they or somebody found unacceptable. That is not an agreement.

Mr. BRUNDAGE. I agree, but they were not items that were related to how the seniority would be integrated. They were items related to, for instance, pay.

Senator BOND. Yes, well, there was no agreement. You can—I apologize. I am not going to get into an argument with you, but that is not an agreement.

I would like to know from you gentlemen whose idea it was to eliminate the protections. Here is the Allegheny-Mohawk protection in the TWA contract.

Mr. BRUNDAGE. It was mine.

Senator BOND. It was yours.

Mr. BRUNDAGE. Yes.

Senator BOND. And why did you say you had to have it taken out?

Mr. BRUNDAGE. Months prior to the acquisition that resulted in American's purchase, American had been discussing with TWA opportunities to potentially have a different commercial arrangement. I was asked at that time to review the TWA contracts and determine as to whether or not there were inconsistencies or frictions between the two agreements, because as you know, in the airline industry, that is one of the most difficult issues.

I reported back to the people that I work for that based on the agreements that we had with our employees at American, we would have created a friction or a tension which was unresolvable had we simply accepted the agreement to purchase TWA with those Allegheny-Mohawk provisions in their agreement.

Senator BOND. But your pilots have Allegheny-Mohawk-type protections, do they not?

Mr. BRUNDAGE. There are protections in the pilot agreement, and I can refer to Mr. White, who is an expert on this area, but their protections are in the event that American was purchased, and if a purchaser conditioned the purchase of American on the removal of those conditions, it would have been up to the pilots to determine whether or not they were going to stand by those provisions or modify those provisions. And in the testimony provided by Mr. Case, that is the exact decision that the TWA pilot group was faced with. They recognized that we had said to them that there was no circumstance under which we would make this asset acquisition if in fact those Allegheny-Mohawk provisions were named because of the very tension they would have created with our own employees. They made that decision. They made that decision with full knowledge of the commitments that we made.

Senator BOND. And the commitments that you made that we have heard discussed here today were these employees, the crown jewel, the St. Louis hub, and that you were going to see that there was a fair integration. And did you know at the time that there was going to be no effort whatsoever at resolving the integration on something resembling an equal seniority time-and-service basis?

Mr. BRUNDAGE. Richard Bloch, who is a pretty respected arbitrator in the aviation industry, was asked to decide an arbitration case brought forward by the Airline Pilots Association, and the Airline Pilots Association claimed that American had not lived up to its commitment to work toward a process that was fair and equitable.

There are thousands of pages, or at least a thousand or more pages, of testimony in that case where Arbitrator Bloch confirmed that in his opinion, American did in fact meet the commitments that it agreed to in the agreement with the Airline Pilots Association, so—

Senator BOND. By providing a facilitator.

Mr. BRUNDAGE. By providing a facilitator, which is exactly what we signed up for.

Now, sir, the Allegheny-Mohawk provisions and the term "fair and equitable" is clearly a legal distinction. I mean, it results from the CAB and the old labor-protective provisions. If in fact we had intended to provide those Allegheny-Mohawk provisions, why

would we have ever conditioned our purchase of the assets at TWA on the removal of those positions? To me, that is the inconsistency in the discussion that I personally have a hard time resolving.

We specifically took the provisions that you are addressing and told the employees of TWA: If you would like us to offer you employment—and remembering this was not a merger; it was an asset acquisition—if you would like us to offer you employment, you have to understand that those provisions prevent a tension, a conflict, with our existing agreements, and we cannot accept them.

So the commitment we made was significantly different than the “fair and equitable” commitment that exists in the Allegheny-Mohawk LPPs. The commitment we made was simply to facilitate a process, and when that process failed with the pilots, at your request, we entered the fray and participated in the Mayflower meetings.

Senator BOND. And it went nowhere, and that is the problem. It was not a negotiation. You wound up—let me turn quickly to Senator Talent.

Senator TALENT. Mr. Brundage, as I look at this thing, the question that comes to mind is what happened—I mean, what happened?

Mr. BRUNDAGE. That is a great question.

Senator TALENT. You are in labor relations. I do not pretend to be an expert on labor relations and transportation, but I know that in a typical industrial-type setting, this could not happen. Right now, they are evaluating this in Federal court. How did this happen?

Mr. BRUNDAGE. Well, first, you are correct. This is being evaluated in court as we speak. But our promise was to hire the TWA employees. And I said earlier—and it may seem to be a fine point, but it is an important point—this was not a merger. And you may refer in context to some of the things you have said in the context of a merger, but this was not, and it was made clear.

We also at the time we employed the TWA—

Senator TALENT. Let me enter for just a second here. When I have been around here for a couple years, I will remember to push the button so the microphone works.

Yes, it was a buyout rather than a merger, so one of the themes of your testimony and Mr. White’s and the company’s position now is that basically, we were doing TWA a big favor. Nobody else would take over this crippled airline. There is sort of this underlying note. And yet the truth of the matter is you guys did not do this out of charity. You thought this was going to be a good deal for American Airlines. That is correct, isn’t it?

Mr. BRUNDAGE. Absolutely.

Senator TALENT. So let us get that on the record. You would have violated your duty to your shareholders if you did this just as a matter of charity for TWA. And TWA did bring a lot to the table that you do not always get in buyouts—they had planes, they had maintenance facilities, a lot of expert employees and all that, right?

Mr. BRUNDAGE. Yes.

Senator TALENT. So this was going to be good for both parties—that was the basis of it.

Mr. BRUNDAGE. Absolutely.

Senator TALENT. And that was the expectation, that you would emerge with a stronger airline which, Mr. White, would be better for everybody's employees if that happened, or you would not have made the deal.

Mr. BRUNDAGE. [Nodding.]

Senator TALENT. OK. So, go ahead. I just wanted to get that on the record.

Mr. BRUNDAGE. The commitment we made was to hire the TWA employees, and we did that. We also agreed to provide full longevity, which frequently is not done even in merger situations, but for their service at TWA, we gave them full credit for pay purposes and the pay scales and steps.

We also agreed to the facilitation of a fair seniority integration process. We have talked about the legal distinctions of "fair and equitable."

Let me put it in context if I can. We spent a considerable amount of time in advance of that April transaction out at employee meetings. I personally travelled with the senior executives of the company to every base in the American Airlines system and made a commitment to 100,000 employees in person that we would not—we would not—attempt to subject them to any seniority process that they were not agreeable to. We were not going to make this transaction on the backs of the American employees.

As you well know, prior to my arrival at American, there was a very difficult occurrence in another acquisition by American, and we had learned our lessons. We had learned our lessons very clearly, and we were going out of our way to inform our employees that we understood what their contract said. Now, we also said that we were willing to accept whatever process they were willing to accept as well, and in the case of the IAM and the TWU, they used an arbitrated process.

Senator TALENT. OK. So as I understand what you are saying, and based on the comment that you made to the MEC—and I am not going to repeat that, and I do think that that was language that you used in a private meeting in a labor-management-type situation, and let us face it, it is not like the elders at a church getting together and discussing the future; so we all need to understand that, and we have all heard language worse than that in that kind of meeting—but basically, what you were saying was, look, we know this is not very good for you—in fact, this is lousy for you, this is "bleep" for you—but we are buying you out, and it is what our current union wants.

That is really what you are telling us, that you were under pressure from the American Airlines unions, and this was all that you could give the TWA people.

Mr. BRUNDAGE. Actually, I was suggesting that what the TWA people had gotten in the pilot case was actually better than I had expected and that there were certain protections there, and in fact at that meeting, American—one of the reasons American came to that meeting was to try to bring some additional things to the table.

Senator TALENT. So you had no choice given what your current employee workforce felt and had represented to you through their union leaders.

Mr. BRUNDAGE. Who were living by the contracts that we had.  
 Senator TALENT. OK. You had no choice.

Now, you did not make it worse, did you? You did not intervene in this process to make it worse for the TWA people?

Mr. BRUNDAGE. The only way we could have made it worse was by not attempting to help this facilitation process, because our only alternative then would have been to have offered this employment as brand, new hires, without anything other than a promise of job, no seniority, no longevity, no benefits, none of those things.

Senator TALENT. So the point is that however bad it was, that was what your current unions wanted; you did not make it any worse?

