



TO: All Pilots Employed By American Airlines, Inc.

**FROM: Captain Bill Haug
Secretary Treasurer, Allied Pilots Association**

RE: Agency Fee For Fiscal Year Beginning July 1, 2008

DATE: May 27, 2008

Pilots who are already Members of APA and who do not wish to resign may ignore the details in this memorandum.

Pilots who are Non-Members, that is Agency Fee Payers, and pilots who wish to resign and become Agency Fee Payers, should read the enclosed information carefully. Pilots who wish to become Objectors and Challengers within the category of Agency Fee Payers should similarly read the enclosed information carefully.

Materials Concerning Agency Fee System: The following are included in this booklet: (1) the Allied Pilots Association's Agency Fee Policy ("Agency Fee Policy"); and (2) KPMG LLP's Special Report independently verifying calculation of the chargeable percentage under the Agency Fee Policy and the Schedule of Expenses and Allocation of Expenses Between Chargeable and Non-Chargeable Expenses for Fiscal Year 2006-2007.

Agency Fee Payers: While Section 2, Eleventh, of the Railway Labor Act, 45 U.S.C. § 152, Eleventh, provides that a carrier and a labor organization may negotiate union security agreements that require union membership as a condition of employment, the courts construe that requirement to mean that an employee need not actually join the union but may become what is commonly referred to as an Agency Fee Payer, effectively a Non-Member who pays a servicing fee.

If you are an Agency Fee Payer:

- **You must keep APA apprised of your current address. We do not have an address list from the Company for Non-Members, and under Section 25 of the Green Book you are legally required to provide us with your current address.**
- **You are not legally required to sign a dues checkoff authorization, but you are subject to discharge in accordance with Section 25 for failure to pay the Agency Fee that is due each pay period. For this reason, in other unions**

virtually every Agency Fee Payer finds that the dues checkoff authorization – which allows you to have your Agency Fee automatically deducted from the second paycheck of the month and forwarded by AA each month – is more convenient than writing and mailing a monthly check. If you have not previously signed a dues checkoff authorization, but wish to do so, please call APA at 1-800-323-1470, extension 2231 to request that a Dues Checkoff Agreement be sent to you.

Agency Fee Payers Who Become Objectors: Within the category of Agency Fee Payer is a subcategory of those Non-Members who wish to object to certain expenditures that the courts hold may not be chargeable over their objections. These Non-Member Agency Fee Payers are known as “Objectors” who pay a reduced amount (known as the chargeable percentage) based on a detailed calculation in accordance with the requirements of federal law.

- **If you, as an Agency Fee Payer, have previously filed an objection explicitly stating that the objection is to be continuing until revoked and you have not revoked that objection, in accordance with the requirements spelled out in the Agency Fee Policy, you do not need to file another objection and will continue to be treated as an Objector.**
- **If you, as an Agency Fee Payer, did not previously file an objection explicitly stating that the objection is continuing, and you wish to become an Objector for the fiscal year beginning July 1, 2008, you must file a written individual objection with the APA Secretary-Treasurer with a postmark dated prior to June 30, 2008, in accordance with the requirements spelled out in the Agency Fee Policy.**
- **The Agency Fee Policy also spells out the requirements for filing objections in subsequent fiscal years (and the Policy will be published prior to the beginning of each fiscal year).**
- **An APA Member who wishes to become an Objector must first resign from APA and then file a written objection postmarked within 30 days of the effective date of the resignation, in accordance with the requirements spelled out in the Agency Fee Policy.**

Objectors Who Wish To Become Challengers: APA is required to establish an elaborate system to handle Objectors who elect to challenge APA’s calculation of the chargeable percentage. (An Objector who wishes to challenge the calculation shall be known as a “Challenger.”) The challenge procedures, and the method for resolving these challenges, are set forth in detail in the Agency Fee Policy.

Each fiscal year, APA will retain an independent accounting firm to submit a report verifying the calculation of the percentage of the Agency Fee that may be chargeable to an Objector.

- For the next fiscal year (July 1, 2008 through June 30, 2009), the chargeable calculation is enclosed. It will also be published on APA's website.
- An Objector who wishes to challenge the calculation for the next fiscal year must file a written challenge to the calculation postmarked prior to June 30, 2008, in accordance with the requirements of the Agency Fee Policy.
- The procedures and requirements for filing challenges in subsequent fiscal years are also spelled out in the Agency Fee Policy (and the Policy will be published prior to the beginning of each fiscal year).

The Calculation For Objectors: Agency Fee Payers may be compelled to pay only the costs associated with APA's role and activities as exclusive collective bargaining representative of AA pilots. Courts use the terms "germane" to collective bargaining (or chargeable) and "non-germane" (or non-chargeable) to describe how the union must allocate expenses when calculating the amount of Agency Fee charged to Objectors. The categories are, in some respects, not intuitively obvious. For example, some aspects of APA's important safety work, such as advocating improved regulation of airline safety, are not considered chargeable. Some categories are more obviously non-chargeable, such as APA's legislative work in support of arming pilots, and all expenses related to the establishment, maintenance and support of APA's members-only benefit plans. The enclosed Agency Fee Policy provides more examples of chargeable and non-chargeable expenses.

