

AMERICAN AIRLINES 1113(c) PROPOSAL TO
 THE TRANSPORT WORKERS UNION
 RE: DISPATCH
 February 1, 2012

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| <p>OBJECTIVE</p> | <p>This Term Sheet sets forth the basic terms of the Company’s Section 1113(c) Proposal on necessary modifications to the parties’ existing Collective Bargaining Agreement between the Transport Workers Union and American Airlines (the “Basic Agreement”) in light of what the Company has determined is necessary to its successful organization. The parties will amend the Basic Agreement and related side letters of agreements, and execute such other documents as may be needed, to accomplish the following modifications.</p> <p>Items marked with an asterisk (*) in this term sheet are contingent upon a consensual Collective Bargaining Agreement, i.e. they will become effective as described only upon the effective date of a new Collective Bargaining Agreement between American and the TWU.</p> |
| <p>I. DURATION</p> | <p>Modify Article 47 to provide a duration of six (6) years from date of signing (DOS).</p> |
| <p>II. COMPENSATION & RELATED PROVISIONS Hourly Pay Rates Performance Related Pay Profit Sharing</p> | <ol style="list-style-type: none"> 1. *Modify Article 4(a) to increase Chart Rates as follows: <ul style="list-style-type: none"> -effective DOS + 12 months– 1.5% -effective DOS + 24 months – 1.5% -effective DOS + 36 months – 1.5% -effective DOS + 48 months – 1.5% -effective DOS + 60 months – 1.5% 2. *Extend Performance Related Pay program, as defined in the October 1, 2011 AA/TWU Dispatch Tentative Agreement. 3. *Implementation of the Enhanced Profit Sharing Plan (See Attachment A, “Enhanced Profit Sharing Plan”). <ul style="list-style-type: none"> • Current Profit Sharing plan and the Annual Incentive Plan (AIP) would be eliminated. |
| <p>III. WORK RULES Hours of Work</p> | <ol style="list-style-type: none"> 1. Clarify the following provisions of Article 3 as follows: <ul style="list-style-type: none"> • Article 3(a) and the August 15, 1995 Letter regarding Operational Specialists permit the Company to establish 8 hour day schedules. • Article 3(b) permits the Company to establish a work cycle up to |

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| <p>Overtime Pay Rate</p> <p>Holidays</p> <p>Vacation</p> <p>Leaves of Absence</p> <p>Sick Leave</p> | <p style="text-align: center;">234 days per year.</p> <ol style="list-style-type: none"> 2. Modify Article 6(b) to provide that all overtime is paid at one and one-half (1.5) times the regular rate of pay. 3. Modify Article 7 (a) and (b) to provide five (5) holidays paid at one and one-half (1.5) times their regular rate of pay. 4. Reduce maximum vacation accrual from 30 days to 25 days. 5. Eliminate paid Personal Vacation Days (PV). 6. Modify Article 17 – Leaves of Absence to reduce the duration of SLOA and IDLOA from 5 years to 3 years. 7. See Attachment B – “Sick Leave” |
| <p>IV. BENEFITS</p> <p>Pension</p> <p>401(k)</p> <p>Active Medical Plan</p> <p>Retiree Medical and Life</p> | <ol style="list-style-type: none"> 1. Amend the Basic Agreement so that the Company is not required to maintain or fund or provide benefits under a defined benefit pension plan. 2. Amend the Basic Agreement so that the Company is not required to maintain or fund or provide benefits under a defined contribution pension plan, except as provided below. 3. *Amend the Basic Agreement to provide that the Company will offer a replacement benefit through the Super Saver 401(k) Plan. Employees will be automatically enrolled (with an option to opt out) at a minimum pre-tax contribution of 3% per payroll period, with a Company match up to 5.5%. Company match will be escrowed and is contingent upon court approval of DB plan termination. Otherwise, funds will revert to the Company. 4. See Attachment C – “Active Medical” 5. See Attachment D – “Retiree Medical & Life” |
| <p>V. JOB PROTECTION</p> <p>System and Station Protections</p> | <ol style="list-style-type: none"> 1. Eliminate Article 42 and Attachment 42.1, which currently limit the Company’s ability to layoff protected employees. |
| <p>VI. MISCELLANEOUS</p> <p>ASM Cap</p> | <ol style="list-style-type: none"> 1. Eliminate Letter of Memorandum – Seat Miles Scheduled by Commuter Air Carriers. |