Mr. BRUNDAGE. We tried to make it better, sir.

Senator TALENT. OK.

Are we going to interrupt now? I have some more.

Senator BOND. Yes. We are going to have to recess this hearing, and we will get back as quickly as possible.

Thank you.

[Recess.]

Senator BOND. We will resume the hearing and ask Senator Talent to continue the line of questioning he was pursuing.

Senator TALENT. Thank you, Mr. Chairman.

Mr. Brundage, we were just at the point where you had testified that—I am going to paraphrase—while your evaluation of the agreement to the MEC was in one sense substantially correct, that it was a “bleep” deal—it was not a very good deal for them—that nevertheless, you—“you” meaning American Airlines—had tried to make it better and certainly did not try to make it worse.

Mr. BRUNDAGE. Correct.

Senator TALENT. Since you have tried to make it better in the past, and you agree it is a uniquely bad deal, would you be willing to sit down if the union were willing to and talk about making it better now?

Mr. BRUNDAGE. Sir, we could not have been clearer about the conditions of this agreement. And we have heard some testimony today that quite frankly is news to me, that the TWA employees had a number of options at the time that this transaction closed.

I am a believer that you need to simply State the facts up front; everybody has got to be clear about what the game field looks like and what the rules are and move forward.

I believe that American went out of its way to make sure that our commitment to hire the TWA employees was clear. Our expectations for what would happen was clear. And I think that we need to be cognizant here of what a decision like the one that you just suggested could reap in the future for airlines or for other industries who may not be in the best condition and whether there would ever be a suitor who would consider coming in and taking that company and trying to integrate that company and hire its employees, because if you agree to purchase something, and you make what you are willing to do absolutely clear and, in my opinion, you live up to the agreement that was made at that time—

Senator TALENT. Wait a minute. Hold on a second, because you were willing to do more. You just said you wanted to make it better, but you could not in light of what your current unions wanted,



which is frankly what I suspected from the beginning when I looked at this. So you wanted to make it better, so why not now? If the union were willing to do it, why can't you sit down and readjust this seniority agreement before the next round of layoffs go into place to make it more equitable in light of what we both know the typical tradition and practices in labor-management relations are?

I will let you finish.

Mr. BRUNDAGE. Maybe I have not been as clear as I would like to be. American made it absolutely clear at the onset that the issue of how seniority would be integrated would be an issue to be solved by the unions. Seniority was not within the purview of American, and we made that clear at the time of the transaction.

We made a commitment to employ people. We made a commitment to facilitate a process. That process was never defined, and it was intentionally not defined. We agreed to an arbitrated process in the case of the IAM and the TWU. We hired and paid for a facilitator for both the flight attendants and for the pilots. We encouraged at every opportunity the American unions to use the facilities of that facilitator. But at the end of the day, the game field said that seniority would be determined by a decision of the unions.

Senator TALENT. What I contest there, Mr. Brundage, in light of the statements that Senator Bond has read regarding the public statements of American Airlines officials as well as private statements or statements that were made to him, I know, and to other people is your statement that you made it absolutely clear. Don't you think that if you had said to the TWA pilots and to Ms. Cooper—with whom you did not even have talks—"Look, you guys need to understand that all you are going to get is what our current unions are willing to give you. We are basically out of this game. We are going to hire a facilitator but that is it"—do you think that they would have given up Allegheny-Mohawk? Do you think they would have agreed and supported the buyout as they did—because I don't know how they could possibly have ended up worse.

Mr. BRUNDAGE. Well, as I said in my opening, I was an employee of ALPA for some time, and I had very high regard for the ALPA union, and I also had high regard for the IAM. They have been around this business for a long time, and they are very smart people.

I think it is important to note that those very smart people, who probably understand Allegheny-Mohawk as well as you or I do—

Senator TALENT. Probably better than I do.

Mr. BRUNDAGE. [continuing]. Fully understood what they were removing from those agreements to allow that asset acquisition to take place and to provide for the opportunity to be hired by American. So beyond that, I would be speculating on what they were thinking, but my respect for those unions would indicate they knew exactly what they were doing, and there was no surprise.

Senator TALENT. Can I have just one line of questions for Mr. White, Mr. Chairman, rather than waiting? I know I am over my 5 minutes.

Senator BOND. Go ahead.

Senator TALENT. Mr. White, I have a letter dated April 18 from you to Captain Mike Day, who was chairman of the TWA Merger Committee, the first sentence of which is: "Attached is the APA Mergers and Acquisitions Committee's reviewed seniority integration proposal." And attached to that is, as part of 1(a), the statement: "Seniority list merge date shall be on the date on which American Airlines was declared the successful winner of the auction for the assets of TWA 12 March 2001."

I do not know if you are familiar with this letter or if you remember it. And I am holding on by my fingernails to understand what all this means, but as I understand it, that meant that you had come to an agreement, at least on a preliminary basis, with the TWA Mergers Committee that the seniority list integration date would be 12 March 2001. Is that what that means?

Mr. WHITE. Yes, sir.

Senator TALENT. Now, that is not the merge date that was subsequently adopted by American, is it?

Mr. WHITE. That is correct.

Senator TALENT. And what was the merge date that they subsequently adopted?

Mr. WHITE. I believe it is April 10.

Senator TALENT. Now, as I understand it, one of the significant aspects of this is that had the merge date been 12 March 2001, so that the lists would have merged about a month before the final buyout date, then the furlough protections of the contract would have attached to the TWA employees. Is that your understanding?

Mr. WHITE. Yes, sir.

Senator TALENT. So because the merge date was moved forward to April 10, the TWA employees did not get the furlough protections.

Mr. WHITE. A portion of them did not.

Senator TALENT. OK. How did we go from 12 March 2001 in this letter dated April 18, 2001 to April 10? What happened?

Mr. WHITE. What happened is when American Airlines announced the purchase of the assets of TWA, I had not been doing union work for a while—I had gotten out of it—and I was asked to chair the merger committee, and we had a negotiating committee that was relatively new, so we had myself and one other member attached to the negotiating committee, and we were attached to negotiate with that negotiating committee with American Airlines on the transition agreement, which was the "exception of scope" clause that you asked about earlier.

The purpose of attaching us to that committee and then having a couple members of the negotiating committee attached to the merger committee in our discussions for the TWA pilots was to make sure that we were keeping everything lined up.

Well, when we reached an agreement with American Airlines on the transition agreement, and the contractual language started writing, I did not end up getting involved in the contractual language-writing of that process, and the negotiating committee unbeknownst to me negotiated with American Airlines for furlough protection for the pilots of American Airlines because of the risk that was associated with buying the assets of TWA, and that furlough protection was going to go to pilots, absolute protection to the pilots

as of April 10 and then a soft furlough protection for pilots hired after that.

Well, after the facilitation process was over, I had gone on vacation and got a call, and they said that under the auspices of Senator Bond's office, they wanted to have discussions. So we came in to Washington, DC., and Jeff Brundage became aware that we had talked to them about April 10, and he said they had negotiated for furlough protection and were not successful in achieving furlough protection for their pilots and that the corporation was going to stand by that unwillingness to provide any furlough protection for the TWA pilots.

So I explained that we had a problem in that we had reached an agreement with the TWA pilots that we would use March 12, and the negotiating committee was standing on one side, saying, "We cannot back the date up," and we had American Airlines on the other side saying I cannot give all the pilots furlough protection. So I had gotten myself into a little bit of hot water there.

So we sat down in discussions during that period of time and discussed the three-party situation, and Jeff Brundage offered to provide the furlough protection for the 1,095 pilots—not quite half of their seniority list that was going to go on the integration—and that was something that American Airlines was able to what I call "pot-sweeten" or bring to the table that we could not offer.

So that is how that date got changed to April 10.

Senator TALENT. I was getting at that. So it was American Airlines that contacted you and wanted the date changed or wanted some adjustment in that agreement?

Mr. WHITE. I would not say so much as they contacted us; they were sitting at the table when we were going over these items, and when he heard that date, he sat upright and said, "Wait a minute. We need to talk about this."

Senator TALENT. OK. Now, Mr. Brundage, I understood you to say that you tried to make it better.

