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July 30, 2012

Mr. Gary Peterson, President
TWU Local 565
2509 Bedford Road
Bedford, TX 76021

Re: G. Peterson Letter to Members Regarding July 10, 2012 TA

Dear Brother Peterson:

I read your letter dated July 19, 2012 to the Local 565 membership and have found many inaccuracies and misleading statements. I understand and also feel the frustration associated with the entire bankruptcy process. It is a process designed to facilitate concessions and to ensure the reorganization of the debtor, rather than advance the interests of working people; that is how it has worked in every airline bankruptcy. It is far different than the bargaining process in Section 6 of the Railway Labor Act, a position that the judge reiterated several times. Your failure to understand this threatens to expose our members to the far greater concessions which will inevitably be imposed in the event our contract is abrogated if the membership follows your advice. Aside from this basic issue, you have significantly misstated the terms of the proposed agreement, as well as the substance of our discussions with the Company. Below are some inaccuracies in the letter you posted.

- *"This company offer does nothing to address our memberships concerns, and in some areas has sent us even further backwards."* First, we were the only union which challenged the allocation of cost reduction, both initially and later with the profit sharing credit, both in negotiations and in court. However, the allocation of cost savings, both in terms of amount and distribution, was not negotiated with any of the unions. It was imposed by the Company and Creditors Committee. In fact, you were in the room when Tom Roth, our economist, stated how he repeatedly challenged the Company's calculations and testified in court that he challenged them. If ratification fails, this ratio will not change. The methodology used by the Company is common to the 1113 process and the Court has indicated it is acceptable. There is no reason to believe AA's motion to abrogate will be denied on this basis, and if our contract is abrogated, the sacrifice imposed on our members will be far worse. Secondly, you complain about our relative position in the industry. I am not aware of any work group that has been able to maintain industry standard pay in bankruptcy and, in those rare cases in which the 1113 process did not place a work group at or near

the industry bottom, it was only because there were other groups which had absorbed bankruptcy driven concessions at the same time. However, the automatic mid-term wage adjustment – new to the offer – will, by definition, go a long way in changing the relative position of our members' rates of pay, and rejection of the proposed agreement will deny this opportunity to our members. Third, the target under the Tentative Agreement (TA) is $54 million less than the Last Best Offer (LBO), which is less than 75% of the original ask. It is unfortunate that you chose to ignore these points in the discussion and it is your obligation to inform the membership of these very important and meaningful improvements, as well as the risk that they will be lost if the membership follows your advice.

- *"The offer continues the "take it-or leave it" attitude that AA's negotiators have maintained since the bankruptcy filing."* As I explained above, the 1113 process is far different from the Railway Labor Act. The Bankruptcy Code imposes only a limited obligation on the Company to account for our views and interests. They are required to make a proposal for contract modifications necessary to permit the reorganization of the debtor, then meet and confer with us on the proposal. If we cannot agree, the court will make a judgment on whether our position is unreasonable and, if it finds that it is, our contract will be abrogated. That is the basis of the attitude you are complaining about and it is the attitude of every bankrupt carrier. Judge Lane will be ruling on abrogation within a matter of weeks and we are not only negotiating with the Company, but the Creditors Committee as well. Given these difficult circumstances and the enormous leverage the law provides the Company, we were able to enhance the 401k by including OT and CS in the formula, a 15% base wage increases, insurance improvements, an automatic DOS+36 month wage adjustment and a 24 month early opener provision.

- *"AA management successfully snookered some on the union negotiating team to vote for an improvement that we were charged $5 million for, even though we already had it in our current contract."* There was no AMT to OSM "sleight of hand" that was perpetrated by the Company and we did not pay for something that was already in the contract. We increased the OSM work scope and kept a provision in the contract where if an AMT chooses to reduce to an OSM position via a RIF, he will lose his license pay. In the original LBO, we were credited with $11.1 mil for converting 533 AMTs to OSMs. This assumed a wage reduction to the OSM rate <u>including</u> forfeiting base plus license pay. In the LBO, there was no contractual right to move to OSM and retain base AMT rate. Therefore, we decided instead of the AMT going to OSM losing $10 dollars an hour, he would lose his $5 dollar an hour license pay. In the TA we bought back, the base rate difference for $4.7 mil leaving a savings of $6.4 mil. In other words, we did not pay for something we owned by contract, but something that we received full value for under the LBO.

