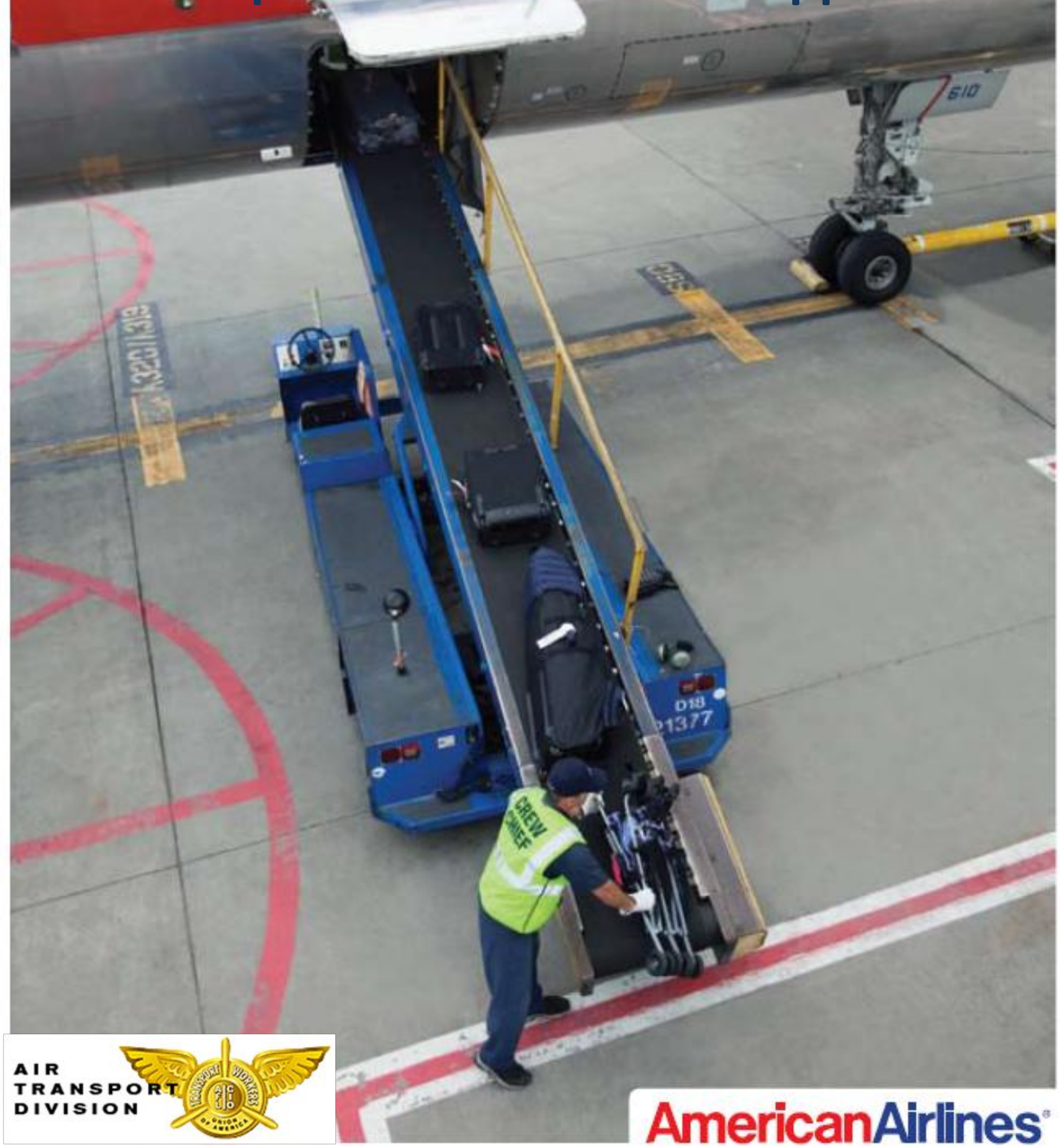
FROM THE GROUND UP

SPRING 2010

The Transport Workers Union Supplement



AIR TRANSPORT DIVISION

American Airlines

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Dear Brothers and Sisters,

By now you may have received a promotional flyer in the mail from American Airlines called "*From the Ground Up"*, a slick pitch intended "only to provide a description of the facts and issues already presented at the bargaining table." A couple of questions immediately come to mind. First, how much did this flyer cost to produce and mail to nearly 10,000 fleet service households? Second, how accurately can these bullet point "facts" represent the complex realities that have been central to these negotiations for well over two years?

Despite the flyer's disclaimer that asserts it is not negotiating directly with you, the membership, be assured that is exactly what it represents. Putting management's version of the facts before you, without the years and months of context that defines both their table position and ours is a divisive, dividing tactic. The pages presented in this supplement are intended to bring balance to American's message and to give you some insight into a difficult negotiating environment, one that has strained the resources of our Locals and the patience of our members.

The TWU is committed to bringing back a contract that is fair and non-concessionary. Your negotiating committee has made reasonable, credible, creative proposals during the past 31 months that have addressed each and every one of the Company's competitive issues. These proposals were crafted in ways that would not degrade your contract or do harm to current or future members; they were proposals that would provide AA with long term competitive changes that would address their needs in the long run. But they want it all now. Management continues to pass proposals that will degrade our agreements permanently in exchange for pocket change. They seek fundamental modifications but refuse to assign dollar values to them. In the end they want a bankruptcy agreement without the bankruptcy.

Management asserts that they are simply giving you "facts". Their flyer does present facts, but in isolation – they are not all of the facts, they are often facts out of context, and they are arranged such that related facts are presented separately so that their full impact is hidden. In total, "*From the Ground Up*" is the facts viewed through the Company's rose colored glasses, and as a result is a distortion of those facts.