Based on the enclosed Special Purpose Schedule of Chargeable and Nonchargeable Expenses for the fiscal year 2006-2007, as verified by the independent accounting firm, Objectors will be charged approximately 84.5 percent of the amounts charged to Members and Agency Fee Payers. The derivation of the amount chargeable to Objectors is explained more fully in the materials contained herein. Obviously, as noted, expenses for benefits that are available only to APA Members are not considered chargeable when computing the rate charged to objecting Agency Fee Payers.

The procedures set forth in the Agency Fee Policy, particularly as they relate to Objectors and Challengers, are complicated. If you are a Member who is not resigning, you may ignore them. If you are an Agency Fee Payer, you need to provide us with your current address and you may wish to sign and return a dues checkoff authorization if you have not already done so. If you are an Agency Fee Payer who wishes to become an Objector, or an Objector who wishes to become a Challenger, you need to read and follow the Agency Fee Policy with care.

As a final note, I encourage all pilots who are not currently APA members to join and take part in this Association. It is the professionalism, intelligence, experience and involvement of thousands of AA pilots like you that make our Association strong, and the stronger we are, the more effectively we can represent and defend the interests of all AA pilots. Of course, the many individual member benefits available to those who join APA also make membership in our professional Association a great value. But just as important, we value and welcome the energy, insight and diversity of views that you can bring to this organization. For further information, or to talk at greater length with an APA representative, please call or e-mail us at your convenience.

ALLIED PILOTS ASSOCIATION'S AGENCY FEE POLICY

INTRODUCTION: As a general matter, to avoid the inequity of “free riders,” all American Airlines pilots who are subject to the contractual union security clause (Section 25 of the Green Book, which conditions continued employment on the payment of dues or “agency fees” to APA), are charged the same amount of money, whether they are members or non-members of APA. Based on history and experience, APA believes that the collective bargaining and representational interests of AA pilots are best served by having a strong Association capable of defending pilots’ interests in a range of national and international arenas affecting aviation and the airline industry.

Federal law, however, allows individual non-members to register objections to expenditures for so-called “political,” “ideological” or other purposes that the federal courts consider not sufficiently “germane” or related to APA’s role as collective bargaining representative of AA pilots, and to have their agency fee calculated in a different manner, based on the percentage of APA’s total annual expenditures that qualify as technically “germane” and fully “chargeable” to non-member Objectors under applicable law. In addition, federal law allows non-member Objectors to challenge APA’s calculation of the annual chargeable percentage. Accordingly, this Policy sets forth APA’s objection procedures, APA’s basis for classifying expenses as “chargeable” and “non-chargeable” together with APA’s determination of the current “chargeable” annual percentage for registered Objectors, and the procedures for challenging that calculation.

1. Any American Airlines pilot represented by Allied Pilots Association (“APA” or “Association”) who is not an APA member and who is subject to the contractual union security clause (Section 25 of the Green Book) has the right to file an objection, in accordance with the following procedures, to APA expenditures that, under applicable law, are not considered technically “germane” to the APA’s role and responsibilities as exclusive collective bargaining representative of American Airlines pilots. A current APA member who chooses to become an Objector must assume non-member status before filing an objection in accordance with these procedures. The amount of agency fee charged to a registered Objector shall be calculated in accordance with this Policy.

2. A non-member pilot who wishes to become an Objector must provide written notice to APA’s Secretary-Treasurer of his/her individual objection in writing, by mail addressed to the APA national office and postmarked during the month of June each year. The objection must be signed by the individual pilot and must contain the objecting employee’s full name, AA employee number, current home mailing address and telephone number. Objection may be made only by an individual employee; petition objections or group objections will not be honored. Any Objector wishing to continue his/her objection in succeeding calendar years shall either expressly state in the objection that this objection is a continuing objection until revoked, or else file proper annual objection in June of each succeeding year, in the manner described above.

A. A non-member pilot who first becomes subject to a contractual union security clause

after the month of June in a given year and who wishes to become an Objector during that year must file a written objection, in compliance with the above requirements, but postmarked within 30 days of the date when he/she became subject to the union security clause. To continue the objection in succeeding years the employee must either include in the objection the express statement of continuing objection, or else file a timely and proper objection during the month of June in each succeeding year, as specified above.

B. An APA member who resigns from membership in a given calendar year, who remains subject to the union security clause and who wishes to become an Objector during that year, must file a written objection, in compliance with the above requirements, but postmarked within 30 days of the effective date of his/her resignation from APA membership. To continue the objection in succeeding years the employee must either include in the objection the express statement of continuing objection, or else file a timely and proper objection during the month of June in each succeeding year, as specified above.

