

Joint Work Faces Test.

The Joint Business Education and Communications team, made up of representatives from work groups at American Airlines, brings this edition of On the Fly to you.

Editors' Note: Usually when we write OTF, all partners are able to agree on the joint content. Right now, everyone doesn't agree on a serious issue, so for this edition, it doesn't seem appropriate to use the tone we usually employ. Instead, here are the straight, unadorned facts.

We've said it before. Joint work is not easy. In fact, sometimes it's just plain tough.

Working Together initiatives at American Airlines face a challenge, following the January announcement that about 1,000 managers will receive distributions under the Performance Share Unit Plan in April.

Some employees and the unions view projected payments as too large when AA has yet to reach profitability. Conversely, management believes strongly that the plan, approved by the AMR board, is part of its total compensation package.

Here's what has happened since the initial meetings. Company and union leaders, who have all said they are seeking a mutually acceptable solution, began meeting shortly after the announcement. CEO Gerard Arpey has also discussed the issue with the Independent Leadership Team, comprised of company leaders and representatives from independent employee groups, as well as the APA Board of Directors and the APFA Annual Convention. The Association of Professional Flight Attendants, the Allied Pilots Association and the Transport Workers Union all filed separate Presidential Grievances on January 24, citing contractual violations of the 2003 Annual Incentive Plan (AIP) agreements. This action formalized the joint labor dispute over the plan distribution and provides a mechanism for resolution.

At a meeting on January 27, company and union leaders agreed to a dual track:

- **Track One:** consolidate the three grievances into one, expedited case that could be ultimately resolved by a neutral arbitrator, and
- **Track Two:** continue to seek a preferred, collaborative solution.

Talks have continued, with meetings between leaders during the first and second weeks in February. An arbitrator and arbitration date has been agreed upon and set for March 8-10. Lawyers for the company and each of the unions have agreed upon the exchange of information.

In the interim, leaders have been involved in frank and open discussions concerning potential solutions. As with all disputes, a resolution created by the parties would be preferable to an arbitrator-imposed solution. Discussions are expected to continue up to the point of arbitration and perhaps beyond.

Continued on next page.

FLY

B I Z E D F O R T H E
E M P L O Y E E S O F
A M E R I C A N A I R L I N E S



M A R C H 2 0 0 6

Quick Bytes on Joint Work:

- 2006: *A better year for AA*
- 2005: *The Year in Review*

On The Fly is a two-way
communication.

If you have a question about
business issues, email us at
ask.onthefly@gmail.com.

We'll base editorial in future
issues on questions.

A true indicator of how the relationship between AA and its employees is progressing is how adversity is addressed. American Airlines is all of its employees, and there should be a civil way to resolve differences. Despite current concerns, joint work continues on many levels. Whether or not there is a mutual resolution on this issue, there are many other challenges facing both the company and employees that would benefit from a continued focus on Working Together efforts.

Stay tuned, as we update progress on this issue. 


2006: A Better Year for AA? *

Shareholders have propelled AMR stock upward in recent months. One factor may be more positive analyst reports and media coverage of airline industry prospects. These external reports vary widely, estimating everything from \$3 per share in profit to a loss of \$1.10 per share for AMR stock in 2006. Positive reports cite somewhat lower than post-Katrina oil prices, a better outlook for revenue from airfares, AA's efforts in streamlining operations and improved labor-management relations would add up to a profit in 2006. Moody's Investors Service upgraded AMR's debt rating from "negative" to "stable."

Is that good enough? Some employees suggest that market conditions have improved enough that AA can just continue its current efforts and become financially viable. The flip side is that oil prices are still hovering around \$63 a barrel and, with Iran's oil supply in question, prices could increase overnight. AA still has big debt payments (\$2 billion is due in '06), pension obligations and increasing healthcare expenses. Former CFO James Beer cautioned that, in order to meet obligations and transition to a constructive business cycle, AA will have to make a \$1.5 billion to \$2 billion profit annually.