The TWU believes that a healthy, competitive, and profitable American Airlines is the key to our futures and job growth. We have worked towards this goal by being collaborative and supporting the Company's "working together" initiatives. We are not, however, interested in further gutting what is left of our contracts as a sacrifice to make American healthy – we already did that. In the end we are not interested in voluntarily giving up 900 jobs, placing small cities at risk, or degrading your fundamental benefits.

When you read the Company's flyer, please review it with this TWU Supplement at your side as an additional resource that will help you get the whole picture. Only then will you have an unbiased version of the facts. Thank you for supporting your negotiating team as it continues to work towards a fair agreement for our members.

Fraternally,
John M. Conley
Airline Division Director
International Administrative Vice President

Overview of the Company's Presentation: a Word about Total Contract Value

In considering the individual sections of the Company's presentation, it is important to understand that there are many economic moving parts to a contact and to a comprehensive proposal. We often tend to focus on each area individually instead of weighing the complete package, leaving an incomplete understanding. If the Company was offering pay and holiday improvements alone, the conversation at the bargaining table would be very different than it is today. That is because in addition to these modest but valuable improvements, there are the onerous demands that are likely to save the Company far more than it is spending on such improvements – areas including pension, retiree medical, the Eagle ASM letter, and outsourcing.

Compensation

The pay chart on page 2 of the Company's flyer is the first of several dangerous comparisons, a snapshot that implies American Airlines fleet service clerks are second only to Southwest in terms of pay. Acknowledging that the chart is factual, it is also misleading because there are several important facts it doesn't show. One is that a topped out American Airlines FSC earns fewer vacation hours, fewer sick leave hours, and less overtime pay than his counterparts at United, for example, making the AA fleet service clerk more productive and lower in cost per worked hour. Another missing piece of information is the fact that while most FSCs are at the top pay step, many are not, and the hourly rates at all pay steps through year 10 happen to be below industry average.