3. APA will classify its annual expenditures as “chargeable” (technically “germane” to APA’s role and functions as the collective bargaining representative of American’s pilots under the RLA) or “non-chargeable” (technically “non-germane”) in accordance with applicable law. Subject to more detailed review and classification in annual reports and statements, APA generally treats the following major categories of expenditures as “chargeable” and “non-chargeable,” respectively (in the case of expenditures with mixed purposes, APA allocates amounts between chargeable and non-chargeable):

Chargeable expenditures include generally, but are not necessarily limited to:

- Expenses relating to negotiation of all aspects of its collective bargaining agreements.
- Expenses relating to administration and enforcement of agreements, practices and working conditions (including grievance handling and dispute resolution).
- Expenses relating to APA’s governance, management and associational/institutional existence (including elections of officers and representatives, membership votes, meetings, communications and other APA business and social activities).
- Expenses of publications and communications relating to chargeable activities.
- Expenses of litigation and other legal proceedings relating to chargeable activities.
- Expenses of participation before legislative, executive branch and administrative forums relating to chargeable activities.
- Expenses for professionals, experts, technicians and other services in connection with chargeable activities.
- Expenses for education and training intended to prepare the participants/recipients to carry out chargeable activities.
- Expenses relating to group cohesion and economic action (including picketing, handbilling, communications, demonstrations, job actions, and other lawful union activity).
- An appropriate portion of APA overhead and administrative expenses.

Non-chargeable expenses include generally:

- Expenses for electoral politics and political campaigns (including contributions to and support for political organizations, candidates for public office, public referenda, voter registration and get-out-the-vote activity, and political education).
- Contributions and support to charitable organizations.
- Expenses for public advertising and communications not technically “germane” to APA’s role as collective bargaining representative for American’s pilots.
- Expenses for dealings with regulatory agencies and Congress over aviation and safety issues not considered “germane” to collective bargaining with American Airlines.
- Expenses of “members only” insurance programs and benefits.
- Portions of APA overhead, administrative and operating expenses attributable to non-chargeable activities.

4. Each fiscal year, APA will retain an independent accounting firm to submit an annual report verifying the percentage of APA annual expenditures falling within “chargeable” categories for the prior completed fiscal year. That percentage will be used prospectively to calculate the amount of agency fee projected and charged to Objectors during the next full fiscal year. According to the accounting firm’s latest verification report (attached), the percentage properly classified as “chargeable” for the fiscal year 2006-2007 is 84.5 percent, and the agency fee payable by Objectors during fiscal year 2008-2009 shall be 84.5 percent of the full dues rate payable by APA members.

5. Prior to or at the beginning of the month of June each year, APA will publish its Agency Fee Policy together with the latest verified “chargeable” percentage calculation to give APA-represented employees written notice of their right of objection and the procedures for becoming a registered Objector for the ensuing fiscal year. APA will contemporaneously send a copy to each person who filed a proper and timely objection for or during the fiscal year then ending, to give notice of the right to renew their objection for the next year.

6. The amount of agency fee payable by registered Objectors will be determined as follows:

A. If the Objector does not file an express written challenge to the validity of APA’s latest verified “chargeable” percentage calculation, during the annual June period for filing objections as set forth in Paragraph 2 above, the amount of agency fee payable by the Objector will be calculated by applying the latest verified “chargeable” percentage to the regular amount of dues and fees that is ordinarily payable in the absence of objection.

B. An Objector may file a written, express challenge to the validity of APA’s latest verified “chargeable” percentage calculation. Any such challenge must be filed with APA’s Secretary-Treasurer each fiscal year during the annual June period for filing objections as set forth in Paragraph 2 above. No generic, “continuing” challenge to the validity of APA’s chargeable percentage calculation will be recognized. Pending resolution of such challenge in accordance with the further procedures set forth herein, the Objector who files a challenge (“Challenger”) shall continue to pay to APA the amount of agency fee described in Paragraph 6.A above, and APA shall deposit 50

percent of that amount into a separate, segregated, interest-bearing bank account to be held and not expended pending resolution of the challenge (referred to as “escrow” for purposes of these procedures). When the challenge is resolved and the percentage payable by the Challenger for the relevant fiscal year is retroactively determined, the escrowed amount from that Challenger shall be applied so that APA receives the balance (with associated interest) of the amount properly chargeable to the Challenger for the period of the escrow, and that appropriate agency fee amount shall be collected from the Challenger going forward for the remainder of the fiscal year covered by the challenge. If the agency fee amount owed for the period of escrow, as finally determined, exceeds the amount actually charged to the Challenger during that period, the Challenger shall promptly pay APA the balance owing.

7. The following procedures governing challenges to the validity of the verified “chargeable” percentage calculation are designed to give Challengers a fair, accessible and reasonably prompt means of resolving such disputes. These procedures shall apply in the absence of an exclusive statutory review procedure or a judicial order to the contrary.

A. All properly filed challenges to the validity of APA’s latest verified “chargeable” percentage calculation that are submitted during the annual June filing will automatically be consolidated for submission to an impartial arbitrator appointed by the American Arbitration Association (“AAA”) under its rules for impartial determination of union fees, as may be modified by the courts and these procedures. In the event of challenges to the same percentage calculation filed properly at a later date under Paragraph 2.A or 2.B, above, those Challengers shall be given the benefit of the arbitrator’s ruling on the June challenges addressing that same fiscal year.

