September 7, 2012

All FAs on the APFA/AA Seniority List as of August 19, 2012, with W-2 earnings as an American Airlines Flight Attendant between January 1, 2009, and August 31, 2012, will receive an allocation of the equity provided to APFA in settlement of its bankruptcy claim.

The reason this equity is being distributed as "retro pay" is because it is intended to compensate flight attendants that should have seen their average paycheck increase in the years since our current contract became amenable. Often when a new collective bargaining agreement is about to be reached after a prolonged period of negotiation, the union will seek a retroactive wage increase or “retro pay” to cover the time when the employees' wages had remained stagnant. Retro pay ensures that the employees won't be harmed by the delay in bargaining and the employer won't benefit from it. For example, if a union were able to achieve a 5% retroactive wage increase for the year preceding the signing of a new agreement and during that time an employee had earned $40,000, he or she would receive a check for $2,000 in retro pay ($40,000 x .05).

For the APFA, the last time wages were increased was on May 1, 2008, when we received the last of five 1.5% raises under the RPA. Since then, we have been negotiating with a company that took over four years to reach a new contract and needed to declare bankruptcy and file a Section 1113 motion to do it. During that time the Flight Attendants, whose hard work and professionalism sustained American Airlines, did not see their wages increase by a single cent. APFA will take the shares of stock it receives in settlement of its claim and distribute them in the form of retro pay.

Based on the experience of unions in previous airline bankruptcies, our professionals have designed a fair and equitable method to distribute the claim. When issued, AMR’s shares will have a certain dollar value. The total value of the stock can be determined by multiplying the single share price by the number of total shares. **For purposes of this explanation only**, we will assume that the 3% of the equity to which APFA is entitled equates to 3 million shares and the initial stock price is $20. In this example, the total value of the shares APFA would distribute to the members would be $60 million (3 million shares x $20/share).

Also, assume that the FAs total payroll for the period of January 1, 2009, through August 31, 2012, was $2.4 billion. Treating the $60 million in stock as retro pay would result in the equivalent of a 2.5% wage increase ($60 million ÷ $2.4 billion).

How would this translate into an individual allocation? If a Flight Attendant earned $150,000 during the 3.66-year period of January 1, 2009, through August 31, 2012, he or she would receive an allocation of stock valued at $3750 ($150,000 x .025). Since the stock's assumed value is $20/share this individual would receive 187.5 shares ($3750 divided by $20/share). Again, these numbers are purely hypothetical. We will not know the value of APFA’s claim until the Company emerges from bankruptcy.

Finally, remember that whatever value AA assigns to each share of stock, the price will fluctuate once the stock begins trading on the open market.

The following are actual questions APFA has received recently and the answers we, with the assistance of our professionals, are able to provide at this time.

1. Why did APFA decide to use retro pay as a model and how were distributions handled in other cases?

In past bankruptcy cases, unions have distributed their bankruptcy claims to members using a formula based upon W-2 earnings over a specified measurement period. For example, in the Northwest bankruptcy, IAM made distributions in proportion to employee earnings during the bankruptcy. In the United bankruptcy, the AFA distributed two-thirds of its claim amount on an earnings basis and one-third on a per capita basis. In past bankruptcies, pilot groups have tended to use more complicated distribution formulas, in part based on earnings, but these formulas have generally proven to be needlessly complex.

In this case, the best course of action is to treat the claim like an award of retroactive pay from approximately the amendable date of the prior CBA (Collective Bargaining Agreement/Contract) to the ratification date of the LBFO. There are several reasons for this approach. First, unions generally seek retroactive pay as part of the bargaining for any new agreement, and so the concept is familiar to union members. Second, retroactive pay seeks to compensate the membership for the lack of wage increases during protracted negotiations. Here, Section 6 negotiations began more than four years ago during which time Flight Attendant wages did not increase. Third, an earnings-based formula is objective and relatively easy to implement. Finally, treating the claim as retroactive pay will also permit individuals who accept the early-out to participate in the distribution. Since a well-subscribed early-out program will benefit the membership, it is appropriate to provide a share in the claim distribution as further incentive to accept the early-out.

Although in other bankruptcy cases the claim was treated at least in part as compensation for concessions made as a result of the Section 1113 process, that approach is not practical under the circumstances of this case. In this case, the period between implementation of the LBFO concessions and the issuance of stock as part of the reorganization plan will be relatively brief, likely less than a year. However, the distribution needs to be accomplished as soon as American issues its stock since APFA should not be in the position of holding the Company stock or the proceeds of that stock for an extended period of time. Because the bulk of the concessions will not occur until after the issuance of equity and the distribution, the distribution should not be based on concessions that have not yet been implemented. Any predictions about the future extent of each Flight Attendant's concessions would be too speculative to form the basis for a distribution formula.