Mr. BRUNDAGE. Yes.

Senator TALENT. This made it worse, didn't it?

Mr. BRUNDAGE. Sir, the pilots represented by ALPA, while still at TWA, Incorporated, attempted to negotiate furlough protection as part of the agreement—as a quid—for the agreement to eliminate the Allegheny-Mohawk provisions of their agreement.

At that time, it was made absolutely clear from American to TWA that in light of the inherent risks of this commercial transaction, there were no circumstances under which American Airlines could proceed with the transaction if in fact it included a commitment to provide furlough protection for the employees we did not yet even have on our property.

Senator BOND. But, Mr. Brundage, you did get in and change the agreed-upon date of March 12. Here, we have been hearing, Boy, Mr. Carty told me this is strictly up to the unions. You changed the date that the unions agreed upon. You accepted an agreement with the flight attendants that the flight attendants never made. You took a counter-offer from the TWA pilots and said because part of the counter-offer was that they would accept it on this condition, that that was an agreement.

It seems to me that you were all over the middle of these negotiations and had a significant say in how they would come out. And I find it hard to square that actuality with the assurances that TWA employees got and, frankly, that I got in my conversations with your top executives—who regrettably cannot be here, so we cannot talk about their discussions. But that was their understanding, it was my understanding, and clearly, you had a major role in the terms that the unions discussed—the one thing they agreed on you changed.

Senator TALENT. I think I will yield back to you, Mr. Chairman. [Laughter.]

Senator BOND. No—I just had a thought there, Senator.

Senator TALENT. That was my last question, anyway. I may have a few more. I assume you have a few, obviously.

Senator BOND. I have one or two that I wanted to bring up. Mr. Brundage, about that time, there was a proposal that United and American divide up USAIR. Weren't those discussions going on?

Mr. BRUNDAGE. American was working with United to purchase a portion of USAIR to potentially satisfy the Justice Department requirements in that transaction, and yes, that is correct.

Senator BOND. I had heard that American would agree to accept the Mohawk-Allegheny provisions in the USAIR contract. Is that accurate?

Mr. BRUNDAGE. No, sir. It is inaccurate. What we said to the APA pilots was—and again, this was an ALPA/APA issue because ALPA represented the USAIR pilots—we said to the pilots at APA that the only way that the transaction could take place—and I may not have the right aircraft type, but I believe there were a number of 757s involved here—the only way we would be able to acquire those 757s was if the pilots came with those airplanes. We went to the APA and said to the APA the only way the pilots will come with those airplanes is if they get Allegheny-Mohawk 3 and 13 protection.

So essentially, we gave the APA veto power over whether or not that portion of the transaction would ever occur based on the exact same understanding that we used to ask the TWA pilots to expunge that portion of their agreement.

So it was never offered by American. We told the APA: If you guys think these airplanes are a good deal for American, then you are going to have to help us in this transaction, and you are going to have to step up to the plate on this portion. And quite frankly, we do not believe we ever brought that to conclusion because the deal fell apart, and I have no idea what their answer would or would not have been.

Senator BOND. But the American Airlines management did not get involved in negotiations between unions. You were the ones who brought up, and you said that you were the ones who required ALPA and the flight attendants to give up—ALPA to give up its Mohawk-Allegheny rights.

Mr. BRUNDAGE. What we said was, to be accurate, we told TWA, Incorporated that we would not conclude, we would not finish, the asset acquisition process, that we would not purchase the assets or offer the jobs if these provisions remained in the TWA contracts. That was a condition to TWA, Inc. It was their job to go and re-

solve those issues with their unions. And in fact, at one point, it appeared that TWA was not going to be successful and actually began to prepare what is called an 1113 petition in their bankruptcy process to ask a court to not simply change that provision but to in fact reject the entire agreement.

That was something that, it is correct, it was American's condition, but it was a condition put on TWA, Incorporated if they wanted this transaction to be concluded.

Senator BOND. But by the same token, you were actively engaged in modifying—the American management was modifying the union's agreements. You had to go back and modify the agreement with the APA, did you not, to bring the TWA ALPA employees on board?

Mr. BRUNDAGE. We did not even need to speak to the APA if we chose to simply hire them as new hires. That is within the company's purview to do. We went to the APA and said: Look, we think it makes sense to do more than that and to do it differently, and there are provisions of your agreement that control that relationship, so we would like to talk to you about modifying that agreement in a way to improve our ability to bring the TWA employees on the property. And that is the transition agreement that Mr. White referred to.

Senator BOND. In order to get TWA to accept the offer and not to pursue an option in bankruptcy, which they had done at least twice previously, representations were made to them about the fair and equitable treatment. You represented to them that they had to give up their Mohawk-Allegheny protection, and at the same time you were telling the TWA employees who were actually members of management of TWA and those of us who had an interest in it that they would be treated fairly and equitably. You really were laying the groundwork to make sure that they would not have to be integrated fairly into the system. That is what came out, is it not?

Mr. BRUNDAGE. Oh, I disagree respectfully, sir. I believe that our commitment was to hire those employees and to provide them with credit for longevity for pay purposes and to work to create a facilitated process that was fair and equitable. And as I said earlier, that was put to the test of an arbitration and to an arbitrator in the case of the pilots, and the arbitrator clearly ruled that American had met the exact duty that you are describing.

So I guess my opinion of it is maybe less important than Arbitrator Bloch's opinion of it.

Senator BOND. And what about the promise to fence off St. Louis, since the management of American made the representation that the St. Louis hub, the airplanes, the personnel who operated them, the traffic that they generated there, the reputation that they had as the crown jewel, and that would be protected? Whatever became of that promise?

Mr. BRUNDAGE. Senator, if I can transport myself back to the days that we were in the process of trying to acquire those assets, I can tell you that in my mind, I saw nothing but an extraordinarily bright future, especially in light of the fact that American at the time was constrained at Chicago and constrained at Dallas.

As you know, the Congress was dealing with an airspace system that was congested. There was no room at airports. We had all the problems, and clearly, that was a wonderful opportunity for American.

Fast-forward—two airplanes into the World Trade Center, the Pentagon, and a field in Pennsylvania; business travel that shrunk up to almost zero; overcapacity in the system. There is no way that we could have predicted when we looked at the network of American Airlines in 2001 that we would be sitting here facing the kinds of trials and tribulations that the airline industry faces today.

I can only talk to my perception and my good faith, and it was exactly as you described it, and that is exactly what we had intended. And I can only write off what has happened today to a much larger circumstance than the integration of American and TWA. As you well know, airline workers across the entire country have been devastated by this, and there are way too many stories like the stories we heard here earlier, and the empathy for those folks is unbelievable—

Senator BOND. What do you say to Ms. Schooling?

Mr. BRUNDAGE. I say to Ms. Schooling that it deeply, deeply hurts me. I never, never expected when I signed up to be vice president of employee relations at American Airlines that shortly after I took that position, I would be in the process of laying off more than 20,000 people. It is one of the hardest things I have ever done in my life. But, Senator, if we do not focus on our turnaround plan, if we do not make a stable economic foundation for American Airlines, we will not have jeopardized 20,000 jobs across the country, we will have jeopardized 100,000 jobs across the country.

Senator BOND. Well, I think we said at the beginning that nobody in the spring of 2001 had any idea of the tragedy. What we were concerned about was establishing a policy, a procedure, that would be fair and equitable in operation should some unforeseen, even catastrophic, occurrence arrive. But at the time—and I remember this rather well, I think—seniority protection was promised inside the fence. Now, when we were told that the TWA employees will be unable to operate out of St. Louis, that was, as I understood it, an area where the fence was providing a separate seniority list for the TWA employees who flew in and out of St. Louis and made that such an important hub. That representation was made, and this was not an expression, as I understood it, of intent or desire or “we would like to”—this was, as I understood it, a “we will, and we are committed to it.”

Mr. BRUNDAGE. Senator, in the first month after the transaction, actually, the IAM and ALPA continued to represent the former TWA employees who are now employees of TWA LLC. At the point in time that the NMB ruled that for labor relations purposes, American and LLC were a single carrier, the integrated lists for the first time became, for lack of a better term, operative, and those integrated lists did contain provisions to allow the TWA employees to use their seniority for certain purposes at TWA in an exclusive matter—or “super-seniority,” for lack of a better term.