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| Moving Expenses / Special Severance | 2. Eliminate Article 44, which provides for a supplemental moving allowance of \$12,500 to each employee who moved base stations during a layoff, or a special severance allowance of \$12,500 to a laid off employee who relinquishes recall and re-employment rights. |
| Retirement Incentive Program | 3. *Create via a Letter of Memorandum a retirement incentive program to provide monetary incentive for employees to provide advance notice of retirement, to facilitate better planning for training replacement employees. |
| Equipment/Operations Coordinators for System Operations Control | 4. Revise Letter of Memorandum to provide that Relief Operations Coordinators must remain on the Relief List for a full year. |
| Union Business Pay | 5. Eliminate Baker letter on Union Business for elected representatives. |

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ATTACHMENT A

PROFIT SHARING

Implementation of the Enhanced Profit Sharing Plan:

1. Current profit sharing plan and the Annual Incentive Plan (AIP) would be eliminated.
2. Beginning at the first dollar of pre-tax income, the new Profit Sharing plan would pay awards equal to 15% of all pre-tax income, prorated to take into account any groups of frontline employees who do not participate in the plan. Pre-tax income for the purposes of these awards will be calculated prior to the effects on income of any special, unusual, and non-recurring items or incentive pay.
3. The Enhanced Fund would be distributed equitably to all eligible employees based on each employee's eligible earnings. Profit sharing awards are not considered compensation for purposes of determining Company contributions or other benefits under any retirement plan.
4. Individual Enhanced Awards will be distributed no later than March 15 of the following year for employees who meet the eligibility requirements as long as minimum funding provisions are met.

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ATTACHMENT B

SICK LEAVE

The Company proposes the following changes and clarification to sick pay:

1. Employee sick bank caps and accruals will remain unchanged.
2. **Incidental Sick**, defined as any sick occurrence with a duration of 7 or less consecutive calendar days, will be paid from the employee's available sick bank at the following rates:
 - a. For full time employee, the first 24 hours of Incidental Sick taken each year will be paid at 100% of regular hourly rate,
 - b. For part time employees, the first 15 hours of Incidental Sick used each year will be paid at 100% of regular hourly rate,
 - c. Any subsequent Incidental Sick hours/occurrences will be paid at 60% of regular hourly rate
3. **Managed Care Sick**, which is defined as any sick occurrence with duration greater than seven calendar days, must be medically substantiated by the Absence Management Vendor (AMV).
 - a. Hours missed for days 1 through 7 of Managed Care Sick will be paid as Incidental Sick in accordance with paragraph 2 above.
 - b. Hours missed on or after day 8 will be paid from the employee's available sick bank at 100% of regular hourly rate provided employee complies with the Managed Care program.
4. Managed Care Sick pay will end on the earliest of the following dates:
 - a. The date the employee is released by the AMV
 - b. The date the employee's sick bank is exhausted
 - c. The date the employee is determined to have failed to appropriately comply with the care and/or treatment instructions that are:
 - i. prescribed by a Physician whose medical training and clinical specialty are appropriate for treating the illness or injury;
 - ii. consistent in type, frequency and duration of treatment with relevant guidelines of national medical research, health care coverage organizations and governmental agencies;
 - iii. consistent with a physician's diagnosis of the illness or injury, and
 - iv. intended to maximize employee's medical and functional improvement.
 - d. The date employee fails to provide required proof of initial or continuing illness or injury, or compliance with Managed Care program
 - e. The date employee fails to have a medical exam as required absent an appropriate excuse, or

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- f. The date employee fails to return to work once released by the Absence Management Vendor (AMV) and the Company (if required)
- 5. Paid hours for any sick absence will not exceed regular shift hours.

Medical Substantiation and Managed Care

An Absence Management Vendor (AMV) will be responsible for determining employee eligibility for the use of his or her sick bank and administer a Managed Care program as follows.

- 1. **Medical Substantiation for Pay** - Employees will be eligible to use their sick bank if the Absence Management Vendor (AMV) determines the employee is unable to perform major and substantial duties of his or her job due to illness or injury. Required medical substantiation may include, but is not limited to:
 - a. A statement signed by the employee's actual medical provider(s) documenting the existence of a medical need for the period of the requested sick leave, the existence of a recommended course of treatment given to the employee and the projected recovery date;
 - b. A signed authorization and release so that employee's medical provider(s) will supply substantiating documentation and information directly to the Absence Management Vendor (AMV); or
 - c. A medical exam performed by a medical professional(s) of the Absence Management Vendor (AMV)'s choosing
- 2. **Managed Care** – Absence Management Vendor (AMV) will monitor ongoing treatment compliance and recovery progress, refer the employee to medical/wellness programs if appropriate and provide estimated return to work dates to employee's supervisor.