2. Why was this not put out to the membership for a vote?
As was stated during the recent roadshows, distribution of the equity claim would be decided by the Board of Directors if the LBFO was ratified. As the elected representatives for the membership, the Base Chairs have the authority to make this decision. The APFA Board of Directors determined the distribution method now, instead of waiting until American is closer to its exit from bankruptcy, because the Company decided to begin offering the VEOP shortly after the ratification vote on August 19. It was important for APFA to explain how the equity claim will be distributed to FAs who were considering the early out.

3. Why am I being penalized for being on an unpaid IOD, through no fault of my own?
No flight attendant is being penalized by this distribution method. The APFA's professionals and Board have designed and adopted a system that distributes this claim based on the terms of our existing contract. IODs are handled by the state under Worker's Compensation. Since APFA's claim was based on changes to and grievances arising from the provisions of our contract, worker's comp benefits, which are not covered by our labor contract, were not included in our claim.
In addition, as is the case generally, retro pay will be applied only to the wages a Flight Attendant has been paid under the terms of the CBA.

4. Why am I being penalized because I took an overage leave, at the urging of APFA, to save a job?
Flight Attendants who took overage leaves were not paid during the time they were on a leave and did not receive any wages to which retro pay would apply.

5. Why should Reserve Flight Attendants be penalized?

As with all other income earned during the period covered by retro pay, wages earned while FAs serve reserve are covered including the minimum guarantee of 75 hours (or less if FA dropped/traded down in time, etc.) plus trips picked up and paid beyond guarantee.

6. Why are FAs who are leaving and don't have to live under this contract able to receive equity?

The equity claim is not compensation for future losses. It is compensation for the lack of wage increases following the amendable date of our RPA. Today, we can quantify to the dollar the money Flight Attendants have forfeited as a result of not receiving any wage increases in the past. On the other hand, we cannot reasonably predict how many hours each Flight Attendant will work over the next six years or which Flight Attendants will remain American Airlines employees during that time.

7. Why didn't we divide it equally?

Like the retro pay following the 2001 contract, the distribution of this equity claim will be based on earnings as well. For each hour a Flight Attendant has worked since January 1, 2009, he or she will receive retro pay to make-up for the wages they should have received during this period. Giving every Flight Attendant the same allocation without regard to the number of hours they've worked since January 1, 2009, would be unfair. Some Flight Attendants have not flown at all since January 1, 2009 while other Flight Attendants have worked over 100 hours each month under a concessionary contract. By using a retro pay formula there will be a direct correlation between the harm a Flight Attendant has endured and the relief he or she is provided.

8. Why does international get paid more than domestic?

International is paid more than domestic regardless of a claim. Therefore, International will receive a proportionate amount of the claim as recovery for wages they did not realize following the amendable date of the prior contract.

9. Why doesn't APFA retain control of the stock over the term of the LBFO contract?

APFA wants each Flight Attendant to decide whether and when to sell their allocation of stock. We also want to ensure that the stock is already in the hands of the Flight Attendants when American exits bankruptcy. In other cases, the stock enjoyed a significant bump in its price shortly after it began trading on the open market.

Explanation of the Distribution of the 3% Claim - 8.29.12

As part of the Last, Best and Final Offer ("LBFO"), APFA will receive a "Claim" equal to 3% of the equity (stock) issued by American as part of its Plan of Reorganization. Based on recommendations from the Union's attorneys and financial advisors, the APFA Board of Directors has decided upon a method for the distribution of the Claim. APFA will treat the Claim in a manner similar to a distribution of retroactive pay. APFA took into account that Flight Attendants have worked under a concessionary agreement for more than four years beyond its amendable date and have not received any wages increases during that time.

All Flight Attendants in the service of American as of the ratification of the LBFO on August 19, 2012, will be eligible to participate in the Claim distribution. The Claim will be allocated among eligible Flight Attendants on the basis of W-2 gross earnings (i.e. earnings before any deductions) from January 1, 2009 through August 31, 2012. Each individual Flight Attendant's share of the Claim will be equal to her/his earnings over this time period divided by the earnings of all eligible Flight Attendants during the same period. APFA believes that this method of distribution is the fairest and most practical, and is consistent with what other unions have done in bankruptcy. APFA intends to distribute the Claim to Flight Attendants in the form of stock if possible, but the administrative process for distributing the Claim must still be worked out over the coming months.