But again, back to the representations we made at the time of the transaction. The seniority issues would be worked out, and American would abide by those seniority lists, and the contracts

only provide one way to reduce force, and that is in reverse seniority order. That is the only option that we have in terms of reduction in force.

There is no question that the former TWA folks have been severely impacted by these reductions as have all the employees who were American employees prior to the transaction. All of the American family has been severely impacted, as have all of the other airlines in the industry.

So I too share your concern about the devastation that has been caused by all of this, but my focus and the company's focus is to return the company to profitability, and these folks today who have been furloughed have recall rights. And obviously, we need to be very concerned about these folks because they are still our employees, and they will be the employees, if we are successful, that we call back to work.

Senator BOND. We certainly wish and hope that the airline industry will recover and that they will be hired back, but we are very much concerned about where they are.

Captain White, I would just ask you this. You have Allegheny-Mohawk protections. Should, heaven forbid, something go wrong, or go even further wrong, with American, and it is put in the position where it must be acquired, what would you do if you were asked to give up your Allegheny-Mohawk protections?

Mr. WHITE. I would give it up. The short answer—if it is a question of hitting the street or going into negotiations, my belief is—and I have been a negotiator for quite a while—that arbitration shows a failure to negotiate in good faith. And I am a believer that you can negotiate.

I would be happy to take this integration model that we have here with the career path progression and use that for any integration that I would be subjected to.

Senator BOND. Captain White, I think that is stunning. [Laughter.] I mean, seriously, as far as—at least you all sat in a room for 36 hours with ALPA, but as far as I could tell, nothing happened. But in terms of the flight attendants—and I know you were not responsible for the flight attendants—they did not even get in the room, and that really bothers me, and I am sorry, I guess we just do not understand, but it does not strike me as something that any representative of employees would be willing to accept, to get into a situation like this.

Mr. WHITE. But that was the alternative, sir. A reporter asked me—and I feel kind of foolish, because when we did the seniority integration—I am a big believer that pilots should talk to pilots about seniority list integration—and in fact we had some argument about whether or not lawyers should be in the room, because my view is that lawyers in the room means litigation. And in the facilitation process that the company brought forth, we sat down, and we talked to the lawyers, and we decided to do the facilitation process, and the mistake I made was that I agreed that it would be off the record. So we had 2 weeks' worth of negotiations, which I thought were very fruitful and in which talking off the record as a negotiator is good because it allows you to air ideas without consequences down the road and be quoted, etc, or be locked in.

The ALPA people brought in Dr. Tanin, who I found very fascinating to work with, and he has been used before by ALPA and is a very intelligent man, and he came up with this career path model. In those 2 weeks, we were able to advance the methodologies which I thought were good, and I thought that the TWA pilots on that merger committee—Mr. Case, I have never met before and have never seen him; he said he was involved in the process, but I have never seen him before—but the committee people that we worked with were very good in advancing their case about their concerns about seniority list integration, about working conditions as a result of that, and we accommodated a lot of those suggestions in our seniority list integration. The problem is that it was all off the record.

So I would say in good faith, I can sit here and say that those negotiations did prove fruitful; they did prove to bring a lot of the things that the TWA pilots suggested. For example, you were asking Jeff Brundage about minimum size. One of the last things that we did—and it was after the meetings that you involved us in—is we went back to the company and said, “Look, it makes sense to us. The pilots have a legitimate complaint. What happens if we offer them all the seniority in St. Louis, and St. Louis shrinks to zero? It made sense to us, brought up by their pilots.”

So what did I do? I went to the company and said, Give me a minimum percentage. And the company said, We intend to keep it there, and I said, Put your money where your mouth is. And that is how we have the 30 percent rule in there now.

So the short answer is that American Airlines has to keep that St. Louis hub contractually in relation to Dallas and Chicago, so in Missouri, you have those protections because I put it in the contract. I did not have to, but it was a suggestion that they did. And that is the kind of negotiating that I tried to do, and those are the things that we put in to try to protect the interests of the TWA pilots.

Senator BOND. Well, that part we appreciate, no question about that, because that is important.

Mr. WHITE. Yes, sir.

Senator BOND. Senator Talent, you have a couple more questions.

Senator TALENT. Yes, briefly.

Mr. White, I am going to ask you the same thing I asked Mr. Brundage. Would you be willing to sit down and talk with the company about how this might be made more equitable for the former TWA employees?

Mr. WHITE. No, sir, I would not. I have a duty of fair representation to all pilots, and I would be subject to a lot larger group lawsuit—plus the fact that we feel that the integration that we did is an equitable solution based on the career path model developments that we did based on Dr. Tanin’s ideology. So we think that we will hold up on that.

Senator TALENT. OK. I am going to say that I appreciate this hearing, and I appreciate you two coming here. I know it has not been easy.

I am going to tell you what I think happened, and you guys tell me if you agree with me, and if not, why I am wrong. I think the



company's officials anyway say this as a really good deal. You said that a little while ago, Mr. Brundage—now, you did not anticipate September 11, and that certainly upset all of our expectations. I do not think you saw this as a rescue so much as an opportunity to really enhance American Airlines' prospects.

You both said, Well, we did not have to accept the TWA employees—you could have traded them as new hires—and as a matter of raw economic power, I do not know whether that is true or not, but I think what is also true is that had you made it clear that that is how you were going to treat them, as new hires, or in fact had you made clear that they were going to end up where they ended up on the seniority list, whatever the economic power you may have had to do that, you would have had very strong opposition to the buyout on those terms from the Missouri and New York congressional delegations—of which I was not a part at the time, so I am sort of free to speculate on it.

So what happened was that promises were made, perhaps vague promises, but promises were made that would have led a reasonable person to believe that more would be done for these people than was done. I mean, when you make a statement, "For its part, American Airlines agrees to use its reasonable best efforts with its labor organizations representing the airline pilots and flight engineers crafts or classes to secure a fair and equitable process for the integration of seniority," and the company then not only does not do that, does not aggressively do that, but then pushes changes that makes their protections worse—and I understand what you said about why you did it, Mr. Brundage, but if I am reading that language, I am thinking they are really going to make an effort to do this notwithstanding whatever raw economic power they have, and then afterward, we find out that the people are being treated this way. That is my view of it, and if that is wrong, I would sure like you all to set the record straight—and I am going to let you do that. I am not going to cut this off.

Mr. WHITE. I will take the first shot at that, sir, if you do not mind. I was elected chairman of the merger committee toward the end of January, and we arranged our first meeting with the TWA pilots somewhere around February 7, 8, or 9, somewhere in that time frame. We asked for 3 days, and I think we got one.

At that very first meeting, I said very clearly: We will not do date of hire—will not do it, will not consider it, will not be there. And I also said very clearly that we will not do Allegheny-Mohawk, and we will not do arbitration. That was in February, sir, before they waived their Allegheny-Mohawk provisions.

At the end of February, we had scheduled three different bargaining sessions of 3 days each, most of which were canceled, but on March 1, we gave them our initial proposal which proposed to put somewhere in the neighborhood of 700 or 800 pilots on our seniority list.

I was very clearly with them, sir, very clear, and that was before they waived their Allegheny-Mohawk.

So I would like to say that I was very straightforward and honest with them up front about where APA was. Now, I think that in discussions with them and the methodology that Dr. Tanin put forward, we changed it because we had looked at other mergers where

they had put 767 captains behind 767 captains, and that was our first proposal. And we ended up putting 767 captains behind our 777 captains. And that was because of Dr. Tanin's methodology, and we took a look at that, and we agreed with that. But we were very straightforward and honest with them up front.

So I understand what you are saying, but they had an opportunity to meet with us several times before they waived it. They had no doubt in their minds that we were not going to do date of hire—no doubt. I was as straightforward with them as I am with you now, sir. That is how I like to deal.

Mr. BRUNDAGE. Senator, I will just refer back to the fact that the RLA has a dispute resolution process, and it is pretty well-respected and is a prerequisite to even being able to get a matter into the courts.

The commitment that we made was a written commitment. The actions that we took were well-documented. I have spent a considerable amount of time testifying in an arbitration process as to the details of what took place surrounding that commitment to use our best efforts.