B. All arbitration proceedings under these challenge procedures shall take place in Fort Worth, Texas. The parties to such proceedings shall be APA and the Challenger (or Challengers collectively, in the event of consolidation). Each party to the arbitration shall bear their own costs. The Challenger(s) shall be offered the opportunity to share with APA a pro rata portion of the arbitrator’s fees and expenses. APA shall pay the balance of such fees and expenses.

C. APA and Challenger(s) may, at their expense, be represented in the arbitration by counsel (lawyer or non-lawyer) of their choice. Each party shall give the other notice of such counsel’s name, address and phone number, and the party or individual(s) represented. A party need not appear in person at a hearing. A party (including individual Challengers) may file a written statement with the arbitrator provided it is received by the arbitrator no later than the beginning of the arbitration hearing.

D. No later than 10 days before the scheduled hearing date, APA shall give the Challenger(s) a list of witnesses APA may call (other than potential rebuttal witnesses) and a list of all exhibits (other than potential rebuttal exhibits) APA may introduce at the hearing. Service on counsel will satisfy this requirement. In addition, all parties to the arbitration shall follow the pre-hearing procedures that may be directed by the arbitrator.

E. The arbitration hearing shall be transcribed by a court reporter, whose transcript shall be the sole official record of the proceedings and shall be available for purchase by Challengers. A copy of the transcript will be made available for inspection upon request, at APA headquarters during normal business hours, by a Challenger who has not purchased a transcript copy.

F. The arbitrator shall have general authority over procedural matters arising in connection with the proceeding, keeping in mind the need for a fair, informed and expeditious arbitration. In the arbitration APA shall have the burden of proof regarding the accuracy of the verified "chargeable" percentage calculation that is being challenged. All parties shall be given a reasonable opportunity to present evidence and arguments at the hearing. The arbitrator shall decide the dispute based on the record presented. If Challengers decline to present evidence or participate at the hearing, the arbitrator may close the record upon receipt of APA's evidence and arguments.

G. All parties to the arbitration shall have the right to file a post-hearing submission to the arbitrator within 30 days after the hearing is concluded. Such submissions may not introduce new evidence or discuss evidence not introduced in the arbitration. The arbitrator shall issue a decision within 60 days after the deadline for post-hearing submissions, or within such other reasonable period of time as is consistent with AAA rules and applicable law. The arbitrator's decision on challenges to the validity of the verified "chargeable" percentage shall be final and binding.

H. When the arbitrator's decision issues, the escrowed funds shall be distributed in accordance with the arbitrator's decision, as set forth above.

I. These dispute resolution procedures shall be deemed legally separable. Should any provision or portion thereof be found contrary to law by a court or administrative tribunal of competent jurisdiction, the remaining provisions or portions thereof shall continue to be legally effective and binding.



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Independent Auditors' Report

The Board of Directors
Allied Pilots Association
Dallas, TX:

We have audited the accompanying special-purpose schedule of chargeable and nonchargeable expenses (special-purpose schedule) of the Allied Pilots Association (APA) for the year ended June 30, 2007. This schedule is the responsibility of APA's management. Our responsibility is to express an opinion on the schedule based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the schedule is free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the APA's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the schedule. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the schedule. We believe that our audit provides a reasonable basis for our opinion.

The accompanying special-purpose schedule was prepared for the purpose of determining the fair share cost of services rendered by the APA for employees represented by, but not members of the APA, pursuant to the APA Agency Fee Policy as discussed in Note 1, and is not intended to be a complete presentation of changes in net assets or cash flows in conformity with U.S. generally accepted accounting principles.

In our opinion, the special-purpose schedule referred to above presents fairly, in all material respects, the chargeable and nonchargeable expenses of the Allied Pilots Association for the year ended June 30, 2007, on the basis of accounting described in Note 1.

This report is intended solely for the information and use of the board of directors and management of the Allied Pilot's Association and the pilots employed by American Airlines, Inc. and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

November 1, 2007

ALLIED PILOTS ASSOCIATION
Special-Purpose Schedule of Chargeable and Nonchargeable Expenses
Year ended June 30, 2007

	<u>Total expenses</u>	<u>Chargeable expenses</u>	<u>Nonchargeable expenses</u>
Domiciles	\$ 842,728	842,728	—
Board of directors	1,503,620	1,398,367	105,253
Committees:			
Aeromedical	181,586	181,586	—
Benefits review and appeals	34,658	3,859	30,799
CADC	9,815	—	9,815
CAPA	161,463	—	161,463
Captain's authority	4,550	4,550	—
Communications	434,532	417,058	17,474
Financial audit	15,569	15,569	—
Hotel	131,273	131,273	—
International alliance	30,335	—	30,335
Legislative affairs	31,560	—	31,560
Negotiations	913,893	913,893	—
Pension	104,084	91,073	13,011
Polling Group Ad Hoc	15,236	15,236	—
Professional standards and jumpseat	20,440	20,440	—
SPC Headquarters	322,031	322,031	—
Safety	556,172	538,478	17,694
Scope committee	157,958	157,958	—
Security committee	109,532	32,859	76,673
Special projects	39,816	—	39,816
System board	487,155	487,155	—
TASC	442,243	442,243	—
Training	80,467	80,467	—
Other committees (under \$10,000)	53,260	52,971	289
Total committees	\$ 4,337,628	3,908,699	428,929