Positive analyst reports, though welcome, are only guesses. Certainly, they are informed forecasts, but they remain outlooks, not reality. The pressure is on, not just to read positive press, but also to perform to expectations. No small feat.

The competitive landscape is constantly shifting. Northwest pilots threaten a strike if the parties do not reach consensual agreement and the bankruptcy judge allows the company to abrogate contracts. United recently emerged from three years of bankruptcy protection as a leaner, meaner competitor, having cut \$7 billion in costs through wage and benefit cuts. They also terminated pension plans and dumped debt, all with substantial cash in the bank. And the tough pricing pressure brought on by low-price competitors continues.

Will 2006 be the first year of AA returning to a profitable, constructive cycle? There's still much hard work needed to return AA to sustained profitability. 



*This report was compiled with information from former AA CFO James Beer, Investor Relations Director Kathy Bonanno and analyst and news reports.



Spring 2005

TWU Bucks Outsourcing Trend

A joint TWU/AA team announced a goal to transform AA's Aircraft Maintenance and Overhaul base in Tulsa, OK, into a profit center by generating \$500 million in value creation by the end of 2006.

Pension Reform Efforts

Senior management and labor leaders of AA issued a statement to Congress and the media stating their unified position regarding defined benefit pension plan reform legislation.

Fuel Smart Focuses on Conservation

Due to spiking jet fuel prices, a joint labor/management team assembled to coordinate efforts among Flight, Fleet Service, Dispatch and Line Maintenance work groups to generate and improve existing fuel conservation programs, identifying annual fuel savings of 80 million gallons.

Aviation Forum on Innovative Labor/Management Approach by AA

Labor and management leaders participated with others in a panel discussion entitled, "A Case Study on American's Bold Attempt to Work with Unions," during an annual aviation symposium in Phoenix, Arizona.

AA/TWU Signs Multi-Million Dollar Contract

Agreement was reached on the first major third-party maintenance deal at Tulsa: a multi-million dollar contract with Latin America-based Synergy Aerospace, Inc., to do heavy maintenance work on 29 Fokker F100 aircraft.

Continued on next page.



SUMMER

Summer 2005

Employees Fly In to DC for Pension Reform

More than 300 employees from all work groups at AA meet in Washington, D.C., to rally and meet with legislators on pension reform provisions that would support the company's commitment to employee pensions.

MIA JLT Develops Hurricane Preparedness Plan

The Miami Joint Leadership Team met to develop a cross-coordinated hurricane preparedness plan to aid Miami hub employees in need during hurricane season.

PLI Task Teams Formed

Operating Committee and Task Teams for the Performance Leadership Initiative were formed, comprised of all work groups at AA, to conduct an exhaustive top-to-bottom study of the company's operations.

Wright Amendment Support

Union members and employees from all work groups at AA supported the Wright Amendment by writing letters to legislators, lobbying the Hill and attending local town halls.

FALL

Fall 2005

On The Fly Debut

An on-line newsletter written from a joint perspective by union, independent and management work groups is introduced with a commitment to provide candid and frank reporting on issues of concern to all employees.

Simplification Test Kicks Off

Members of the TWU, management, and independent employees coordinated a simplification test to reduce aircraft turn-times in St. Louis. A plan to replicate this successful test in other cities is in the works.


WINTER

Winter 2005

Congress Pressured on Pensions

Employee and lobbyist efforts were realized when the Senate passed pension reform legislation providing for longer amortization periods and more favorable interest rates while not requiring companies to freeze defined benefit plans.

Biz Ed Introduced by Joint Business Education Committee

An online module, Introduction to Airline Finance, was developed and launched by JBEC. The second module in the series is currently under development and will be available soon. 



On The Fly is published by the Joint Business Education & Communications (JBEC) team and can be accessed at www.alliedpilots.org www.twuatd.org

or jetnet.aa.com.

Your comments or questions are welcome and you can opt in or out by emailing us at ask.onthefly@gmail.com.

On The Fly is a two-way communication. If you have a question about business issues, email us at ask.onthefly@gmail.com. We'll base editorial in future issues on questions.