I will not offer my opinion. I will stand by the opinion of an independent neutral arbitrator who listened very carefully to all of the testimony—all of the testimony, both from the ALPA committee, from the company, who read the documents, who had access to all the factual information—and I will be happy to submit to you the arbitrator's award on point.

Senator BOND. Mr. Brundage, Ms. Cooper said that you had first come to an agreement with the American Airlines flight attendants' organization, announced it before you ever talked with her or any of the other flight attendants. Is that accurate?

Mr. BRUNDAGE. Sir, we negotiated separately with the TWA LLC flight attendants because the representation was different. The TWA flight attendants at the time were represented by the IAM, and this all occurred prior to the NMB single-carrier ruling.

So as a result, yes, the TWA LLC labor folks were dealing with the TWA LLC employees represented by the IAM, and the American labor folks, a completely separate group, were working with the American flight attendants, represented by the APFA.

Now, I do not know that this was a negotiation. I do know, because I have spoken to this about him personally, that Robert Roach, who is the general vice president of the IAM, actually attended a meeting of the APFA board of directors for the very purpose of discussing seniority integration between IAM and APFA.

I also know that I hired Richard Casher, another respected arbitrator and facilitator, and Mr. Casher was employed for the purpose of attempting to facilitate those discussions between the IAM and the APFA.

Now, Senator, I was never—

Senator BOND. Was there any discussion between the two?

Mr. BRUNDAGE. I honestly cannot answer that question. I was never party to a discussion. I do know that Mr. Casher showed a great degree of frustration in his ability to get the parties together. I also know that during that period of time, I do not believe that either of the parties, the IAM or the APFA, ever moved from their opening position.

So if my assumption is correct that neither of them ever moved from their opening position, I think it is fair to assume there was probably not much negotiation.

Senator BOND. So it was enough for American Airlines under the fair and equitable undertaking to pay several hundred bucks, maybe a grand, to a facilitator and say, "Good luck, that is it"?

Mr. BRUNDAGE. Well, I can tell you that my efforts were significantly greater than that, personally, in trying to encourage the APFA to meet with the IAM representatives.

Senator BOND. What about the ticket agents, passenger agents—how were they integrated.

Mr. BRUNDAGE. I think, as you know, they were represented by the IAM at TWA and at American, they were not represented, and as a result, the certification was extinguished at the point that we became a single carrier for labor representation purposes, and we created a "protected cell," for lack of a better term, at St. Louis for those employees. There were some American employees, a small number of American employees, who had the first seniority slots, but then the balance of the former TWA employees had access to all of the jobs in St. Louis, both at St. Louis and those who were not in St. Louis, and the ones not in St. Louis were put on a list so that they had priority ahead of any American employee to bid back into St. Louis. There was also Colorado Springs and a reservation office that had that same protected cell. But they were given the 4-10 hire date, and they were provided, again, full credit for their longevity at TWA—and I think we have skimmed over that a couple of times, but that is a pretty significant economic commitment, and I agree with the Senator, this was not something that we took lightly, and it was not just purely an economic issue or an issue to simply get through the process in the Congress.

American clearly recognized that we needed to try to do things to have a workforce that was going to be behind us, and we were not going to be successful unless that occurred, so we provided full credit for that longevity for those employees.

Senator BOND. Mr. Brundage, Captain White, we appreciate the testimony and the time that you and all the other witnesses have put in today. As I stated earlier, you understand that the record will be open so that additional questions may be asked for the record. A number of our colleagues are following this and may have questions, and we would expect that you could respond to those questions in a full and timely manner. Is that agreeable with you, gentlemen?

Mr. WHITE. Yes, sir.

Mr. BRUNDAGE. Yes.

Senator BOND. Both of you agree.

Again, this is a very important subject, and we obviously have not come to agreement, but I express my thanks to all the parties who have participated and presented their views.

If there is no further business to come before this committee, the committee stands in adjournment.

[Additional material follows.]

## ADDITIONAL MATERIAL

### PREPARED STATEMENT OF THEODORE A. CASE

Mr. Chairman, and Members of the Committee: Chairman Bond and Members of the committee, I sincerely appreciate the opportunity to appear before you today. On behalf of my fellow pilots who were formerly employed by Trans World Airlines (TWA), we welcome the opportunity to testify on the record and under oath about the whole story, the real story behind the most shamefully flawed seniority integration in United States airline history.

Many of you are already familiar with some of the facts of this crisis: to date thousands of ex-TWA workers—including ground workers and flight attendants—and their families have suffered as a result of layoffs; the great state of Missouri, and the entire St. Louis region has felt a sharp economic shock and emotional trauma caused by these massive job cuts. The flying public—already reeling post 9/11—has been faced with drastic schedule and service reductions due to these cuts.

I believe, like so many of my colleagues, that we became pilots to serve the flying public—safely and responsibly—to the best of our ability. I am honored to have been selected by my fellow pilots to speak on their behalf today.

I am a married father of two, a graduate of Georgia State University and have served as a union representative of the TWA pilots in multiple capacities.

My interest in flying began as a young boy watching my father fly as a pilot for Eastern Airlines. I began flying when I was 20, I became a commercial pilot in 1983, and began flying for TWA in 1990. I loved my job; I respected my employer; and above all, I believed in my customer service mission.

My world—and the lives of all of my former TWA colleagues—dramatically changed in April 2001. That is when American Airlines acquired TWA. As part of the acquisition, American offered me and nearly all former TWA pilots' employment, promising to: "provide employment benefits and post-retirement benefits to all employees actually hired by American, at levels substantially no less favorable than those benefits provided to American's similarly situated employees." (From the "Asset Purchased Agreement"—Article X—EMPLOYEE MATTERS 10.1 Hiring Obligations. Upon the occurrence of the Closing, Purchaser shall (i) offer all of Sellers' union employees (all of whom are listed on Schedule 10.1(a)) (other than personnel who (A) have previously been terminated by Purchaser or an entity controlled by Purchaser or (B) would not be qualified for employment under Purchaser's general hiring policies as in effect at Closing) employment by Purchaser or one or more entities controlled by Purchaser at compensation levels substantially equivalent to those currently enjoyed by similarly situated employees of Purchaser or such controlled entity, (ii) offer employment to certain members of TWA's executive management and those non-union employees listed on Schedule 10.1 (b) on a case-by-case basis at Purchaser's sole discretion and (iii) provide employment benefits and postretirement benefits to all employees actually hired by Purchaser pursuant to (i) and (ii) above at levels substantially no less favorable than those benefits provided to Purchaser's similarly situated employees. Any Seller employees to be hired by Purchaser or an entity controlled by Purchaser in accordance with this Section 10.1 will be hired in accordance with terms and conditions established by Purchaser or such entity (and, where applicable, in accordance with and pursuant to collective bargaining agreements relating to employees of Purchaser or such controlled entity).

10.2 Union Matters. All offers of employment made by Purchaser in accordance with Section 10.1(i) above and all benefits to be provided pursuant to Section 10.1(iii) above will be conditioned on acceptance by all such employees of Purchaser's work rules then in effect and in effect after the Closing Date from time to time that are generally applicable to similarly situated employees of Purchaser. Purchaser and Sellers agree to encourage their respective unions to negotiate in good faith to resolve fair and equitable seniority integration. Prior to Closing, TWA shall amend all existing Collective Bargaining Agreements relating to any present or former employee of TWA to provide that (i) scope, successorship, and benefits provisions of the Collective Bargaining Agreements are not applicable to or being assumed by Purchaser as part of or as the result of the transactions contemplated by this Agreement, and (ii) consummation of the transactions contemplated by this Article X will not violate or breach in any manner any provision of any Collective Bargaining Agreement (collectively, the "CBA Amendments"). The sale closed and we all became employees of a newly-fashioned entity—not an airline—but a shell corporation called TWA, LLC, a wholly-owned subsidiary of American.)

