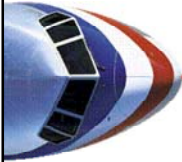


# AA/TWU Stores Negotiations



May 17, 2011

## Introduction

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- **The objectives of the company have been and continue to be:**
  - **Reach agreements that are in the best interest of our employees, customers, shareholders, and the communities that we serve**
  - **Position AA for long-term success**
  - **Address areas within the labor agreement that put us at a competitive disadvantage**
  - **Reach a responsible agreement that can be fully supported by the TWU negotiating committee**
- **We have had a chance to thoroughly review the proposal as presented to us by the TWU – Stores committee on March 10, 2011**

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- This presentation was made by American on Tuesday, May 17 in response to the TWU's proposal.
- In April, the TWU Stores negotiating committee presented American with a proposal that included all open economic articles. These articles cover items such as wage rates, holidays, vacation and retirement benefits.
- American has said all along it is important for any agreement reached to also include productivity and other enhancements in order to allow the company to better manage its labor unit cost and to be more competitive. The TWU's March proposal did not address these items.

## Introduction

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- **In light of our financial position, the AA negotiating committee felt it was important to factually represent the impact such a proposal would have on the company's:**
  - **Financial bottom line: both current and forecasted**
  - **Competitive position within the industry in the areas that are important for the success of AA and it's employees:**
    - Network
    - Productivity
    - Wages and work rules
    - Benefits
- **This presentation will include the comparisons of the March 10, 2011 TWU proposal along side the 2010 Tentative Agreement (TA) and the current AA/TWU agreement**

## Financial Impact to AA

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- Per the AMR 2010 10K SEC filing, our contractual labor gap is roughly **\$600M** <sup>1/</sup>
  - The TA that did not ratify would have increased our 2010 labor cost by approximately **\$6.6M** <sup>2/</sup>
  - The current TWU proposal would hurt AA's competitive position by increasing our annual labor cost by approximately **\$31M**
    - 2011 impact would add approximately **\$47M** in expense due to lump sum payments related to retroactive pay increases

AA Labor Costs H/(L) with OA Contracts (\$M) <sup>3/</sup>	
(\$, millions)	Current
Wages	(145)
Benefits	(240)
Outsourcing	(215)
<b>Total</b>	<b>(600)</b>

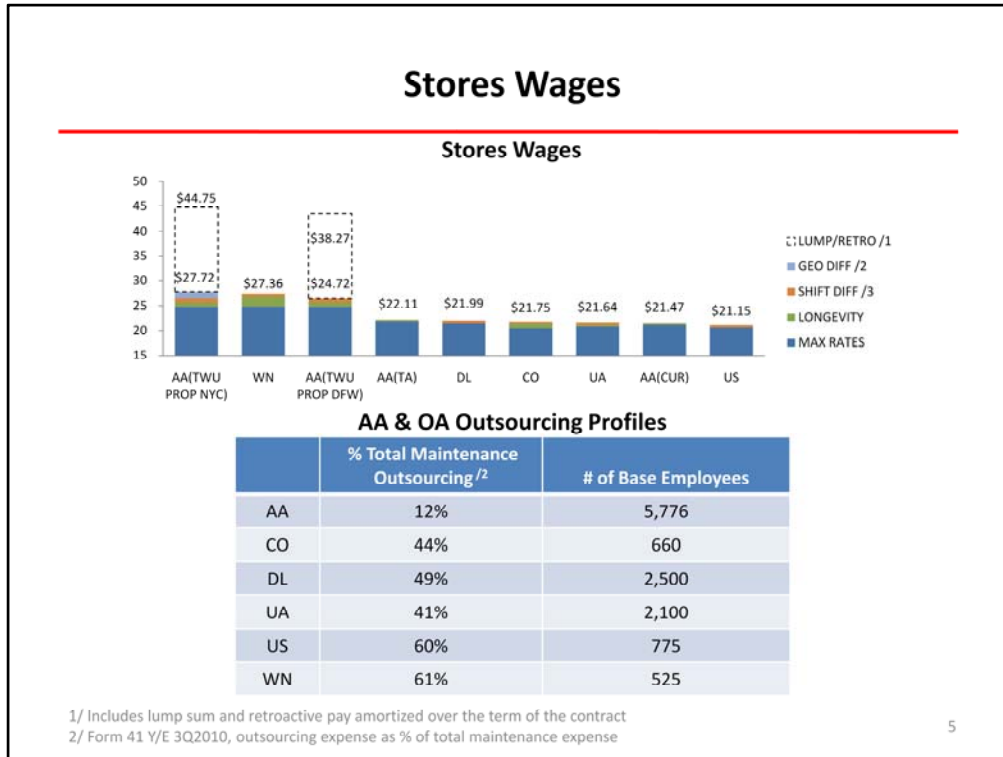
1/ Does not include pension and retiree medical accounting expense gap of an additional \$200M to what is in the contractual gap

