I. INTRODUCTION

This document explains the basis for the distribution of shares of the new American Airlines to employees represented by the Transport Workers Union of America ("TWU") as a result agreements entered into by TWU and American, and arrangements approved by the bankruptcy court.

As part of the resolution of the American Airlines bankruptcy, TWU negotiated a 4.8% share of the total claims recovered by general unsecured creditors. The post-bankruptcy Plan of Reorganization provides that unsecured creditors will receive their recovery in the form of new American Airlines Group (AAG) common stock. So TWU will receive 4.8% of those shares allocated to the unsecured creditors pool. TWU will distribute shares of common stock to the American Airlines employees represented by the TWU in seven crafts and classes: Mechanics & Related, Fleet Service, Materials Logistics Specialists, Dispatchers, Ground School and Simulator Pilot Instructors, Maintenance Control Technicians, and Flight Simulator Technicians. As is described more fully below, American will establish accounts for all eligible employees through a shareholder service called "Computershare", and American will electronically transfer shares designated for TWU to those employees as directed by TWU.

TWU President Little asked the Presidents' Council to form an American Airlines Equity Distribution Committee to review relevant information, agreements and court documents to determine both a methodology for distribution of the shares, and eligibility rules, that are fair and equitable and consistent with the agreements and bankruptcy court arrangements that led to the distribution of shares to TWU for re-distribution to its members. [1] The Equity Distribution Committee met several times and was advised by counsel and its financial and economic advisor. The distribution methodology and eligibility rules are set out below.

II. BACKGROUND

The TWU made substantial concessions to American Airlines in 2003 in the form of major changes to the TWU-American collective bargaining agreements ("CBA's") in an effort to avoid bankruptcy. After several subsequent years of unsuccessful Railway Labor Act bargaining, American Airlines filed for bankruptcy protection on November 29, 2011. Although TWU members had already made significant concessions to American, they retained their pension plan and the protection of their work under the CBA "scope rules". Because the scope rules contained various provisions that preserved work by defining certain work as craft work, and by placing limitations on contracting-out of work, those rules preserved jobs for TWU members. Over the years TWU members at American made various additional concessions and trade-offs in collective bargaining in order to obtain and retain the work preservation rules. In its bankruptcy filings, American sought additional, and even more substantial, concessions from its workers than it had gained before. American used the bankruptcy 1113 process to demand and obtain changes in its collective bargaining agreements. Among other things, American was able to

[1] The members of the American Airlines Equity Distribution Committee are: Donny Tyndall, President Local 502, Sean Doyle, President Local 512, Darrin Pierce, President Local 513, Sam Cirri, President Local 514, Jim Fudge, President Local 541, John Plowman, President Local 542, Larry Pike, President Local 567, Tom Lee, President Local 568, Gary Peterson, President Local 591

freeze its pension plans, as other airlines in bankruptcy had done; American also achieved changes in rules on scope that constituted a reduction in the amount of work preserved for TWU members compared to the more expansive rule**s** that had been in effect for many years.

During the course of the bankruptcy, American agreed to provide financial consideration for certain concessions on scope and pensions which reduced labor costs and were viewed as revenue enhancing for the company. TWU also dismissed certain grievances and settled grievances over health insurance premiums and contracting-out of 757 overhauls. Additionally, TWU invoked the terms of "me-too" agreements that provided that if American provided financial consideration, in any form to another union, which exceeded the value negotiated by TWU, the additional value would be extended to TWU members. The total value of what was to be provided to TWU for distribution to its members was set at 4.8% of the shares to be distributed to American's general unsecured creditors based on the total claims they recover in the bankruptcy proceeding.

The Plan of Reorganization, approved by the bankruptcy court, permits American to pay creditor claims (including the claims of TWU and its members) by issuing common stock. Accordingly, TWU's equity stake to be distributed to its members will be paid out in stock in the new American when American emerges from bankruptcy. The actual number of the shares issued to unsecured creditors will depend on the number of total available shares allocated to stakeholders outside the unsecured creditors pool. Consequently, the exact number of shares issued to the TWU and other unsecured creditors will not be known until all shares are finally allocated The number of shares allocated to stakeholders, other than unsecured creditors, will vary with the stock's trading price under a complicated formula. Generally, the higher the trading price the fewer shares allocated to the unsecured creditors pool including labor.