- *"The company also used the similar sleight of hand trick in giving Title II employees who are to be RIF'd to the new Maintenance Support Person (MSP) position a similar "increase in pay" by taking away the first full day of pay on sick time to cover the "pay increase," even though the person in this new position, like an OSM, will be asked to do the same work as before, but for $5 an hour less."* If you recall, the Company charged us

the cost involved with both sick days at 50% (current application), which was a change from the LBO when they did not charge us. We responded to AA that we did not want the sick days changed (reacting to them charging us). The Company then came back and reduced it to one day, then made the statement that the money was moved around to offset other costs e.g. the Title II MSP pay rate. This scenario is the same as the AMT to OSM with Title II. When converting Plant Maintenance Mechanic (PMM) to MSP under the LBO, this was valued at the difference between the PMM and Plant Maintenance Man (PM Man) rates for 258 PMMs. It is true that under the TA, we spent $2.3 mil upgrading the MSP rate to reduce the wage reduction (not provide an increase) to about $5 per hour for PMM, but what were the alternatives? We could have abolished 258 jobs altogether, or preserve 88% of pay for those 258 individuals, e.g. Title II MSP pay reduction of $5.00 vs the LBO $10.00 an hour.

- *"For starters, the offer is once again lacking station and system protection, so AA can, and likely will, layoff anywhere they want by seniority, and close and city because we have no language to keep Title I employees in place."* Gary, currently there is no language to keep "Title I employees in place" and keep cities open. I have to assume you are referring to the station staffing formula, which was arbitrated and applies to Title II employees only in the M&R Agreement. It sounds good if your goal is to have Title I folks at Class II stations feel they are losing something, but they do not have this protection today to keep their stations open - although some of them do have system protection, if that is what you meant. More important, I am not aware of any labor agreement entered into in bankruptcy which provided enhanced provisions for job security. By suggesting that we turn the agreement down because it does not accomplish something that has never been accomplished in this process, you are undermining the security of the people you claim to be concerned about because the path you advocate will lead to contract abrogation and no job security.

- *"In fact, if we vote yes and accept this offer, we are agreeing to allow AA to reduce jobs beyond what AA said was necessary for restructuring in the term sheet." "Talk about accepting 'horrible contract language' nowhere does it say that AA cannot bring contractors on the AA property to do 15% of the line maintenance work, and the same goes for the 35% overall."* The March 22 term sheet allows far greater outsourcing and specifies far greater layoffs; you are simply wrong in claiming that the term sheet is less onerous. More important, while our present outsourcing language is better than what is now proposed, even this language is far better than exists anywhere else in the industry. The proposed outsourcing language, unlike anything else negotiated in bankruptcy, protects the vast majority of line work, close to two thirds of heavy overhaul, and the bulk of Title II. Please point out any contract reached in the 1113 process which comes close to protecting this level of work. It is very important to future employment that M&R has a provision that the TWU will perform 65% of the work.

- *"Please don't vote yes because of the buyout, as it only further degrades the AMT who must work under the agreement in the future. Fourth, this offer still leaves you worse off than where you would have been under the 2001 agreement and the T/A that was rejected with no bonus or retro." Here is an opportunity to mention some key points, 1) we are in bankruptcy and* 2) we are not in Section 6. Worse off than, "…the 2001 agreement and the T/A that were rejected…?" This is a time to make a leadership point. Do you feel we should have accepted the July 2010 T/A? How do you feel about Local leaders that stated (while telling members to vote no) that bankruptcy was a scare tactic by the International? Yet, it has come to pass. Just prior to the bankruptcy process, these same leaders stated not to worry about bankruptcy and now they are advocating that we allow the judge to abrogate our CBA. If you were not a Local officer and were a member on the floor how would you feel about that type of leader?

- *"You elected these six Presidents, who combined represent over 4,000 M&R members, to negotiate and protect your interest, but yet the negotiating structure that we bargain under allows for our voice, and your voice, to be trumped by a smaller title group and a representative from Tulsa."* Under the NMB's craft and class determinations, the TWU's Title I (Base and Line) and Title II are one craft. If you are going to bargain collectively with any union represented under the RLA, the Line AMT cannot extricate themselves from the rest of the mechanic craft. They will always bargain and vote together. If it is Line vs. Base vs. Plant Maintenance this time, what is next? Technical Crew Chiefs vs. Line AMT? There will always be skill/responsibility differences between classifications within the M&R group. However, in M & R negotiations, both the TWU and every leader that participates have a duty of fair representation to all members of the craft, not just those you favor. Your approach is ultimately self defeating for everyone as the experience at NWA makes painfully clear.

- *"My vote is "NO," and I am still committed to fighting for a contract that I can bring back to the membership and offer as something that I endorse."* Just to help the membership understand your position and exactly what you are willing to endorse in this bankruptcy process to bring back to the membership, what exactly does that look like? Please be specific so the committee and the members can understand. More important, please explain the process by which we will achieve "something you can endorse". If the agreement is rejected and our contract is abrogated we will likely face years of mediated negotiations during which everything you are complaining about will simply be worse. If you are suggesting that the NMB will move to quickly release us, you should be aware that better than sixty work groups have pending demands for release and the idea that such a request will be granted against a bankrupt company is more than farfetched.