2/ Includes 2010 signing bonus and approximately 3 months of higher salaries

3/ OA includes a weighted average of CO/UA, DL, US contracts

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- As part of our annual 10K filing for 2010, AMR reported its contractual labor gap was approximately \$600 million. This gap represents the cost difference between our labor contracts and those of Delta/Northwest, Continental/United and US Airways if they were to be placed on AA's population and operation.
- This is important because it demonstrates American has a competitive cost disadvantage when compared to the other legacy carriers. This disadvantage exists in large part because from 2002-2007, other legacy carriers were able to reduce their wages and benefits during the bankruptcy process. While American also restructured during this time, AA did not cut its costs as significantly as its competitors.
- We believe this labor gap to lessen over time as other airlines go through the negotiations process, but it is imperative we make adjustments to narrow the gap and help level the playing field.
- We don't expect our TWU-represented employees to make up this gap, but it is important to keep in mind as we take a look at the union's proposal.
- The Stores tentative agreement (TA) reached last May but not ratified by the TWU-represented members would have increased our contractual labor gap in 2010 by almost \$7 million.
- The TWU's March 2011 proposal would increase that cost disadvantage by about \$31 million.



- The charts above compare stock clerk wage rates at other legacy carriers and Southwest, along with the May 2010 failed TA and the TWU’s recently proposed rates.
- The dotted lines represent the lump sum and retroactive pay to be paid over the term of the agreement.
- The failed Stores TA would have placed American second in the industry.
- The TWU’s proposed wage rates would compensate American’s stock clerks far more than any other airline. While it is important to reward employees for their hard work, it is also important to remain competitive with the industry.
- We included the other legacy carriers in our analysis because their cost, unit revenue and operating structures provide a more consistent comparison than those of low-cost carriers. However, at the request of the TWU, we have added Southwest to our comparison data.
- Cargo carriers such as UPS and FedEx are not used as a comparator since they are not direct competitors for American.
- Other airlines outsource large portions of their maintenance to Maintenance Repair and Overhaul (MRO) companies.
- As a result, other airlines employ fewer employees to maintain their aircraft, whereas American has approximately 2,200 more base employees than any other airline.
- This makes it difficult to compare stock clerk wage rates amongst the other airlines.
- The TWU’s recent proposal would give American’s stock clerks more than its competitors, which employ less than half the amount of base employees at American.

## Outsourcing

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- **Outsourcing by other airlines gives them a considerable cost advantage, particularly when it comes to airframe heavy equipment checks**
  - For example, DL outsources 92%<sup>/1</sup> of airframe heavy checks
  - Similarly, UA/CO outsources roughly 50%<sup>/1</sup> of airframe heavy work
- **Assuming no change to the current scope language, AA could save approximately \$180M by matching the average outsourcing levels of our network competitors**

	M&E Employees per Aircraft <sup>/2</sup>
AA	20.7
DL	14.8
CO	11.5
UA	10.8
US	10.4

1/ AeroStrategy analysis, 3/11/2011  
2/ 2009 DOT data, includes Title II in M&E

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- MROs typically have far less stringent work rules and notably lower wage rates.
- Outsourcing to MROs gives other airlines a large cost advantage, especially for the more time and labor-intensive overhaul maintenance, like airframe “heavy checks.”
- While American believes there are benefits to keeping most of its maintenance in-house, it significantly increases American’s maintenance costs.