The initial distribution of shares will occur within a few days after American emerges from bankruptcy, currently projected to be August 31, 2013. In order to avoid downward pressure on the stock price after the initial shares are issued, only about 40 percent to 60 percent of shares will be issued on the first distribution date. Distributions to the other unions and other unsecured creditors will be made on the same timetable as distributions to TWU**.** Subsequent distributions are likely to occur over the next 120 days and may or may not occur at intervals between day 1 and day 120. By the last distribution date the TWU will be guaranteed 4.8% of all shares issued to the unsecured creditors group. [2]

III. SOURCES OF FUNDS FOR DISTRIBUTION

The TWU share of the claims was derived from four sources: 1) collective bargaining agreement concessions in the scope and pension provisions of the CBAs resulting from the Section 1113 process in bankruptcy; 2) a value to TWU under agreements with American that if the company provided financial consideration, in any form, to any other union which exceeded the value negotiated by TWU, the additional value would be extended to TWU members ("me too agreements"); 3) settlement of an International health insurance premiums grievance based on overcharges to TWU members; and 4) settlement of an International grievance concerning

[2] The shares issued to TWU are based on the equity in the old American Airlines; set at 72% of the new, post-merger American Airlines

American’s outsourcing of the overhaul of several 757s.

Nothing in any agreement or court order prescribes a formula or plan of distribution that must be followed by TWU in allotting shares of the TWU equity to its members. In exercising its discretion to devise a plan, TWU, acting through the Committee of Presidents, has viewed itself as bound only to produce a fair and equitable plan. TWU has further determined that to maximize fairness, the Plan should reflect the origins of the various components of the 4.8% number. These are: changes in the scope provisions of the CBAs, the pension freeze; the carrier's "me too" obligation to TWU; and TWU's granting to the company a release from liability in two grievances (the 757 outsourcing grievance, and the healthcare premium grievance) that were never actually decided by an arbitrator.

It is not possible to devise a distribution formula precisely tailored to compensate individuals for how they are effected by each factor that contributed to the 4.8% number: because so many of the factors look to the future to harm that is uncertain or may not be measurable for years. TWU has therefore determined to divide up the 4.8% in terms of the origins of each component, and to create a different distribution scheme for each component, with each based on the named factors that are particularly significant for a fair distribution in each case.

Identified below is the size of each component of the equity, and the factors which TWU chose to rely on in order to most fairly distribute the amount of equity represented by each component.

IV. DIVISION AMONG TWU REPRESENTED CRAFTS/CLASSES

All crafts/classes represented by TWU will participate in the distribution based on their concessions that produced labor cost savings for American that resulted in a 17.47% across-the-board reduction in labor costs for TWU represented crafts/classes. Distribution of total savings by craft/class was as follows: Mechanics & Related-54.63%, Fleet Service-37.6%, Materials Logistics Specialists -4.5%, Dispatchers-1.07%, Ground School and Simulator Pilot Instructors -1.06%, Maintenance Control Technicians -0.64%, Flight Simulator Technicians-0.43.% . These percentages are based on the number of employees in each craft/class and the relative size of the labor cost savings American obtained from each craft/class. Application of the 17.47% reduction for each craft/class resulted in different amounts of cost savings from each group because of the varied size of labor costs. Shares will be distributed to each group based on the relative size of the cost savings realized from each group.

V. COMPONENTS OF THE DISTRIBUTION OF EQUITY TO ELIGIBLE PERSONS

Shares distributed to individuals will be distributed somewhat differently based on the nature and source of the TWU shares.

59.89% of the total shares allocated to TWU are directly related to the scope and pension changes. Together, the value of concessions in those two areas was $233.1 million per year for each year of the contract; 70.03% of this is scope related, and 29.97% is pension related. This equals 41.94% for scope, and 17.95% for pension). The distribution to members for the scope portion of the shares is based on two equally weighted factors -- the straight time "all-in" rate of the eligible employees, and their years of service, both as of the date on which American filed for bankruptcy (November 29, 2011). The distribution to members for the pension portion of the shares is based on straight time "all-in" rate of the eligible employees on November 29, 2011.