The APFA leadership felt that it was necessary to make a decision now regarding the method for the distribution of the Claim so that Flight Attendants would have this information as they consider the Voluntary Early Out Program ("VEOP"). We caution, however, that the amount of the Claim and the timing of the distribution are unknown at this point. Ultimately, the value of the Claim will be subject to a number of factors that cannot be quantified at this time (for example, the timing of emergence, market conditions, AMR and industry performance, and capital requirements). The value of the Claim will be estimated by American toward the end of the bankruptcy process as part of the Plan of Reorganization, and ultimately the stock market will set the value of the Claim based on the market price for stock in the restructured Company. In addition, the Claim is based upon American's LBFO. The term-sheet agreed to with US Airways also provides for a claim in the event that US Airways acquires American, but the amount of that claim has not yet been determined and would be the subject of further negotiations with US Airways and the UCC.

Procedures For the Distribution of APFA 3% Equity Claim - 8.29.12

APFA will be receiving 3% of the equity issued by American Airlines to holders of unsecured claims ("Equity Claim") as part of the Company's Plan of Reorganization in the pending bankruptcy proceedings. APFA intends to distribute that Equity Claim as follows:

Eligibility: Flight Attendants in the service of American Airlines ("American" or "Company") as of the date of the ratification of the LBFO, August 19, 2012, will be eligible to participate in the distribution.

W-2 Earnings Basis: The distribution formula will be based on each Flight Attendant's W-2 earnings. W-2 earnings will be defined as total gross earnings paid by American and APFA for service during the applicable measurement period. APFA will rely on records provided by American and its own payroll records in order to determine W-2 earnings.

Measurement Period: The applicable measurement period will run from January 1, 2009, to August 31, 2012. This measurement period is intended to the extent administratively feasible to coincide with the period from the amendable date of the APFA CBA (May 1, 2008) to the ratification date of the LBFO (August 19, 2012).

Distribution Formula: An individual Flight Attendant's share of the distribution will be equal to her/his total W-2 earnings during the measurement period divided by the aggregate total W-2 earnings of all eligible Flight Attendants during the measurement period.

Claims for Prior Early-Out Payments: Upon filing for bankruptcy, American ceased making monthly payments to individuals entitled to benefits under the 1995 Special Early Out Bridge to Retirement Program and the 1996 Early Out program, in violation of the APFA CBA. APFA asserted claims on behalf of these individuals in its proof of claim filed in the bankruptcy proceeding and therefore these claims were settled as part of the LBFO. The amount of these claims can be ascertained from the terms of the APFA CBA. Accordingly, these claims will be paid from the Equity Claim at the same pro rata rate as generally paid by American to unsecured claimants in the bankruptcy proceeding. These claims will be paid before the W-2 based distribution formula is applied to allocate the Equity Claim.

Form of Distribution: APFA intends to arrange for the distribution of the claim to eligible Flight Attendants in the form of stock in the reorganized Company. If it is not administratively feasible for APFA to make the distribution in the form of stock, APFA will arrange for the liquidation of American-issued stock at the earliest time practicable and arrange for distribution to eligible Flight Attendants in dollars and subject to any applicable withholdings.

Timing of Distribution(s): The timing of distribution(s) of equity by American will be dictated by the

Company's Plan of Reorganization and the timing is currently unknown to APFA. APFA will endeavor to make distributed amounts, whether in stock or dollars, available to eligible Flight Attendants as soon as practicable after distribution by American.

Administrative Costs: To the extent that there are administrative costs associated with the distribution of the claim, such as fees associated with maintaining stock accounts for the purposes of the distribution, the Equity Claim amount may be used to cover these administrative costs.

Unclaimed/Undeliverable Distributions: APFA will make reasonable best efforts to insure that all distribution amounts are received by eligible Flight Attendants. If distributions remain unclaimed or undeliverable six months following the final distribution of any amounts from the Equity Claim, then these unclaimed or undeliverable amounts will revert to APFA to be used for the general benefit of the membership.

De Minimis Distributions: APFA may determine not to make de minimis distributions. A de minimis distribution is defined as a distribution where the value of the amount to be distributed does not exceed the administrative costs associated with making the distribution. The value of any de minimis distributions may be reallocated based upon the distribution formula if practicable, or otherwise will revert to the APFA to be used for the general benefit of the membership.

Amendments to the Equity Claim Procedures: In the event of a material change in circumstances related to the Equity Claim or the discovery of facts presently unknown to APFA, the APFA Executive Committee, subject to the approval of the Board of Directors, reserves the right to amend these procedures as may be appropriate in light of the changed circumstances or new information.