## Benefits Comparison

	AA(TWU PROP)	UA(TA)	CO	AA(TA)	DL	UA(CUR)	AA(CUR)	US	
<b>Personal Days</b>	Holidays (pay rate)	11 (2.5x)	10 (2.5x)	10 (2.5x)	8 (2.0x)	10 (2.0x)	8 (2.0x)	5 (1.5x)	8 (2.0x)
	VC Days, min-max	10-35	10-35	5-35	7-32	10-20	10-35	5-30	10-20
	SK Day (avg pay rate)	12 (1.0x)	12 (1.0x)	12 (1.0x)	8 (1.0x)	7 (1.0x)	12 (0.76x)	5 (0.61x)	10 (1.0x)
	IOD Policy	Full salary continuance for first 80 days of injury	8 hours per month accrued IOD time to a max of 700 hours or 87.5 days /8	8 hours per month accrued IOD time to a max of 700 hours or 87.5 days /8	Full salary continuance for first 10 days of injury	None	None	Full salary continuance for first 10 days of injury	None
<b>Retirement</b>	Estimated Annual Cost /1	8.7%+	5.0%	8.8%	8.7%	5.5%	5.0%	8.7%	5.1%
	Defined Benefit	1.67% X FAE X YOS /2	Terminated	1.19% X FAE X YOS + 0.45 X FAE over \$5 wage base X YOS based on regular pay /3	1.67% X FAE X YOS /4	Frozen	Terminated	1.67% X FAE X YOS	No plan
	Defined Contribution	No plan	6.0% of pay to DC plan /5	Match varies by YOS; max match is 50% to 6% of pay	Automatic 2.5% plus 100% match up to 5.5% /6	Automatic 2% plus 100% match up to add 1.5%	5.0% of pay to DC plan	No plan	\$1.60 per worked hour (est. 5.21%)
	Active Medical EE Contribution Rates	9.7%	13.4%	18.7%	19.1%	20.8%	13.4%	19.1%	17.9%
<b>Retiree Medical</b>	Retiree Cost Sharing Percentage	<10% through pre-funding /7	40% to 80% based on seniority	100% (may use sick bank to offset premiums)	For ages 50+, <10% through pre-funding /7; For ages <50, 25% (may use sick bank to offset premiums)	100%	40% to 80% based on seniority	<10% through pre-funding	80% to 100% based on plan (may use sick bank to offset premiums)
	Over 65 eligible?	Yes	Yes	No	No	Yes	Yes	Yes	No
	Sick trade available?	No	No	Yes	Yes	No	No	No	Yes

1/ Assumes 80% participation in 401k matching plans  
 2/ FAE determined by highest non-consecutive 48 months of service  
 3/ Regular pay does not include Overtime, Shift Premiums, Profit Sharing, or any special forms of pay  
 4/ Current employees keep DB plan; New employees move to DC plan  
 5/ Transitional unit merged with CO  
 6/ New hires only have this option  
 7/ Estimate of 2009 TWU draw down as a percentage of retiree medical expenses  
 8/ Rapid re-accrual for catastrophic illness/injury

- This chart compares American’s benefits to those at the other legacy carriers.
- More detail is given for each benefits section on the following slides.