35.42% of the total shares is a result of the "me too" agreements and will be divided among all eligible persons on a per capita basis (equal shares per person).

The health insurance grievance was settled for an estimated $10 million. This portion of the shares will be divided per capita among the persons covered by the grievance. Based on the implied value of the TWU's share of the estimated gross unsecured claims pool, payment for the health insurance grievance is equivalent to 2.86% of the total TWU shares.

The 757 overhaul contracting-out case was settled for an estimated $6.4 million. Based on the implied value of the TWU's share of the estimated gross unsecured claims pool, the grievance is equivalent to 1.83% of the total TWU shares to be divided among those who could have done the work as well as support workers and backshop workers.

Summary of distribution of shares by component of the total shares to TWU:

Component	Distribution of 4.8%	Distribution of Total TWU Share
Scope	2.0132%	41.94%
Pension	0.8617%	17.95%
Me-Too	1.700%	35.42%
HI Grievance	0.1373%	2.86%
757 Grievance	0.0878%	1.83%
Totals	4.8000%	100.00%

VI. FORMULA FOR DISTRIBUTION OF SHARES AMONG TWU REPRESENTED GROUPS

The formula for distribution among the TWU represented crafts/classes is as follows:

Step 1 – Group Allocation –

The aggregate value of all TWU concessions for all 7 crafts/classes reduced total labor costs for the company by 17.47% (average over 6-year period). Accordingly, each craft/class will receive a share of the total 4.8% stake equal to its proportionate contribution to total concessions based 17.47% of labor cost savings for each craft/class as follows:

Craft/Class	Distribution of TWU Total Share
Mechanic & Related	54.63%
Fleet Service	37.66%

Materials Logistics Spec.s	4.50%
Dispatch	1.07%
Flight Instructors	1.06%
Maintenance Control Tech.s	0.64%
Simulator Technicians	0.43%
Total	100.00%

Step 2-Allocation by Component and Group Share

Each unit will receive a portion of the TWU total share**s** based upon its contribution to aggregate concessions derived under Step 1 as follows:

Unit	Outsource/Scope	Pension	Me-Too	Health Ins.	757
M&R	22.9147%	9.8081%	19.3498%	1.5628%	1.8292%
FSC	15.7965%	6.7613%	13.3390%	1.0773%	
MLS	1.8860%	0.8073%	1.5926%	0.1286%	
Dispatch	0.4498%	0.1925%	0.3798%	0.0307%	
Instructors	0.4441%	0.1901%	0.3750%	0.0303%	
MCT	0.2697%	0.1154%	0.2277%	0.0184%	
Sim Tech	0.1809%	0.0774%	0.1528%	0.0123%	
Totals	41.9417%	17.9521%	35.4167%	2.8604%	1.8292%

Step 3 -Individual Allocation – Distributions to individuals within each unit varies for the various components:

Scope – distribution will be based on relative straight-time wage rate (including all premiums – i.e. license, skill, shift etc.) and relative years of service, both as of November 29, 2011. The straight time “all-in” rate and years of service elements are weighted equally.

Pension -- distribution will be based on relative straight-time wage rate (including all premiums – i.e. license, skill, shift etc.).

Me-Too – equal number of shares per eligible person

Health Insurance Grievance – equal number of shares per eligible person

757 Outsourcing Grievance -- based on relative straight-time wage rate (including all premiums – i.e. license, skill, shift etc.) for all affected persons.

Initially 5% of the distribution will be held back as a reserve to deal with inaccuracies, appeals, litigation costs etc. (see below part VI), so only 95% of the shares will be distributed until matters for which the reserve is held are resolved; once all of those matters are resolved, the remainder will be distributed to eligible participants using the same formulas as were used for the original distributions except for minimal remainder amounts.

VII. ELIGIBILITY RULES

A. Minimum Eligibility

To be minimally eligible to share in a portion of the distribution, an employee must have been in an employment relationship with American Airlines in a TWU represented craft/class on the date American filed for bankruptcy (November 29, 2011), and in an employment relationship with American Airlines in a TWU represented craft/class on the closing date for participation in the distribution (July 26, 2013). The period between November 29, 2011 and July 26, 2013 is the "eligibility period". However, persons in certain categories who do not meet these criteria for reasons beyond their control are eligible to participate.