ALLIED PILOTS ASSOCIATION

Special-Purpose Schedule of Chargeable and Nonchargeable Expenses

Year ended June 30, 2007

	<u>Total expenses</u>	<u>Chargeable expenses</u>	<u>Nonchargeable expenses</u>
General and administrative expenses:			
Departmental expenses:			
Accounting	\$ 571,713	542,247	29,466
Administration	747,429	747,429	—
Benefits	733,783	339,032	394,751
Contract administration	339,222	339,222	—
Officers	580,660	478,873	101,787
Legal	691,560	691,560	—
IT	787,560	510,412	277,148
PR/Communications	479,186	457,508	21,678
Print shop	534,232	501,574	32,658
Safety/Training/Security	227,941	223,791	4,150
Total departmental	<u>5,693,286</u>	<u>4,831,648</u>	<u>861,638</u>
Other:			
Other employee benefits	722,746	620,545	102,201
Facility costs	837,767	723,244	114,523
Supplies	44,627	38,494	6,133
Insurance	130,378	110,665	19,713
Depreciation	279,368	237,128	42,240
Legal fees/consultants	1,836,474	1,004,733	831,741
All other expenses	474,368	402,644	71,724
Total other	<u>4,325,728</u>	<u>3,137,453</u>	<u>1,188,275</u>
Total general and administrative expenses	<u>10,019,014</u>	<u>7,969,101</u>	<u>2,049,913</u>
Total expenses	\$ <u>16,702,990</u>	<u>14,118,895</u>	<u>2,584,095</u>
Percentage of total expenses	<u>100.0%</u>	<u>84.5%</u>	<u>15.5%</u>

See accompanying notes to the special-purpose schedule of chargeable and nonchargeable expenses.

ALLIED PILOTS ASSOCIATION

Special-Purpose Schedule of Chargeable and Nonchargeable Expenses

Year ended June 30, 2007

(1) Summary of Significant Accounting Policies

(a) Organization

The Allied Pilots Association (APA) is a non-profit, unincorporated association organized to serve as the collective bargaining agent for American Airlines pilots. The APA is exempt from federal income taxes under Section 501(a) of the Internal Revenue Code (IRC) as an organization described in Section 501(c)(5) of the IRC. The governing powers of the APA are vested in the board of directors and the officers in accordance with the Constitution and By-Laws.

(b) Basis of Presentation

The accompanying schedule was prepared pursuant to the APA "Agency Fee Policy" for the purpose of determining the special-purpose fair share cost of services rendered by the APA for employees represented by, but not members of APA. The accompanying special-purpose schedule is not intended to be a complete presentation of the APA's changes in its net assets or its cash flows in accordance with U.S. generally accepted accounting principles.

(c) Method of Accounting

The special-purpose schedule of chargeable and nonchargeable expenses has been prepared using the accrual basis of accounting, based on the descriptions in note 2 and the significant factors and assumptions described in note 3. Total expenses reported in the APA audited consolidated financial statements have been modified as described below to prepare the special-purpose schedule of chargeable and nonchargeable expenses, which represent a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

Total expenses as reported in the APA audited consolidated financial statements	\$	16,776,357
Expenses related to APA Holding Company		50,990
Expenses related to APA Scholarship Fund		22,377
Total expenses as reported in this special-purpose schedule	\$	<u>16,702,990</u>

(d) Use of Estimates

The preparation of the accompanying special-purpose schedule requires management to make estimates and assumptions that affect the reported expenses during the reporting period and the allocation of expenses between chargeable and nonchargeable. Actual results could differ from those estimates.

ALLIED PILOTS ASSOCIATION

Special-Purpose Schedule of Chargeable and Nonchargeable Expenses

Year ended June 30, 2007

(2) Description of the Basis for Classifying Chargeable and Nonchargeable Expenses

The following are management's definitions set forth in the APA's "Agency Fee Policy" used for determining chargeable and nonchargeable expenses:

(a) **Chargeable Expenses** – Chargeable expenses are those expenses incurred by the APA for representational activities. Representational activities are those duties that APA performs as a representative of the pilots in dealings with their employer, including collective bargaining, contract administration, grievance adjustment, and other activities chargeable to the collective bargaining process. Activities that are classified as chargeable include the following:

- Expenses relating to negotiation of all aspects of its collective bargaining agreements;
- Expenses relating to administration and enforcement of agreements, practices and working conditions (including grievance handling and dispute resolution);
- Expenses relating to APA's governance, management and association/institutional existence (including elections of officers and representatives, membership votes, meetings, communications and other APA business and social activities);
- Expenses of publications and communications relating to chargeable activities;
- Expenses of litigation and other legal proceedings relating to chargeable activities;
- Expenses of participation before legislative, executive branch and administrative forums relating to chargeable activities;
- Expenses for professionals, experts, technicians and other services in connection with chargeable activities;
- Expenses for education and training intended to prepare the participants/recipients to carry out chargeable activities;
- Expenses relating to group cohesion and economic action (including picketing, handbilling, communications, demonstrations, job actions, and other lawful union activity); and
- An appropriate portion of APA overhead and administrative expenses related to chargeable expenses.