## Benefits Comparison – Personal Days

	AA(TWU PROP)	UA(CUR)	WN	CO	AA(TA)	DL	AA(CUR)	US
Holidays (pay rate)	11 (2.5x)	10 (2.5x)	12(2.5x)	10 (2.5x)	8 (2.0x)	10 (2.0x)	5 (1.5x)	8 (2.0x)
VC Days, min-max	10-35	10-35	5-25	5-35	7-32	10-20	5-30	10-20
SK Day (avg pay rate)	12 (1.0x)	12 (1.0x)	12 (1.0x)	12 (1.0x)	8 (1.0x)	7 (1.0x)	5 (0.61x)	10 (1.0x)
IOD Policy	Full salary continuance for first 80 days of injury	8 hours per month accrued IOD time to a max of 800 hours or 100 days /8	15 weeks full salary continuance	8 hours per month accrued IOD time to a max of 700 hours or 87.5 days /8	Full salary continuance for first 10 days of injury	None	Full salary continuance for first 10 days of injury	None

8/ Rapid re-accrual for catastrophic illness/injury

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- During American’s restructuring agreement with the TWU in 2003, the parties agreed to reduce the number of personal days (holidays, vacation, sick and IOD) for TWU-represented employees, while other important benefits like pensions and retiree medical were unchanged.
- American acknowledges it lags the industry in this area, and the failed TA made enhancements to move toward the number of personal days our competitors offer.

## Benefits Comparison – Retirement

	AA(TWU PROP)	UA(CUR)	WN	CO	AA(TA)	DL	AA(CUR)	US
Estimated Annual Cost /1	8.7%+	5.0%	5.8%	8.8%	8.7%	5.5%	8.7%	5.1%
Defined Benefit	1.67% X FAE X YOS /2	Terminated	No Plan	1.19% X FAE X YOS + 0.45 X FAE over SS wage base X YOS based on regular pay /3	1.67% X FAE X YOS /4	Frozen	1.67% X FAE X YOS	No plan
Defined Contribution	No plan	6.0% of pay to DC plan /5	100% match up to 7.3% of EE salary	Match varies by YOS; max match is 50% to 6% of pay	Automatic 2.5% plus 100% match up to 5.5% /6	Automatic 2% plus 100% match up to add'l 5%	No plan	\$1.60 per worked hour (est. 5.21%)

1/ Assumes 80% participation in 401k matching plans  
 2/ FAE determined by highest non-consecutive 48 months of service  
 3/ Regular pay does not include Overtime, Shift Premiums, Profit Sharing, or any special forms of pay  
 4/ Current employees keep DB plan; New employees move to DC plan  
 5/ Transitional unit merged with CO  
 6/ New hires only have this option

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- Only one other AA competitor still offers a defined benefit plan while every other airline has terminated or frozen their plans.
- The May 2010 failed TA would have preserved the defined benefit plan for current employees and provided a defined contribution plan for new hires which included a company match.
- This defined contribution plan for new hires would have given 401(k) participants the portability to take their contributions if they left the company and also would have provided the flexibility to take out short-term loans, hardship withdrawals and in-service distributions.
- The TWU's recent proposal did not acknowledge American's competitive disadvantage in this area.

## Benefits Comparison – Medical

	AA(TWU PROP)	UA(CUR)	WN	CO	AA(TA)	DL	AA(CUR)	US
Active Medical EE Contribution Rates	9.7%	13.4%	9.7%	18.7%	19.1%	20.8%	19.1%	17.9%
Retiree Medical								
Retiree Cost Sharing Percentage	<10% through pre-funding /7	40% to 80% based on seniority	100%	100% (may use sick bank to offset premiums)	For ages 50+, <10% through pre-funding /7; For ages <50, 25% (may use sick bank to offset premiums)	100%	<10% through pre-funding	80% to 100% based on plan (may use sick bank to offset premiums)
Over 65 eligible?	Yes	Yes	No	No	No	Yes	Yes	No
Sick trade available?	No	No	Yes	Yes	Yes	No	No	Yes