November 29, 2011 was picked as the start date for the eligibility period because the bankruptcy filing was effectively the end of the old American Airlines. It was also what gave American the ability and leverage to obtain changes in the pension plan and the scope rules that will lead to substantial cost savings for the new American Airlines; and American's labor costs as of that date were the predicate for American's base case for its demands for concessions. Anyone who hired on or after November 29, 2011 did so knowing that the post-bankruptcy company would be a different company operating under different collective bargaining agreements. July 26, 2013 was picked as the end date because the TWU will have to provide American with a list of persons eligible to receive shares, and the amounts of shares for each of them, in time for the initial distribution which is expected to be the end of August.

Part time employees will share at 70% of the rate for full time employees. This percentage was chosen because it represents the system average hours worked for part time employees on November 29, 2011**,** and the 70% ratio was used in the bankruptcy case to value labor cost savings obtained from part time employees. Employees will be classified as part time or full time for the distribution based on their status as of November 29, 2011.

Persons in certain situations were deemed eligible to participate in the distribution even though they were not in an employment relationship with American Airlines in a TWU represented craft/class at the start of the eligibility period or during the entire eligibility period because they would not meet the basic eligibility requirements for reasons beyond their control. These categories are described below. Persons in certain other circumstances who had been in a TWU represented craft/class prior to the bankruptcy filing, or after the filing, were deemed ineligible to participate in the distribution because they were not in an employment relationship with American Airlines in a TWU represented craft/class at the start of the eligibility period or during the entire eligibility period as a result of decisions, actions or events within their control. Those categories are also described below. And persons who entered or renewed an employment relationship with American in a TWU represented craft/class after the bankruptcy filing were also deemed ineligible to participate in the distribution.

B. Persons <u>eligible</u> to participate in the distribution even though they were not in an employment relationship with American Airlines in a TWU represented craft/class at the start of the eligibility period or during the entire eligibility period (November 29, 2011-July 26, 2013):

1. Persons discharged prior to or during the eligibility period and reinstated

2. Persons discharged prior to or during the eligibility period and a grievance is pending are potentially eligible if they are returned to work (to be paid out of reserve)

3. Persons deceased during eligibility period (beneficiary as designated in American Airlines' records will be paid the deceased person's share)

4. Persons injured on duty during the eligibility period**,** and persons whose injured on duty five year medical leave under Article 17 expired during the eligibility period (including those who leave employment with American during that time)

5. Persons on approved leave of absence set forth in Article 17 of the collective bargaining agreement such as military leave, long term disability, short term disability, injury on duty, sick leave of absence, maternity/paternity leave, FMLA leave, overage leave, personal leave, government leave and union business leave

    on approved leave at the beginning of the eligibility period and end of the eligibility period (administratively still part of company)

    on payroll at the beginning date of eligibility period and on approved leave at the end of the eligibility period (administratively still part of company)

    on approved leave on beginning of the eligibility period and on payroll at the end of the eligibility period (administratively still part of company)

6. Persons furloughed during the eligibility period with recall rights, and persons furloughed prior to the eligibility period and recalled during the eligibility period

7. Persons who moved to management positions from TWU-represented craft/class positions within six months of the start of, or during, the eligibility period, and who returned to a TWU- represented craft/class position within six months of leaving

8. Title II Cabin Cleaners and Utility persons whose classifications were eliminated.

C. Persons <u>ineligible</u> to participate in the distribution who had been employed by American Airlines in a TWU represented craft/class prior the bankruptcy filing but whose situation changed during the eligibility period (November 29, 2011-July 26, 2013) for reasons they could control or who entered or renewed an employment relationship after the bankruptcy filing

1. Those who accepted early outs or "stand-in-steads"

2. Persons discharged prior to or during the eligibility period who were not reinstated

3. Persons newly hired during or after the eligibility period

4. Those who resigned, retired, or quit prior to, or during, the eligibility period

5. Persons not on payroll and not on approved leave on either the beginning or end dates of the eligibility period

6. Persons who were furloughed before the eligibility period and were recalled after the end of the eligibility period or who have not been recalled