(b) **Nonchargeable Expenses** – Nonchargeable expenses are those expenses incurred by the APA for the benefit and advancement of represented pilots and their union which are not considered representational activities for nonmembers. Nonchargeable activities are those services that are ideological or political in nature and not related to collective bargaining or the employment-related interests of members; those that are exclusively for the benefit of members; and those that otherwise are not considered chargeable to representing nonmembers in the collective bargaining process. Activities that are classified as nonchargeable include the following:

- Expenses for electoral politics and political campaigns (including contributions to and support for political organizations, candidates for public office, public referenda, voter registration and get-out-the-vote activity, and political education);

ALLIED PILOTS ASSOCIATION

Special-Purpose Schedule of Chargeable and Nonchargeable Expenses

Year ended June 30, 2007

- Contributions and support to charitable organizations;
- Expenses for public advertising and communications not technically “chargeable” to APA’s role as collective bargaining representative for American Airline’s pilots;
- Expenses for dealings with regulatory agencies and Congress over aviation and safety issues not considered “chargeable” to collective bargaining with American Airlines;
- Expenses for “members only” insurance programs and benefits; and
- Portions of APA overhead, administrative and operating expenses attributable to nonchargeable activities.

(3) Significant Factors and Assumptions Used in the Allocation of Expenses between Chargeable and Nonchargeable Expenses

- (a) **General Methodology of Allocation** – The expenses of APA are generally classified within committees and departments. Salaries and expenses of employees who work in the committees and departments have been allocated to those respective classifications. Fringe benefits, payroll taxes and other personnel related expenses have been allocated on the basis of the related salary expense. The activities of these committees and departments have been determined to be chargeable, nonchargeable or allocated between chargeable and nonchargeable based on the descriptions in note 2. For the expenses that are not classified within committees and departments, the purpose and nature of the expense was determined and individually allocated between chargeable and nonchargeable based upon the descriptions in note 2. The allocation of other expenses is explained in note 3(f).
- (b) **Domiciles** – Domicile expenses are 100% chargeable because they relate to the administration and enforcement of agreements, practices and working conditions under the collective bargaining agreement and to the institutional governance of APA.
- (c) **Board of Directors**-The governmental powers of APA are vested in its board of directors and National Officers. The board of directors exercises its governance powers through the conduct of Regular and Special Board Meetings.

Expenses for regular and special meetings were allocated between chargeable and nonchargeable expenses based on the similarity of agenda items, in prior years’ and the current year meetings, and the weighted average of estimated chargeable and nonchargeable expenses for the four consecutive years ended June 30, 2006.

(d) Committees

- (1) **Aeromedical** – This committee provides support to all American Airline pilots and their families in times of need regardless of the situation. The type of assistance rendered will vary whether there is death, serious injury or other serious event. The committee also provides support and technical assistance to pilots who suffer loss of FAA medical certification. The expenses of this committee are 100% chargeable.

ALLIED PILOTS ASSOCIATION

Special-Purpose Schedule of Chargeable and Nonchargeable Expenses

Year ended June 30, 2007

- (2) **Benefits review and appeals** – This committee administers benefits and appeals related to insurance programs and benefits under the APA’s Constitution and By-laws. The expenses of this committee are 89% nonchargeable.
- (3) **CADC** –The Committee for the Armed Defense of the Cockpit was formed to establish, coordinate, manage and promote establishment of a program to authorize, train and certify pilots to carry lethal weapons in secure areas of an airport and upon aircraft. The expenses of this committee are for dealings with regulatory agencies and Congress over aviation matters and safety issues. The expenses of this committee are 100% nonchargeable.
- (4) **CAPA** – The Coalition of Airline Pilots Association is a trade association operating on a consensus basis to address issues of concern to professional airline pilots. CAPA is principally involved in dealing with regulatory agencies and Congress over aviation and safety issues. The expenses of this committee are 100% nonchargeable.
- (5) **Captain’s Authority** – This committee has been established to protect and preserve the rights, protocol, and privileges granted to Captains of American Airlines. The expenses of this committee are 100% chargeable.
- (6) **Communications** – This committee is tasked with communicating to American Airline pilots through a number of mediums and regarding a wide variety of chargeable issues including contract negotiations, working conditions, grievances, arbitrations, employee benefits, safety, security, training and other matters. APA has estimated that approximately 96.0% of this committee’s expenses are associated with chargeable issues.
- (7) **Financial Audit** – This committee is tasked with supporting the audit of the APA. The expenses of this committee are 100% chargeable.
- (8) **Hotel** – This committee addresses issues relating to the hotels utilized by pilots in the course of their employment with American Airlines. The expenses of this committee are 100% chargeable.
- (9) **International Alliance** – This committee represents APA in an alliance of pilot labor unions of airlines participating in the “One World Alliance.” These labor unions work together offering each other mutual support as well as in the sharing of ideas, information, and strategies in representing pilots of their respective unions. The expenses of this committee are 100% nonchargeable.
- (10) **Legislative Affairs** – This committee is responsible for the coordination of legislative and regulatory activities that are conducted on APA’s behalf. The expenses of this committee are 100% nonchargeable.
- (11) **Negotiations** – This committee participates in collective bargaining on behalf of the pilots of American Airlines. The expenses of this committee are 100% chargeable.