Unauthorized Absence

- 1. If one of the following occurs 1) Absence Management Vendor (AMV) does not approve the absence, 2) the employee refuses or fails to timely medically substantiate, or 3) the employee refuses or fails to appropriately participate in AMV-approved managed care, the employee will not be eligible for sick pay and will be placed on an unauthorized absence.
- 2. The following conditions will apply during the unauthorized absence:
 - a. No seniority, sick or vacation accruals
 - b. Full premium rates will apply for medical coverage
 - c. Attendance policy applies
 - d. Employee will be separated from company if not returned to active duty
 - e. Employee must follow return to work clearance procedures as outlined in CBA

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Unpaid Sick

1. Upon depletion of employee's sick bank, and if the employee is denied Long-Term Disability, the employee will be placed on an Unpaid Sick LOA for up to three (3) years
 - a. Company reserves the right to define the 3 year leave
 - b. Continuous medical substantiation is required to remain on a 3 year leave
2. The employee will be administratively terminated at the expiration of the leave if he or she does not return to work

Injury on Duty

1. Employees may use accrued sick time to supplement workers' compensation benefits provided they are treated by a network physician
2. Employee will be placed on an Unpaid Injury on Duty LOA for up to three (3) years upon depletion of employee's sick bank

Attendance Control Policy

Attendance Control Policy will apply

Active Medical while on Paid or Unpaid Sick or Injury

1. Employees may remain on active medical coverage paying active medical contributions for up to 12 months per injury/illness as defined below:
 - a. On the 8th day of a continuous absence due to injury/illness, employees' 12 months of active medical coverage will begin. Employees will pay their monthly active medical contributions through the direct bill process established by the company. If payment is not received, medical benefits will terminate and the employee will be solicited for COBRA continuation if eligible at the normal COBRA rates.
 - b. An employee who continues with the same absence due to illness/injury beyond 12 months, will be solicited for COBRA continuation, if eligible at the normal COBRA rates.

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ATTACHMENT C

ACTIVE MEDICAL

1. With the exception of the Standard plan design features in the chart below, all other plan provisions are subject to change at Company discretion. Plan design features and other plan provisions in the Core medical option may change at Company discretion and advance notice of any changes will be provided prior to implementation. To the extent the Company is offering the Value medical option in any Plan Year to employees, employees eligible to enroll in the Standard and Core medical options will be eligible to enroll in the Value option; the Company, at its discretion may change plan design and contributions in the Value option or otherwise amend or eliminate the Value option.
2. Aggregate employee contributions in 2012 will be 23% of the total projected cost of 2012 healthcare expenses (which include medical/Rx and administrative expenses). Contributions will increase with plan inflation.
3. Current coverage tiers for contributions will be replaced, as follows:

| Current Coverage Tiers | New Coverage Tiers |
|------------------------|------------------------------------|
| Employee Only | Employee Only |
| Employee + 1 | Employee + Spouse/Domestic Partner |
| | Employee + Child(ren) |
| Employee + 2 or more | Employee + Family |

4. The \$150 and \$1000 standard medical options in the current CBA will be eliminated including the elimination of the current inflation formula used to determine future contributions.
5. Part-time employees will be offered the same medical options as full-time employees. Contributions for medical options for Employee Only coverage will be the same as full-time employees. Part-time employees' contributions with dependents will be two (2) times the FT contributions for employees enrolled in the same medical option and coverage tier.
6. New employees eligible for healthcare coverage will default to the Core option, which is the Health Savings Account-compatible medical option, for Employee Only coverage on their eligibility date, should another option or level not be elected during their initial enrollment.
7. To the extent the Company is offering incentives in any Plan Year to employees for participating in the Healthmatters wellness program, employees enrolled in the Standard and Core Plans will be eligible for those incentives provided they meet the criteria (as established by the Company at its discretion) for earning the incentive.

