

American Airlines 2008 annual report

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AMERICAN AIRLINES – Annual Report --

A comment in AMR's recent SEC 10-K filing caught my attention.

“Early pilot retirements resulted in \$917 million in total lump sum payments to 517 pilot retirees (approximately \$1.8 million per retiree consisting of payments from Company-funded defined benefit and defined contribution plan trusts) for which the Company incurred a \$103 million settlement charge.”

Since I don't recall seeing anything previously written when annual wage/salary expense for AMR's "General Management" increased from what was historically well under \$50 million to an average of \$165 million from 2005-2007; it would appear this SEC comment pointing out the --average- pension payment to these pilots goes beyond just reporting financial numbers.

So I'm not accused of taking sides here, when it comes to the spreadsheet side of the business, AMR management has been outperforming most of the industry. The operational side of the business is a different story.

Note: Under the direction of the National Mediation Board, all of the major unions for AMR are currently negotiating new contracts that were amendable nearly a year ago.

For some clarification: The AA pilot's pension plan consists of a "Defined Benefit Plan" [DBP] and a "Defined Contribution Plan" [DCP]. These pension plans have been in existence for over 50 years. In 2003 the AA pilots took major concessions, in part, to preserve the fundamentals of their pension plans and provide AMR the option to avoid bankruptcy.

The relatively large pension payouts noted in the SEC comments were effectively caused by the run up in the stock market and is the reason why over 400 pilots, most with decades of experience chose to retire early thereby --preserving the market gains and increased value of their DCP--.

Contrary to AMR's suggestion that all pilots retire as multi millionaires; the current value of the DCP funds for the remaining pilots is currently down by over 40% from a year ago. Due to years of no hiring stagnation combined with significant pay concessions, most of the remaining AA pilots will retire with considerably less than the pilots who choose to take their money and leave last year.

Below is a chart showing the percentages of pilot wage/salary expense comparing year 2007 with 2003. The total wage/salary for all employees is also provided for the same time period.

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Wage/salary expense (millions)			Pilot percentage of labor wage/salary expense	
<u>2003</u>	<u>2007</u>	-	<u>2007</u>	<u>2003</u>
\$194	\$374	Air Tran	39.8%	38.3%
\$2,224	\$3,213	Southwest	37.6%	32.6%
\$267	\$648	Jet Blue	34.8%	28.8%
\$118	\$224	Frontier	34.2%	30.1%
\$561	\$549	Alaska	32.8%	39.2%
\$2,705	\$1,882	Northwest	30.4%	30.6%
\$2,007	\$2,144	Continental	28.6%	26.9%
\$4,049	\$2,824	Delta	26.9%	34.9%
\$4,748	\$4,400	American	26.3%	29.7%
\$2,074	\$1,723	US Airways	25.7%	31.1%
\$3,314	\$3,011	United	24.4%	27.0%

Source: DOT41 data filed by the airlines

Five years ago the AA pilots were getting close to the industries average percentage of the wage/salary dollars. AA pilots are now near the bottom of the industry. This wage amount is –effectively- compounded lower when considering the AA pilots have one of the most (stagnated) senior group of pilots on the planet.

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