Our seniority story is quite atypical, when considering other major airline seniority integrations. In the vast majority of previous major airline mergers pilot seniority integration was based upon a date of hire (DOH) basis or some type of DOH

ratio with conditions and restrictions to protect the pre-merger career expectations of both pilot groups

Despite my more than 13 years of TWA seniority, I was given a new seniority date with American of April 10, 2001, the day the transaction closed—all of my years of earned service up to that date were obliterated from my record. I am now facing a July 2 layoff. Adding insult to injury is the fact that American hired pilots off the street on April 9, 2001 (one day before the acquisition closed), and these new hires continue to fly today. Indeed, from the date the acquisition was announced until the date the sale closed, American hired over 300 new pilots, all of whom were given more seniority than the vastly more experienced TWA pilots. Today there are more than 1200 TWA pilots scheduled for furlough or unemployed and on the street. All of this because of the way our seniority was handled, or mishandled.

Why do we care so much about our seniority? Seniority is the bedrock of employment benefits with any career. Seniority is the American dream for the American worker. In the airline industry seniority is everything, determining: where you live, where you fly; what you fly; whether you fly as captain or first officer, pay rates, and of course, the order in which you lose your job, should a layoff occur.

I wear an American Airlines' uniform, I am covered under American's health and retirement benefit plans, and fly American aircraft on American Airlines flights. Despite those facts, my fellow TWA employees and I have been treated as nothing more than "furlough fodder" to protect the jobs of the employees hired at American prior to April, 2001. Why this inconsistency? It was all part of the ruse, the conspiracy between the world's largest airline and two powerful pilot unions to crush the ex-TWA employees, and take their jobs. Those two unions were attempting to merge into one, and the TWA pilots stood in their way. They had no interest in representing or protecting USE pilots.

By all accounts, the cost-cutting, experience—downsizing, seniority—busting scheme is working. By July 2nd, fewer than 900 of the original 2349 TWA pilots will remain American Airlines employees. Meanwhile, every single one of the approximate 11,000 pilots who were on American's payroll as of April 9, 2001, has kept their jobs. This integration is much more akin to a process of segregation and discharge, rather than an efficient and seamless combination of employee groups. No reasonable person could say this integration was fair and equitable. It was a travesty. Indeed, Jeff Brundage, VP Employee Relations for American, stated in October 2001 to the TWA pilots, that the seniority cram down was a "s—t sandwich" that the TWA pilots had to eat.

And this is only the tip of the iceberg.

Just last week American Airlines released "The Master Reshuffle Bid", an announcement of American's pilot staffing for the next 12 months. Without getting too technical, this document (which I offer into the record) shows that by May 2004—in less than one year—only 27% or approximately 630 of the original 2,349 TWA pilots will remain with American. The TWA pilots slated to lose their jobs by then include large numbers of TWA Captains, with 15 plus years of experience at TWA and American. These massive staffing reductions mean, that not only will the St. Louis hub dramatically shrink to a fraction of its present size (not to mention its size prior to American's acquisition of TWA), but hundreds more TWA pilots will lose their jobs.

The fact is that over 1,200 TWA pilots were "stapled" to the bottom of the seniority list. That is, TWA pilots, including TWA Captains hired as early as March, 1989 were stripped of every bit of their seniority, and given a seniority date of April 10, 2001. Captain Mike McFarland, the most senior TWA Captain, was stripped of 21 years of seniority. Captain McFarland was hired in 1964, but he was integrated with the 1985 hire pilots of American Airlines!

At the same time this is happening to the former TWA pilots, the more junior American Airlines pilots will invade the shrinking TWA St. Louis domicile, further displacing the jobs of former TWA pilots and encroaching on what can no longer be classified as a "hub" in St. Louis.

Although American pilots claim to be "sharing the pain", more than 87% of pre-transaction American pilots will retain their employment while only 23% of the former TWA pilots will remain employed by May 2004.

It is an accepted fact among airline industry experts that one of the most important aspects of airline mergers is the seniority integration of the merged work forces. This issue has been contentious in many mergers, however in the vast majority of previous combinations, agreements were reached or arbitrations settled the disagreements.

The TWA-American integration is a textbook example of what happens when the process spins wildly out of control. I previously outlined the outrageous inequity in the way seniority was handled. But you also must understand the impact this is

having on employee morale and cooperation in a business where teamwork means everything. Just last week an American Airlines pilot (whose name I will withhold publicly but gladly provide to the committee upon request), apparently incensed over this very hearing, posted an email threatening to poison the food of former TWA pilots. I offer a copy of this email to be placed into the record. It is an excellent example why seniority integrations, to be successful, must be done fairly and equitably.

It is crucial to know that when American started courting TWA, it was insistent on two preconditions to acquisition: 1) American required that TWA declare bankruptcy; and 2) TWA's unionized workers amend certain provisions contained in their collective bargaining agreements. Those provisions, known as Allegheny/Mohawk LPP's, would have allowed us to mediate and arbitrate our seniority integration should the parties not agree to a fair integration.

Allegheny/Mohawk provisions had been around for many years and although the Civil Aeronautics Board and its requirement to apply LPP's in seniority integrations became part of a bygone era with deregulation, airline managements and unions continue to abide by these "LPP's" generally writing them into their collective bargaining agreements; until, of course the largest airline combination in history.

While the TWA unions contemplated American's demands to amend our contracts, American Airlines directed TWA Inc. to file a motion under §1113 of the bankruptcy code to strip us of those provisions. This drastic assault was a result of demands made by American's own unions. In our case, American's pilots' union, the APA, demanded that it alone control the seniority integration for all pilots. American agreed to give APA unfettered control over the integration and structured their purchase offer to solidify that control.

In effect American empowered their unions to treat the TWA employees unfairly, by requiring these amendments to our protective provisions. American and its unions held a gun to the heads of the TWA employees. Not coincidentally, own union, ALPA, was engaged in merger talks with the APA at the very time our jobs were on the line. In exchange for our acquiescence to American's coercive demands, the Carty-led American Airlines promised to use its "reasonable best efforts" to help us work out our integration with the APA. We believed federal law offered some insulation from mistreatment because American's promise became a substitute for those exchanged LPP's. And given those assurances, the TWA pilots attempted to negotiate with our American Airlines counterparts, unaware of the wholesale slaughter ahead.

We now know we were duped. American considered its global promise of "reasonable best efforts" to mean simply one thing—writing the check for a "facilitator". The APA dictated the facilitator's terms and conditions down to the last detail. Those restrictive conditions stripped the facilitator of all of his authority, and any meaningful ability to bring the parties to consensus. TWA pilot representatives met with the APA on multiple occasions, including meetings in the presence of the facilitator in the summer of 2001, but the discussions went nowhere. This is not surprising because we now know American and APA had already cut their own deal, which not only protected every American pilot from furlough, but which guaranteed the American pilots the ability to cannibalize the jobs of the TWA pilots for literally decades to come! The APA had no reason to negotiate in good faith, or to deal fairly with the TWA pilots because they rigged every aspect of the game in advance. No agreement was reached and the discussions failed. During and after this period, we asked to bargain directly with our employer, American, over our seniority. American told us that it was not our employer, and that we had to talk to—you guessed it—the wholly owned subsidiary shell corporation, TWA LLC. At other times American stated that the seniority discussions were out of their control, and were to be entirely the purview of the employee groups involved. We went to TWA LLC, and were told that only American could talk about our seniority. Neither company would talk to us regarding seniority. We believed then, and we believe now that American and TWA LLC were one and the same; they were "alter egos" of the same company. The sham has now been exposed: American created this wholly owned subsidiary in part to avoid its bargaining obligations to us; creating a "shell game" forcing us to dance around in circles, while enabling their employee groups to cherry pick our seniority, and our jobs.

There are numerous sidebars and footnotes to this integration atrocity. For example, the imposed integration, known as Supplement CC to APA's contract, eviscerated our seniority. An important fact tying the seniority deal to the corporate subterfuge is that Supp. CC was announced on November 8, 2001. The very next day APA filed with the National Mediation Board to declare TWA LLC and American a single, integrated carrier. APA waited until it had cut its final deal on seniority with American, and then made its move to implement that deal.

At that same time, American closed every TWA pilot domicile with the exception of St. Louis. Pilots who previously lived and flew on the East and West Coasts for decades were forced to displace to St. Louis.

