# AA Proposal

| AA Proposal | **Date: 8/6/2009** | **Time: 2:00 PM** |
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| **Subject: CPA Payout** | | **Version: 2** |
| **Proposal Reference(s): NEW** | | |
| **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.

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

- Amend the CPA Plan as follows:
  - CPA time shall be credited and debited on a first-in, first-out basis
  - As of October 31, 2009, 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.
  - CPA time earned in 2009 or 2009 vacation hours converted to CPA time shall be paid out in the February 2010 pay period.

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- For subsequent years, CPA time earned in the prior year shall be paid out in the February pay period.

- Under the "Welfare Benefits Exemption", convert the vacation bank into a qualified plan exempt from the deferred compensation definition of IRC Section 409A. Under this plan, vacation bank hours (including floating vacation hours) may only be used to cover vacation days used and cannot be converted to CPA. Prior to the end of the calendar year preceding the fiscal vacation year, a pilot may elect to have any hours remaining in the vacation bank at the end of the vacation year:

  - Paid out in full, or
  - Applied to the following vacation year's vacation bank to replace a previously exercised PVD, with the balance paid out in full.

NOTE: This election must be made prior to the end of each calendar year, for the following vacation year. Prior to January 1, 2010, pilots will be required to make 2 elections, one for the remaining portion of the current vacation year and another for the 2010/2011 vacation year.

- The parties shall address an ongoing resolution to this issue during Section 6 negotiations.

- The Company shall notify any pilot whose CPA account contains 2008 hours of the balance no later than September 1, 2009.