ALLIED PILOTS ASSOCIATION

Special-Purpose Schedule of Chargeable and Nonchargeable Expenses

Year ended June 30, 2007

- (12) Pension – The pension committee is responsible for review of Company Pilot Retirement Benefit Programs. The expenses of this committee have been estimated to be approximately 87.5% chargeable.
- (13) Polling Group Ad hoc – This committee is responsible for assisting in the process of voting and polling the pilots. The expenses of this committee are 100% chargeable.
- (14) Professional Standards and Jumpseat – The professional standards committee is dedicated to establishing and maintaining the standards of pilot professionalism at American Airlines. The Jumpseat committee addresses pilot use of airline travel when commuting to and from work. The expenses of this committee are 100% chargeable.
- (15) SPC Headquarters – This committee is responsible for coordinating APA’s strike efforts. The expenses of this committee are 100% chargeable.
- (16) Safety – This committee is responsible for improving aviation safety at American Airlines. The committee will involve itself in accident investigation matters and in any effort designed to enhance pilot safety. The committee may also advocate for safety issues with regulatory agencies and Congress.

The committee’s expenses are approximately 96.8% chargeable. These expenses relate to the administration and enforcement of agreements, practices and working conditions under the collective bargaining agreement. Expenses and time of committee members were examined between chargeable and nonchargeable and allocated accordingly.

Nonchargeable expenses relate to advocacy efforts with regulatory agencies and Congress that are not chargeable to collective bargaining issues at American Airlines.

- (17) Scope – This committee is responsible for monitoring American Airlines’ compliance with “Scope” provisions of the collective bargaining agreement as well as any potential relationship between American Airlines and other entities that may impact the pilots of American Airlines. The expenses of this committee are 100% chargeable.
- (18) Security – The expenses of this committee are estimated at approximately 30% chargeable. These expenses relate to the implementation of security procedures to enhance the overall flight security at American Airlines. The nonchargeable expenses relate to interactions with government agencies in an effort to impact national airline security policy and procedures.
- (19) Special Projects – This committee has been designed to devote efforts towards contract and collective bargaining position analysis and communication. The expenses of this committee are 100% nonchargeable.
- (20) System Board – This board is responsible for participating in the grievance process associated with the collective bargaining agreement. The expenses of this committee are 100% chargeable.

ALLIED PILOTS ASSOCIATION

Special-Purpose Schedule of Chargeable and Nonchargeable Expenses

Year ended June 30, 2007

- (21) TASC – The Technical Analysis and Scheduling Committee is responsible for analyzing flight crew scheduling, work rule modeling, and performing other information analysis efforts in connection with the collective bargaining agreement. The expenses of this committee are 100% chargeable.
- (22) Training – This committee is responsible for APA's efforts to monitor, improve, and coordinate with American Airlines to provide the best possible training programs and environment for the pilots of the airline. The expenses of this committee are 100% chargeable.
- (23) Other Committees – These committees were those with total expenses less than or equal to \$10,000 and were allocated between chargeable and nonchargeable based on the information in note 2(a) and (b).

(e) **Departmental Expenses**

- (1) Accounting – This department performs a range of general accounting and finance related functions for APA. The duties and the amount of time each member of the department spent on their duties were reviewed. Each duty was analyzed to determine whether it was a chargeable or nonchargeable activity.

Based on this analysis, a percentage of time spent on chargeable and nonchargeable activities was determined for each staff member. This percentage was applied to each staff member's payroll expenses and to the benefits costs of this department's staff.

- (2) Administration – This department performs a range of administrative functions relating to APA's governance, management and institutional existence. Included in the functions are: secretarial support, receptionist activities, building management, pilot database management, union elections and other required functions. The staff payroll and benefits of this group are 100% chargeable as the staff's activities provide the infrastructure necessary to deliver chargeable activities.
- (3) Benefits – The staff of this department performs a range of benefit services for both members and nonmembers of the association. The duties and the amount of time each member of the department spent on their duties were reviewed. Each duty was analyzed to determine whether it was a chargeable or nonchargeable activity. Based on this analysis, a percentage of time spent on chargeable or nonchargeable activities was determined for each staff member. This percentage was applied to each staff member's payroll expenses and to the benefits costs of this department's staff.
- (4) Contract Administration – The Contract Administration staff is devoted solely to assisting the pilots of American Airlines with issues concerning the collective bargaining agreement.