This proposed 32 cents per hour rate increase would equate to an additional $660 per year for a full time FSC from the time it is implemented, 18 months after the contract is signed. After the four year contract period, this 1.5% change will be the only contract improvement that survives in this section of the agreement.

Lump sum payments have been the primary form of compensation enhancement proposed by the Company throughout negotiations. This type of proposal has been given serious consideration by the TWU negotiating committee throughout the process, but has only been one of many moving economic parts. The important thing to understand about lump sums is that they are one time payments, and do not survive beyond the amendable date of the agreement.

The actual calculation of the lump sum as proposed by the Company is based on 2080 hours for a full time FSC and 1040 hours for a part time FSC, and would not include CS or overtime hours. The Company has proposed a contract duration of 4 years from date of signing, which means that the average compensation improvement (top of scale) over the four year period would be $1120 or about 2.5% per year from today, or about $745 per year if applied across the time period between amendable dates (5/1/2008 to mid 2014) - about 6 years.

The 1.5% "structural raise" - a permanent increase in the hourly pay rates - is the only enduring change proposed to the pay scale. The TWU negotiating committee has insisted since negotiations began that a structural raise was necessary to reach an agreement. The 1.5% increase now on the table was proposed by the Company for the first time in January 2010, only a few weeks ago. Prior to that, the Company refused to consider guaranteed structural increases and offered lump sums almost exclusively. This proposed 32 cents per hour rate increase would equate to an additional $660 per year for a full time FSC from the time it is implemented, 18 months after the contract is signed. After the four year contract period, this 1.5% change will be the only contract improvement that survives in this section of the agreement.

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Productivity and Work Rules / ASM Cap

There are always jobs on the Table. American has put forward outsourcing proposals of varying types since negotiations began. For many months management consistently proposed a substantial increase to the station staffing threshold which today stands at seven flights per day. If agreed to, several small and medium cities now staffed with TWU members would be exposed to outsourcing. More recently, the Company has ceased its effort to secure a change to the station staffing formula, and has instead proposed the outsourcing of fueling and day line cabin cleaning. These are key work areas of great value to members less inclined or less able to do more physical work. Many older members often finish their careers in cabin service. This latest proposal would result in the loss of nearly 1000 TWU jobs. In a constantly shrinking company, job preservation is a primary concern. These types of outsourcing proposals have not been considered by the TWU negotiating committee to date.

In addition to these direct attempts to outsource TWU jobs, the Company has consistently proposed that the TWU agree to modify or eliminate the "ASM Cap", another provision that if changed, could potentially have an impact on stations and jobs. A letter in the Fleet Service contract limits American's regional jet flying to an adjusted 6 percent of AA flying. Your negotiating committee recognizes the importance of flexibility for the Company in this area, and has crafted and presented proposals that would protect stations and members' jobs while allowing ASM relief for the Company.

American will not confirm or deny that increasing Eagle ASMs will impact jobs. They remain unwilling to guarantee station staffing or satisfactory job protection as a result of changes to the ASM letter. The Company also has yet to admit that additional Eagle ASMs have a dollar value, even though modifying the Cap will provide the Company with nearly unlimited regional growth capabilities, the ability to right size mainline and regional capacity, and ultimately drive additional (though as yet undisclosed) passenger revenue to the Company.

Benefits

The Company references several work rules - including holidays, vacation and sick leave - under the "Benefits" heading of their flyer. Something that is missing in this section – something that figured prominently in the "Compensation" and "Productivity and Work Rules" sections of this same flyer - are industry comparison Tables. The Company does not want to highlight the fact that in these categories and others, American is at or near the industry bottom. For example, only one other major airline offers less than seven holidays (US Airways offers five). All major carriers, including US Airways, pay double time or better for holidays worked. American also has the lowest sick leave accrual of any major airline though no improvements are currently proposed. Other pay premiums and work rules not currently on the table remain below industry standard as well.

