

AA Proposal

AA Proposal – Letter of Agreement

Date: 9/30/2009

Time: 1630

Subject: CPA Payout

Version: 4

Proposal Reference(s):

Contract Reference(s): Section 15/ Supplement N

As a result of changes to Federal tax law through the enactment of section 409A of the Internal Revenue Code, the Credit Plan Account (CPA) constitutes “deferred compensation”, and the terms of the CPA do not comply with the Section 409A requirements for such deferred compensation plans. IRS transition rules for collectively bargained plans contain an effective date of January 1, 2010. Section 409A is otherwise effective January 1, 2005. Thus, unless the CPA is properly amended prior to January 1, 2010, the CPA will be in violation of section 409A on January 1, 2010, triggering regular income taxes and an additional penalty tax of twenty percent, plus interest. CPA hours earned prior to January 1, 2009, must be used or paid out prior to the end of 2009 to avoid this tax withholding. CPA accruals for 2009 could be paid as late as March 15, 2010. In addition, the current vacation provisions do not comply with Section 409A and must be modified prior to the end of the year.

The Company proposes no change to the following provisions in the Collective Bargaining Agreement (CBA) while this Letter of Agreement is in effect:

- CPA continues to be accrued as currently provided for in the CBA.
- Vacation to CPA conversion options continue as currently provided for in the CBA.
- Elective monthly CPA cash-out option continues as currently provided for in the CBA.
- Automatic cash-out of CPA balances over fifty (50) hours continues as currently provided for in the CBA.

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To minimize potential personal tax liability that pilots could be exposed to, the Company proposes the following amendments to the Collective Bargaining Agreement:

- CPA time shall be credited and debited on a first-in, first-out basis.
- CPA time earned in 2008 or prior years, or 2008 vacation hours converted to CPA, shall be paid out in the November 2009 pay period (balance determined as of October 31, 2009 for both active and inactive pilots).
- CPA time earned in 2009, or 2009 vacation hours converted to CPA time, shall be paid out in the February 2010 pay period (balance as of January 30, 2010 for both active and inactive pilots).
- Vacation bank hours shall be paid out in the February 2010 pay period (balance as of January 30, 2010).
 - Vacation hours in March and April 2010 shall be unpaid and uncredited.
- These provisions shall remain in effect through the earlier of December 31, 2010 or the Date of Signing of an amended Collective Bargaining Agreement.
 - The parties shall address an ongoing resolution to this issue during Section 6 negotiations.
 - The Company and the Association shall meet and discuss CPA options within a reasonable period of time following any subsequent change under Section 409A.