The staff payroll and benefit expenses of this group are 100% chargeable and relate to the administration and enforcement of agreements, practices and working conditions (including grievance handling and dispute resolution).

ALLIED PILOTS ASSOCIATION

Special-Purpose Schedule of Chargeable and Nonchargeable Expenses

Year ended June 30, 2007

- (5) Officers – The President, Vice President, and Secretary-Treasurer provide a wide range of leadership, management, and advocacy functions on behalf of the association.

The activities and the amount of time spent on these activities of the Officers were examined for a representative time period. Each activity was analyzed to determine whether it was a chargeable or nonchargeable activity. This percentage was applied to each of the Officers payroll expenses. Based on this analysis, a percentage of time spent on chargeable and nonchargeable activities was determined for each of the Officers and to the benefits costs of the Officers.

- (6) Legal – The Legal Department staff is devoted to assisting the pilots of American Airlines and the association with issues concerning the collective bargaining agreement.

The staff payroll and benefits expenses of this department are 100% chargeable because they relate to the administration and enforcement of agreements, practices, and working conditions (including grievance handling and dispute resolution).

- (7) IT Department – The IT Department is responsible for providing Information Technology related services to the association.

The duties and activities of each member of the department was reviewed. Each duty or activity was analyzed to determine whether it was a chargeable or nonchargeable activity. Based on this analysis, a percentage of time spent on chargeable and nonchargeable activities was determined for each staff member. This percentage was applied to each staff member's payroll expenses and to the benefits costs of this department's staff.

- (8) PR/Communications – The Communications Department is responsible for a variety communications activity directed to the pilots of American Airlines, the general public, the government, financial institutions, and American Airlines.

The duties and activities of each member of the department was reviewed. Each duty or activity was analyzed to determine whether it was a chargeable or nonchargeable activity. Based on this analysis, a percentage of time spent on chargeable and nonchargeable activities was determined for each staff member. This percentage was applied to each staff member's payroll expenses and to the benefits cost of this department's staff.

- (9) Print Shop – The Print Shop is responsible for printing letters, magazines, bulletins, post cards, and other materials as part of APA's communication effort.

The duties and activities of each member of the department were reviewed. Each duty or activity was analyzed to determine whether it was a chargeable or nonchargeable activity. Based on this analysis, a percentage of time spent on chargeable and nonchargeable activities was determined for each staff member. This percentage was applied to each staff member's payroll expenses and to the benefits costs of this department's staff.

ALLIED PILOTS ASSOCIATION

Special-Purpose Schedule of Chargeable and Nonchargeable Expenses

Year ended June 30, 2007

- (10) **Safety/Training/Security** – This department is responsible for activities relating to the Safety, Security, and Training of American Airline's pilots. The department also addresses pilot aeromedical issues.

The duties and activities of the department were analyzed to determine whether it related to a chargeable or nonchargeable activity and this percentage was applied to the department's staff payroll expenses and to the staff's benefits costs.

(f) **Other Expenses**

- (1) **Other Employee Benefits** – This category of expense represents payroll and benefit related costs that are not distributed to the individual departments. The weighted average percentage of all staff chargeable and nonchargeable activities was used to determine the amount of this cost attributed to chargeable activities and nonchargeable activities.
- (2) **Facility Costs** – This category of expense represents primarily rent, utilities, telephone and facility maintenance costs. Allocations of these expenses were based on internal records maintained by employees, and the weighted average percentage of all department costs was used to determine the amount of this cost attributed to chargeable and nonchargeable activities.
- (3) **Supplies** – This category of expense represents primarily office, computer, and kitchen supplies. Allocations of these expenses were based on internal records maintained by employees, and the weighted average percentage of all department costs was used to determine the amount of this cost attributed to chargeable and nonchargeable activities.
- (4) **Insurance** – This category of expense represents property and liability insurance coverages. Allocations of these expenses were based on internal records maintained by employees, and the weighted average percentage of all department costs was used to determine the amount of this cost attributed to chargeable and nonchargeable activities.
- (5) **Depreciation** – This category of expense represents depreciation on furniture and equipment categories of assets. Allocations of these expenses were based on internal records maintained by employees, and the weighted average percentage of all department costs was used to determine the amount of this cost attributed to chargeable and nonchargeable activities.
- (6) **Legal Fees** – This category of expense represents fees paid for outside legal representation. The legal billings from the period of July 2006 to June 2007 were reviewed by management to determine whether it was chargeable or nonchargeable, and the expenses associated with each case were allocated on that basis, applied to the full year.

ALLIED PILOTS ASSOCIATION

Special-Purpose Schedule of Chargeable and Nonchargeable Expenses

Year ended June 30, 2007

- (7) **Consultants** – This category of expense represents fees paid for outside consulting services. The subject matter of each consultant’s work was evaluated to determine whether it was chargeable or nonchargeable, and the expenses associated with each case were allocated on that basis.
- (8) **All Other Expenses** – This category includes all other non-specific activities. The subject matter of individual expenses has been reviewed by management to determine whether it is chargeable or nonchargeable.