Please remember these key words—fair and equitable—in considering this evolving picture. Seniority has been wiped out. American forced all of the TWA pilots out of our jobs in the cities where TWA had operations, ordered us to fly exclusively from St. Louis, and gave our jobs in those cities to the American Airlines pilots. Once in St. Louis, the TWA pilots were stripped of our international routes, and many of our higher paying positions. Meanwhile, much less experienced American pilots continue living in their city of choice and enjoying schedules, captaincies and our routes overseas, as if no merger ever occurred.

To put this in a personal perspective, a good friend of mine, Sally Young, a single mother of two and a 14 year-veteran former TWA Captain, will lose her job on July 2. I too, will lose my job on July 2 after 16 years as a career jet airline pilot, with over 13 years of seniority with TWA and American Airlines. American gave me a seniority date of April 10, 2001. On April 9, 2001, American hired Mr. B.D. White. Today Mr. White, who now has 2 years and 2 months of American Airlines experience and seniority, continues to fly while Ms. Young, myself and hundreds more former TWA pilots like us are being furloughed.

In February 2001 many of you heard Don Carty, former AMR CEO state before the U.S. Senate Committee on Commerce, Science, and Transportation, his commitment to “adding TWA’s 20,000 employees to the American Airlines family.” A willing commitment “to the 20,000 TWA employees and their families that no one else would make.”

Obviously Mr. Carty said what the Senate Committee and the Bankruptcy Court needed to hear to approve the deal, with no intention whatsoever of living up to those commitments.

Members of the committee, we are not here seeking sympathy or pity. We are here in the name of justice and fairness. We are here in hope that Congress can rectify this atrocity and act so this tragedy can never again be repeated in another workplace to the detriment of another working man or woman.

We ask only that our all important seniority rights be handled “fairly, and equitably,” as promised. No more and no less. I hope you and the American people can now clearly see that our seniority was handled unfairly and inequitably by an airline that can only now be called Un-American Airlines.

Thank you for the opportunity to speak before this committee today. I am happy to answer any questions.

#### PREPARED STATEMENT OF SHERRY COOPER

Senator Gregg, thank you for allowing me to testify before the Senate Subcommittee on Health, Education, Labor and Pensions concerning the TWA/American Airlines Workforce Integration. Senator Bond, thank you for chairing the hearing on this all-too-important issue. To be perfectly candid with you, there was no integration. In fact, what American and the Association of Professional Flight Attendants have done is to arbitrarily discriminate against former TWA employees and segregate them to the bottom of the seniority list. There has been no integration.

On May 3, 2003, I celebrated a milestone in my flying career. I began my 28th year as a Flight Attendant. That same day, instead of receiving recognition from American Airlines, I received a furlough notice. My career in the airline industry was over.

Perhaps more than anyone else here today, I held a unique position at TWA. Apart from the fact that I am a TWA line Flight Attendant, I also served on the TWA Board of Directors from 1998 to 2001 as a Labor Director, representing the International Association of Machinists and TWA Flight Attendants. I directly participated in the approval of the sale of TWA to American Airlines.

On January 9, 2001, I received a telephone call from Mr. Bill Compton, former President of TWA to tell me about the “great deal” that was waiting for the TWA employees. During that conversation, Mr. Compton stated the following: (1) That all TWA retirees would be protected; (2) That TWA unionized employees would be guaranteed jobs and greater job security; and (3) That TWA employees would receive greater pay and benefits.

In summary, the TWA employees would be better off through the agreement he had reached with American Airlines. There was only “one” catch. Even though American and TWA had struggled mightily to come up with a straight merger transaction, we would have to file for bankruptcy for one reason—and one reason only. The reason was Carl Icahn. As many of you may recall, Carl Icahn had been prior owner of Trans World Airlines. In negotiating his departure in 1994, TWA had

been required to enter into a series of ticket arrangements under which Mr. Icahn had been allowed to sell deeply discounted TWA tickets through a corporation he owned known as "Karabu." Mr. Compton advised me that the only way that American could see fit to do the deal was to take Karabu "out" through bankruptcy. And so, the TWA Board of Directors met the following week to hammer out the terms of the deal with American Airlines. Thus begins the biggest myth of all—that American Airlines saved TWA in bankruptcy.

I want to make this perfectly clear. At the time of the agreement, TWA was NOT in bankruptcy. As a member of the Board of Directors, we agreed to file for bankruptcy in order to eliminate the Karabu ticket agreement.

Quite honestly, as a Labor Director, I wanted some assurances that TWA employees would receive protection. The Asset Purchase Agreement guaranteed that all unionized employees would be employed by American Airlines. Because of the well known problems that had surfaced with the Reno acquisition, American Airlines announced that it would take its time to ensure a smooth and orderly transition. Mr. Carty, then CEO of American Airlines, promised that the TWA employees would receive the same "benefits" that the American Airlines employees received. Our union contracts would need to be modified to "mirror" those contracts of the American employees. Because American flight attendants did not have Allegheny-Mohawk Labor Protective Provisions, our contract would have to be modified to match theirs. Importantly, both American Airlines and TWA management insisted that all seniority integration issues would necessarily be worked out between the Unions. It was agreed that the Unions to ultimately work out how the seniority would be integrated. American Airlines agreed to hire an independent facilitator to arrange meetings between the Unions and use it best efforts on behalf of the TWA employees. It promised that there would be a "fair and equitable" process and that it would adopt the "process" that came out of the facilitated talks.

The American Flight Attendants numbered in excess of 22,000 employees. By contrast, TWA Flight Attendants totaled approximately 4,200 individuals. The merger of a small group of senior Flight Attendants would have relatively little impact on the overall picture because most flew out of St. Louis, MO—a non American Airlines base. The balance flew out of New York. Unlike other carriers who went out of business whose employees then sought employment at other airlines, this would be an orderly transaction because the TWA employees were coming to the acquisition with planes, routes, airport slots, reservation and maintenance facilities, and the prized St. Louis hub. It was—for all intents and purposes—our dowry.

It is well chronicled that Don Carty and American Airlines touted the TWA purchase as a great acquisition. In a powerpoint presentation to its own Board of Directors, American management happily noted that it acquired TWA for far less than it was worth. In his own words, Mr. Carty stated that "American gains many great assets from TWA, but none as important as its talented team of employees." Quite clearly, the team of employees were highly trained and experienced professionals. He threw a barbecue for the TWA employees. Little did we realize at the time—but the TWA employees were the entree at the barbecue.

Instead of holding talks for the two Unions—the Association of Professional Flight Attendants and the IAM—American Airlines engaged in secret talks with APFA—it negotiated an agreement with APFA that all TWA Flight Attendants would be stapled to the bottom of the APFA seniority list. American broke its written agreement with the TWA Flight Attendants. At the same time, APFA had agreed that it would allow those former TWA Flight Attendants based in New York and in St. Louis that they would receive some job protection in the form of a fence. In other words, we would retain our combined TWA and AA seniority as long as we remained in our two (2) hubs. We would be allowed some sort of job protection in those bases. By contrast, when TWA purchased Ozark, all former Ozark Flight Attendants received full seniority. Even APFA, when American Airlines acquired both Air Cal and Trans Caribbean, agreed that those Flight Attendants retain credit for their years of service at those carriers. Ironically, even American Airlines voluntarily provided full credit for seniority to TWA non-union and management personnel.

Following the aftermath of September 11, American Airlines decided to shut down the New York TWA operation. It transferred the former TWA New York flights to more junior AA Flight Attendants. American Airlines gave New York Flight Attendants two (2) options: They could be furloughed to the streets without a paycheck or accept a transfer to the remaining TWA base in St. Louis. Many of our former New York Flight Attendants elected to transfer to St. Louis. After all, we would retain job security as long as TWA, LLC flights continued to operate out of St. Louis. We were wrong. American and APFA first violated its own agreement by transferring St. Louis International flights to more junior American Flight Attendants. They



have now determined that all remaining TWA, LLC Flight Attendants—all with more than 27 years of seniority—will be furloughed effective July 2, 2003. Eighteen hundred (1800) Flight Attendants with seniority totaling more than fifty thousand (50,000) years of service to the airline industry will lose their jobs. They will be joining 2,400 other TWA Flight Attendants. At the same time, American Flight Attendants with less than three (3) years seniority will be flying on TWA, LLC aircraft out of St. Louis.