7/ Estimate of 2009 TWU draw down as a percentage of retiree medical expenses

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- We recognize the importance of retiree medical coverage to our employees, and all company proposals, along with the failed TA, have guaranteed access to coverage, regardless of employee health status—both before and after age 65—but would have modified the funding of those benefits to more closely resemble other airlines and corporate America.
- The TWU’s recent proposal did not acknowledge American’s cost disadvantage in this area.
- We know this is a complex topic. A detailed Q&A covering the retiree medical changes in the failed TA is located here:  
<http://www.aanegotiations.com/documents/RetireeMedicalQA062910.pdf>

## Wages + Benefits

- Despite AA employing many more stock clerks than any other carrier, the wages and benefits in the TWU proposal far exceed the market rates of our competitors

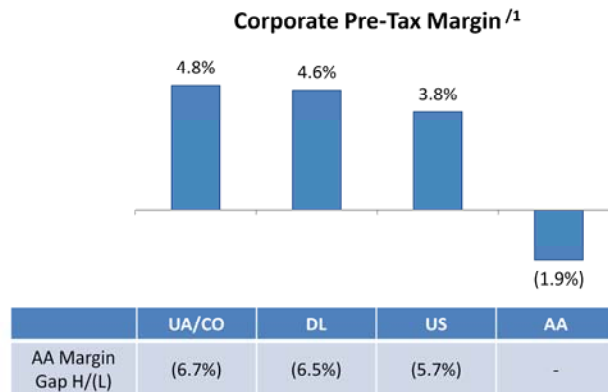


1/ Excludes lump sum and retroactive pay

- When comparing total compensation, the TWU’s proposal placed American’s stock clerks far above any other airline without providing any productivity or work rule changes to offset these increased costs.

## AMR 2010 Financial Results versus Industry

- In 2010, AA competitors outperformed our results by 6.5 points of corporate pre-tax profit margin, equating to roughly \$1.45B in earnings



1/ Excludes special items and unrealized gains or losses from hedging; Source: Company SEC filings

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- Typically, American and other airlines are measured by the financial community based on pre-tax margins.
- Our pre-tax margin, and what analysts think of it, affects our ability to borrow money, stock market confidence and a number of other key items that are essential to running a viable company.
- As this chart demonstrates, our 2010 pre-tax margin fell far below our competitors.

## AMR 2010 Financial Results

- **AA's financial results lag the industry due largely to lower costs achieved by other airlines in bankruptcy, including outsourcing and labor cost reductions**
  - The 2010 TA would have put further pressure on our costs
- **The current TWU proposal would worsen AA's competitive position, which already lags the industry**

(\$, millions) <sup>1</sup>	2010 Actual
Revenue	22,170
Operating Expense	(21,781)
Operating Income/ (Loss)	389
Interest Expense/ Other <sup>3</sup>	(778)
Net Income/ (Loss)	(389)

1/ Excludes special items

2/ 2010 AMR results including 1<sup>st</sup> year of March 2011 TWU proposal excluding lump sum and retroactive pay

3/ Includes special tax benefit

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- American's competitors have been able to lower their costs through the bankruptcy process.
- The failed Stores TA would have put further pressure on our costs, and the TWU's recent proposal would have increased this cost disadvantage significantly more.

## Summary

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- **Although the TWU proposal makes it difficult to find a path forward, all parties need to continue to have discussions to find a solution**
- **Since there has been success closing sections of the Agreement using language from the prior TA, our intention is to continue to use this document as the basis for future proposals**
  - **While finding common solutions is important, the new Agreement must allow American to be competitive with other carriers**
- **Furthermore, the current economic situation is very difficult with the price of fuel at increasing high levels, so it is imperative that we balance this challenge along with the employee contributions and the need to have a competitive, viable company**

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- American feels the tentative agreement reached by the company and the TWU in May 2010 was an economically satisfactory agreement while also addressing the areas important to our TWU-represented members.
- Typically after a TA is reached but does not pass ratification vote, the two parties negotiate within the framework of the previous TA.
- The TWU's proposal does not take into account this historical context.
- As a result, American plans to use the framework of the previous TA to formulate our future proposals with the desired outcome to reach an agreement that addresses the interests of both the company and its TWU-represented members.