6. Those who entered or left a TWU represented craft/class and moved to a non-TWU represented position at American during the eligibility period

8. Those who moved to management positions from TWU represented craft/class positions prior to the start of the eligibility period or during the eligibility period, who did not return to a TWU represented craft/class position within six months of leaving

D. Eligibility to Share in Distribution for the Health Insurance Grievance

TWU will set aside shares deemed to be sufficient to cover the $10 million value for this claim, and those shares will be distributed among persons covered by the grievance based on the number of months in a TWU-represented craft/class and whether they paid for health insurance during the time period covered by the grievance through the bankruptcy filing date (**October 1, 2010–**November 29, 2011). Because shares distributed as a part of the settlement of this grievance are for a pre-existing and pending grievance, persons who retired, resigned, accepted an early-out or stand-in-stead or quit who were covered by the grievance will participate in the distribution of shares for the grievance.

E. Eligibility to Share in the Distribution for 757 Overhaul Outsourcing Grievance

TWU will set aside shares deemed to be sufficient to cover the $6.4 million value for this grievance, and those shares will be set aside to be distributed among the employees covered by the grievance. Eligible persons are those who could have done the work, support workers and backshop workers during the period covered by the grievance -September 29, 2011(date of notice of outsourcing) –November 29, 2011. The group of eligible persons will be determined in arbitration. Because shares distributed as a part of the settlement of this grievance are for a pre-existing and pending grievance, persons who retired, resigned, accepted an early-out or stand-in-stead or quit who were covered by the grievance will participate in the distribution of shares for the grievance.

VI. ADMINISTRATIVE MATTERS

A. Notice of Eligibility and Payroll Information

Prior to the actual stock distribution, TWU will notify TWU-represented employees of American regarding their eligibility status and the payroll information (such as position and years of service on the bankruptcy filing date) to be used to determine their participation in the distribution as well as the percentage of the shares they will receive. TWU will also publicize that those notices have been issued. Employees will have an opportunity to correct errors in payroll information received from American and/or to appeal eligibility determinations.

B. Time of Distribution

American will pay out individual shares over time. There will be an initial distribution, and there probably will be additional distributions during the 120 day period as necessary ensure that at the end of the 120 day period, the distribution to TWU equals 4.8% of the shares issued to unsecured creditors.

C. Individual Employee Accounts

American will establish "Computershare" accounts for all eligible employees and will electronically transfer shares designated for TWU to those employees as directed by TWU. The shares in employee Computershare accounts will appear shortly after American deposits them. Employees will be notified when they have shares in their Computershare accounts. Once shares are in the Computershare accounts, employees may sell them or hold them for sale at a later date; ~~although there may be a delay in the ability of employees to sell the shares so as to protect the price of the stock from declining due to a flooding of the market with shares being sold and/or to finalize sales of shares to pay withholding taxes.~~ Computershare will execute the sale of the stock and send a check based on the number of shares sold and the price of the stock at the time of the sale. Employees will be able to roll shares into another stock account.

D. TWU Reserve

TWU will reserve 5% of the shares issued to cover inaccuracies (payroll errors, incorrect payouts), appeals, administrative expenses, legal costs and expenses for Locals whose officers are on Equity Committee. Any amounts not spent will be distributed in accordance with the above rules, except for minimal amounts where the cost of distribution exceeds the value of shares to be distributed.

E. Appeals

A process will be established for dealing with issues that may arise during distribution and for challenges regarding distributions. Challenges to eligibility or amounts to be distributed will have to be filed with the Equity Distribution Committee within thirty days of notification of their eligibility status and the payroll information on which the distribution will be based; challenges asserting incorrect payouts will have to be filed with the Equity Distribution Committee within thirty days of a distribution. Appeals based on issues other than eligibility and payroll data will have to be filed with Equity Distribution Committee within thirty days of issuance of the stock. Appeals will be heard by 3 person panels comprised of members of the committee; the appeal panels will be assisted by legal counsel. The notice to employees regarding their eligibility status and payroll information will contain a detailed explanation of the appeals procedure as well as appeals forms.

F. Taxes

American plans to withhold amounts to be distributed to employees to cover Federal and State withholding taxes when it distributes the shares; so the distributions will be net of withholding.