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Active Medical Chart

| | Value | Standard | Core |
|--|--------------------------|------------------------------------|--------------------------|
| <u>Plan Design Features</u> | Non-contractual Features | <u>Contractual Features</u> | Non-contractual Features |
| Spending Accounts | Not HSA Compatible | Not HSA Compatible | HSA Compatible |
| In Network Deductible (Single/Family) | \$750 pp | \$1,500 pp | \$2,000/\$4,000** |
| Out of Network Deductible (Single/Family) | \$2,000 pp | \$3,000 pp | \$4,000/\$8,000** |
| Coinsurance (In/Out) | 20%/50% | 20%/50% | 30%/50% |
| In Network Out of Pocket Max (Single/Family) | \$3,250 pp | \$4,000 pp | \$6,000/\$12,000** |
| Out of Network Out of Pocket Max (Single/Family) | Unlimited | Unlimited | \$12,000/\$24,000** |
| Primary Care Physician Copay (In/Out) | \$25* | \$30* | 30%/50% |
| Specialist Copay (In/Out) | \$45* | 20%/50% | 30%/50% |
| Retail Clinics Copay (In/Out) | \$45* | 20%/50% | 30%/50% |
| Preventive Care (In Network Only)* | \$0 | \$0 | \$0 |
| Pharmacy (Retail)* | | | |
| Generic | 20% (\$20 min/\$40 max) | 20% (\$20 min/\$40 max) | subject to |
| Formulary Brand | 30% (\$30 min/\$100 max) | 30% (\$30 min/\$100 max) | deductibles and |
| Non-Formulary Brand | 50% (\$45 min/\$150 max) | 50% (\$45 min/\$150 max) | coinsurance*** |
| Pharmacy (Mail)* | | | |
| Generic | 20% (\$10 min/\$80 max) | 20% (\$10 min/\$80 max) | subject to |
| Formulary Brand | 30% (\$60 min/\$200 max) | 30% (\$60 min/\$200 max) | deductibles and |
| Non-Formulary Brand | 50% (\$90 min/\$300 max) | 50% (\$90 min/\$300 max) | coinsurance*** |

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Active Medical Chart

| <u>2012 Monthly Contributions</u> | Value | Standard | Core |
|---|----------|----------|----------|
| Employee Only | \$82.42 | \$76.91 | \$67.59 |
| Employee + Spouse/DP | \$247.27 | \$230.74 | \$202.78 |
| Employee + Child(ren) | \$148.36 | \$138.44 | \$121.67 |
| Employee + Family | \$333.27 | \$311.00 | \$273.31 |
| <u>2012 PT Monthly Contributions</u> | | | |
| Employee Only | \$82.42 | \$76.91 | \$67.59 |
| Employee + Spouse/DP | \$412.11 | \$384.56 | \$337.96 |
| Employee + Child(ren) | \$214.30 | \$199.97 | \$175.74 |
| Employee + Family | \$584.12 | \$545.08 | \$479.03 |

*Not subject to deductible

** Core - each deductible (single/family) is an aggregate that needs to be satisfied in total before coinsurance applies

** Core - the deductible is calculated as satisfying a portion of the OOP Max

** Core - each (single/family) OOP Max is an aggregate that needs to be satisfied in total before receiving 100% coverage

***Preventive Rx not subject to deductible, coinsurance still applies

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ATTACHMENT D

RETIREE MEDICAL & LIFE

Retiree Medical

The Company proposes the following changes to the retiree medical and life coverage:

1. Amend the collective bargaining agreement, any letter agreements and any ancillary documents so that the Company is not required to maintain, fund, or provide for retiree medical or retiree life benefits, including elimination of the retiree medical and retiree life insurance references.
2. Early retirees age 55 – 64 will have access to a company sponsored retiree medical option. Contributions for this coverage will be 100% of projected annual expenses (which includes administrative expenses) using data, assumptions, and methodologies for calculating future retiree healthcare costs. For 2012, the Company will offer the pre-65 plan design (which includes a provider network) offered to management employees.
3. Retiree medical option for age 65 and over will cease. Retirees will be offered access to purchase a guaranteed issue Medicare supplement plan through a third party administrator, to the extent available.
4. A participant who currently prefunds for retiree medical will be refunded the employee's prefunding account (which reflects investment experience). Excluding groups that have already received prefunding refunds.
5. Although it is the Company's intention to continue to make available access to early retiree medical coverage (age 55 – 64), the Company will reserve the right to modify, amend, or terminate the plan at any time.
6. Retiree life insurance benefit will be discontinued.