To add insult to injury, both American Airlines and APFA agreed as part of their recent concessionary agreement that the scheduled July 2 furlougees will hit the streams with no severance pay. For the first time in the history of American Airlines, Flight Attendants will lose their jobs without any cushion of severance pay. What makes it even worse is that for the first time in American Airlines history, employees losing their jobs will lose Company-paid medical benefits. Instead of providing 90 days of medical coverage, American Airlines will only be providing 30 days of coverage. For the most part, the group about to be furloughed are women—fifty and over—who are primary caretakers for their parents, children, and grandchildren. They will be facing an uncertain future with one thing for certain—personal and financial ruin. At the same time, American admitted that it was funding pension plans for 45 of its top executives. It had also approved “retention” bonuses for its senior executives—however—due to the public outcry, it has abandoned the retention bonus program. Recently, the American Airlines Board of Directors expelled Don Carty. By anyone’s definition, he left in disgrace due to his failure to be honest with employees about senior executive pay packages and incentives.

American Airlines has asked you to believe that all that has transpired with TWA has been above board and in the open. Can you honestly believe a corporation in light of its most recent shortcomings? I would hope not. American has told you that the no one anticipated the tragic events of September 11. It is one thing to make financial decisions to recover from our greatest tragedy. It is quite another to capitalize on that event at the expense of former TWA employees.

Needless to say, we have filed lawsuits against both American and APFA. Among other grounds, we are suing American Airlines for fraud. The most recent filing—submitted this week—concerns their concerted effort to eliminate all former TWA Flight Attendants based in St. Louis.

It should be clear to everyone in this room that when American Airlines promised “two great airlines—one great future”—it was a lie. Instead, it undertook a pattern of activity designed solely to eliminate the former TWA employees that it, once called TWA’s greatest asset.

When American Airlines came to Congress, asking for economic help following the aftermath of September 11, you stood up and gave financial assistance to the carrier. The assistance American received was based—in part—on the TWA route structure. When American Airlines sought reimbursement for security expenses at airports, the money it will be receiving will be based—in part—on the TWA, LLC operation. At the same time, American has sought—and received—financial assistance from you—based on what I and my fellow employees “brought to the table,” it has thrown us aside arguing that “we should be grateful that we have a job.” We have no job. American has taken our jobs—our routes—our planes—our St. Louis Hub—and has handed us a pink slip.

I am a taxpayer having paid taxes for more than thirty-five (35) years. Like almost all Americans, I have gone to work on a daily basis and performed a meaningful job for my employer. I have expected a fair wage for a fair day’s worth of work. I have watched my tax dollars be spent on both social programs and weapons. I have watched my tax dollars be used to assist troubled corporations and rightfully help the family farmer. I have asked for nothing in return but that I be: treated with decency and fairness. Both of those- are tragically—horribly—missing in the TWA American Airlines workforce integration. It has been reported that there is nothing that this Committee can do to help right this wrong. My question is simpler Why not? We travel halfway around the world to fight for freedom At the same time, we are witness to an incredible injustice in our own backyard only to be told that it is beyond our control. America is the greatest nation on earth. What makes it so great is that it has long-championed the rights of individuals. It has placed its highest value on human life. It realizes that a nation is best known for how it treats its most vulnerable citizen not its most powerful. A country prospers because of the everyday citizen—not because of its CEO’s, Union Presidents, or—even—U.S. Senators. On behalf of the more than 20,000 former TWA employees, I want more than just your sympathy. I want—and demand—that you honor all that is right about America. Intercede on our behalf and restore the process to a fair and equitable seniority integration.

## PREPARED STATEMENT OF JEFF BRUNDAGE

Mr. Chairman and Members of the Committee: Thank you for your invitation to speak on behalf of American Airlines. I am Jeff Brundage, Vice President of Employee Relations. I joined American Airlines in December 1999 after a career as a pilot and union leader. At American I was actively involved in the labor integration plan when the company acquired the assets of TWA in the spring of 2001.

As you know, these are extraordinarily difficult times in the U.S. airline industry. Since the events of September 11, 2001, the industry has lost more than 100,000 jobs and has suffered perhaps more than any other industry from the economic downturn, the effects of war and the threat of terrorism on travel.

So we certainly understand and appreciate your concern about the jobs lost and the effect on the people and the communities you represent.

Today, I want to use my time before you to offer a little background on American's acquisition of TWA's assets during the early part of 2001 and our efforts to provide jobs to 20,000 TWA employees who would have otherwise been facing the liquidation of their company.

It was always our intent to provide jobs to the TWA workers until their retirement, and we did everything we could to put our newest employees on par with all other American employees. In fact, we provided pay and benefits that represent one of the most generous employee packages in the history of corporate acquisitions.

Before TWA filed bankruptcy in January of 2001, it approached other major U.S. airlines about entering into some kind of transaction whereby TWA could continue to operate. Only American was willing to make a comprehensive proposal that saved the jobs of many TWA employees.

Under the asset purchase agreement, American voluntarily agreed to provide employment to all unionized TWA employees.

The Bankruptcy Court found American's offer to be the only qualifying offer and approved the asset purchase agreement. The alternative was liquidation and the immediate unemployment of 20,000 TWA workers.

This is clearly and thoroughly documented in the written testimony of the Allied Pilots Association. As they point out, every court that has reviewed those transactions has agreed that there simply were no alternatives available to TWA workers.

Our goal was to successfully integrate the two airlines' workforces and combine our forces to build the largest, most successful airline in the world.

And we knew that we would not be successful unless we had the goodwill of the TWA employees. Indeed, from the very beginning, we offered TWA employees compensation and benefits that rewarded them as if they had worked their entire career at American.

TWA employees were not brought on as new hires, and lost no pay, benefits, accrued vacation time or sick leave. We gave TWA employees full credit for their services for these purposes.

As of January 2002, we put all TWA employees on American's pay scale. Indeed, because TWA pay rates had been significantly lower than those at American, the majority received a substantial pay increase.

TWA employees hired by American also received the same travel privileges, pension benefits and retiree benefits we offer all American employees.

Finally, although we were under no obligation to do so, we agreed to assume \$515 million in accrued liability on the books of TWA for retiree medical, providing medical coverage to both existing retirees of TWA as of April 9, 2001, who may otherwise have had no coverage, and future retirees among the employees who came to American.

It is important to note again that this was not a merger. As we began the asset acquisition process, we had long-standing obligations to our existing workforce of more than 100,000 employees, and to the contracts negotiated with their unions. And as I just outlined, we did everything we could within the terms of those contracts to provide 20,000 TWA employees with the same pay and benefits we offered our existing employees.

But the challenge of integrating two workforces goes beyond matters of benefit's and pay. It is the right and responsibility of the labor unions that represent our employees to negotiate on their memberships' behalf on a wide range of other contract provisions, including seniority and job protection that are at issue today.

This, as you can imagine, was a difficult situation for all involved. We had competing unions with competing interests. And ultimately, these matters were resolved as internal union matters. The company's role in the process was to use our best efforts to facilitate the seniority integration process. We did that. In fact, an inde-

pendent arbitrator found that we met our best efforts commitment in the pilot integration.

Even though the seniority integrations varied with each work group—pilots, flight attendants and ground workers—American met its commitment to provide former TWA employees full credit for their years of service at TWA for all pay and benefit purposes.

At the time of this asset acquisition, no one foresaw the industry's impending financial crisis—a financial crisis that regrettably has led to the furloughing of so many employees throughout the industry, including at American.

Once again, no one could have predicted the events of 9/11, or the devastating financial fallout that followed. But the fact is that the unions negotiated and agreed to an integration plan that attempted to balance competing interests and preserve jobs. Therefore, the ultimate consequences for the TWA employees were not the result of the integration plan, but rather an economic downturn that forced layoffs and cutbacks throughout the industry. The pain has been spread far and deep.

I appreciate the efforts of this Congress to provide aid to the airline industry and assistance to the tens of thousands of workers who have lost their jobs. I hope that we can all soon anticipate better times for U.S. airlines and their employees.

Thank you for your kind attention, and I will be happy to address your questions.

Whereupon, at 4:45 p.m., the committee was adjourned.]

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