- *"Additionally, while you are being paid the lowest in the industry, with the worst language in the industry, you are committing to the 'best in the industry' through the 'working together' process by way of the Letter of Agreement #16 that was signed by the TWU International." "…* worst language…?" Yes, there is language that was eliminated and changed that I certainly would have rather not changed, i.e. Article 3, 6, 21, 26 etc., but we are in bankruptcy and it is a process which gives the Company leverage to

pursue favorable (to them) language changes. However, the good news is TWU members will be doing 65% of the work. Who has better scope language coming out of bankruptcy, or better yet, who has better scope language now? You are now complaining about committing to be the best in the industry through the working together process, "…that was signed by the International?" To clarify, the committee proposed that letter earlier in the process and the Company came back with a revised letter; no one signed anything.

- *"In closing, I must mention that if we stick together and vote LBO V2.0 down, we will still have 7 days to negotiate and actual agreement."* Gary, this is a very misleading statement. How can we negotiate any improvement in savings (any change would that would reduce savings by one group would have to be renegotiated with all other work groups and unsecured creditors as well as court approval) and have it ratified in seven days? More than that, the Company is under no legal obligation to negotiate with us prior to the scheduled date for the ruling on contract rejection.

Our members need facts, not emotional ramblings from their elected leaders. They need to know about the serious ramifications of bankruptcy and disregard for the process. Not every company can file under the bankruptcy code to avoid paying creditors; you must prove insolvency – i.e. inability to pay -- in order to be eligible. AMR met the test in court. Should the union take the position that AMR is not bankrupt after the court has determined otherwise? If this were only a nightmare, we could wake up and be back in Section 6. This is not a nightmare. It is a horrible reality that our members do not deserve, but it is the reality that we must face. Just give your members the facts; they are a lot smarter than you give them credit.

If the ratification fails, it is true we have a week before the judge rules, but (as stated above) the Company has no further obligation to bargain with us and, particularly if other groups ratify, there will be no reason for them to voluntarily negotiate pending abrogation. We will risk the terms of the March 22nd Term Sheet being imposed pending exit. I would not overestimate the creditors' or equity investors' fear of "labor unrest". That factor did not moderate the demands in at NWA, UAL, US Airways because ultimately, what is important to them is reduced labor costs, one way or another. Consensual is preferred, but imposed works just as well. Remember the NWA model. Successful restructuring and exit occurred after AMFA struck and the Company imposed brutal terms, including the complete elimination of scope and a 26% immediate cut in pay for the survivors. 90% of the M&R jobs were eliminated and the creditors could not have cared less about employee morale for the 700 or 800 mechanics that were left.

I would add one other consideration. Your strategy is to turn down the agreement and seek negotiations in the seven days prior to the ruling on abrogation. As I have stated, it is unlikely the Company will negotiate with us in that time frame, particularly if the other groups ratify. Show me where this strategy has worked in other cases; show me the case in which a union and its members ended up better off after having their contract abrogated. If our contract is abrogated, we will lose work, jobs, and pay which will never be recouped, even if some day down the road we are able to restore the concessions in normal RLA bargaining. I am sure

there are those that are congratulating you for your “militancy” in bargaining. However, experience shows that those sentiments disappear when the unnecessary pain that will inevitably be inflicted if your recommendation is followed takes hold. At that point I have no doubt that you will blame the International, but both of us will know the truth.

In the end, the choice is between the March 22nd offer and the TA. It is the difference between losing 4,640 positions and 2,679, the difference between giving up $210 million in annual concessions and $156 million. If others ratify, there is zero chance to reduce the $156 target without triggering the “me-too.” There is no question that we are in a precarious position. Many investors believe that the present level of concessions and relief proposed by the Company is grossly insufficient to solve its financial problems. This view is not lost in the Creditors Committee; it is not sensible to believe that in this environment, if we reject the agreement, either the company or the Creditors Committee will agree to further improvements. It is incredibly naïve to believe that if our contract is abrogated by the court that the company and its creditors would not take full advantage of the opportunity to reduce costs in ways that go well beyond what our members are prepared to absorb, or should absorb.

In closing, back in 2001 I was approached by a member during a membership meeting and he stated “don’t tell us how to vote, give us all the facts and let us decide we are mechanics, we can make our own determination”. Pretty good advice - don’t tell us how to vote just give them the facts – as I stated earlier, the membership is a lot smarter than some give them credit.

Fraternally,

Donald M. Videtich
International Representative
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