Holidays, vacation and sick leave….The Company does not want to highlight the fact that in these categories, American is at or near the industry bottom in all three areas.

As for the Company's vacation proposal, it is a "hit 'em where they ain't" proposition and would benefit very few current members. It would restore a week of vacation only at lowest levels of seniority, and there are simply not very many members that would be impacted. In the current industry environment, the likelihood of an influx of new hires is also very small - the only way this proposal would drive a substantive benefit to our members or meaningful cost to the Company.

[Because an employee match would be required, AA's 5.5% matching proposal is considered inferior to defined contributions of 5% at NWA and $1.05 (5% X $19.97 per hour) at US Airways. The proposal is clearly inferior to plans offered by CO (DB Plan and 401k match), Delta (7%), United (6.5%) and Southwest (8.3%).]

Retiree Medical

Simply put, management's retiree medical proposal is patently concessionary. It would replace a fully funded pre-age 65 plan with a 75-25 plan, and eliminate post 65 retiree medical entirely. Based on an estimated plan cost of $10,000, the average prefunding refund as proposed, about $5000, would cover only the first two years of employee cost under this scenario. A member retiring early (age 55) would be subject to 8 years of additional cost compared to today (~$20,000) prior to Medicare eligibility, without taking medical inflation into account.

Retiree medical is an area where the TWU negotiating committee has offered the Company an outside the box, "no harm to the membership" proposal that would address their needs over the long term. The Company continues to attempt to extract bankruptcy style concessions in retiree medical, an area that the committee was not willing to consider in 2003. American has attached a very small value to their retiree medical proposal during negotiations, even though it reports a significant expense on the income statement and a multi-billion dollar liability on its balance sheet.

Pension

As with retiree medical coverage, there is no possibility that pension concessions will be considered by your negotiating committee. The committee has been willing to explore a 401k for new hires that makes sense and would provide comparable benefits at retirement, but isn't willing to consider adopting a 401k match that, based on the Company's own fact sheet, would be among the worst in the industry. The proposed 5.5% match would rank last of those offered by mainline carriers[1].

An important consideration beyond these comparables is the fact that American has attached a negative value to their 401k proposal, asserting that it would actually cost the Company money to make such a change! The TWU negotiating committee views any pension changes as impossible as long as there is no recognition of the true long run value of adopting a new hire 401k plan, a value that could be applied to improve pay and work rule proposals.

Profit Sharing and Variable Compensation

Everyone knows that American had one profitable year out of the past nine, a year that produced zero profit sharing for union workers at American because of a substandard plan. American's proposal addresses this shortfall, but expectations for substantial profits are a long way off. The Fleet Service negotiating committee is interested in the concept as proposed, but isn't willing to consider it as compensation, especially based on recent Company financial performance.

[1] Because an employee match would be required, AA's 5.5% matching proposal is considered inferior to defined contributions of 5% at NWA and $1.05 (5% X $19.97 per hour) at US Airways that do not require employees to match in order for the company to make their contribution. The proposal is clearly inferior to plans offered by CO (DB Plan and 401k match), Delta (7%), United (6.5%) and Southwest (8.3%).

The Company has proposed variable compensation (gain sharing) as a concept, but has not made any substantive efforts to define this concept into a tangible compensation opportunity. It is important to note that gain sharing is just that: a savings that is created through employee action and is shared (often 50-50) between employees and the Company. It is “self funding” and not a cost item to the Company. Your negotiating committee remains interested in exploring this concept, but does not view it as a contract win.

Closing Thoughts

As your TWU negotiating committee continues to work towards an agreement that makes sense, continue to consider you information source. “From the Ground Up” is management’s attempt to divide us and to create doubt among our members. It contains facts, but only their facts. Be assured that your negotiating committee has weighed all information and options thoughtfully and fully and will continue to do so. Please visit TWU.org, attend meetings at your Local, add your email address to the Local email list, and watch your bulletin board for information that you can trust.

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