

NAC Update

Wednesday, November 16, 2011

Fellow Pilots,

Your Negotiating Advisory Committee, along with professional negotiator Scott Peterson, met with the Company last week at the offices of the National Mediation Board in Washington, D.C. All open sections of the contract were discussed in the form of a Comprehensive Proposal that was presented to the Company on Wednesday and Thursday. Unfortunately, as a result of the Company's discourteous table behavior, this session did not begin well and did not improve as the week progressed.

The session began on Tuesday when we presented our analysis of US Airways' financial position to Company representatives and Mediator Terri Brown. As you may recall management gave their view of the Company's financial situation to the Committee during the August session and why they can't afford to pay anything close to industry standard. As a reminder, we have defined industry standard as non 9-11, non bankruptcy-era contracts. To date, this includes Delta, Alaska, Southwest and JetBlue.

Considering the number of biased comparisons and questionable conclusions made during their August presentation, the Committee felt it necessary to prepare a presentation that would demonstrate to the mediator the flaws in the Company's analysis and provide a more balanced view of the Company's situation vis-a-vis its peers. The Association's presentation was prepared in conjunction with our financial advisors, Robert Herbst from Airlinefinancials.com, Rikk Salamat and members of the USAPA Business Intelligence Committee. We believe that this presentation more accurately reflected the reality of US Airways' position in the industry. Yet, at the end of the day, not surprisingly, the Company dismissed it out of hand.

While there were parts of management's presentation we vehemently disagreed with, the Committee had the professionalism to refrain from making any disparaging remarks. They did not afford us the same courtesy; in fact, their behavior was at times rude and abusive -- taking every opportunity to disparage the substance of the presentation even to the extent of referring to the presentation as 'hocus pocus' analysis. However, during the next few weeks we will be demonstrating that the Company's stage length adjustment is where the actual 'hocus pocus' exists.

Management's dismissive response is perhaps understandable inasmuch as Herbst's financial

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presentation, which can be viewed [here](#) (note: a few slides have been redacted due to confidential information), disproved the Company's claim that they are forced to operate at a revenue disadvantage when compared to the other legacy carriers. This "revenue disadvantage" is the excuse the Company uses to explain why they can't pay us industry-standard wages and benefits. We couldn't disagree more with this assertion! In fact, the most profitable airline, Southwest, has the lowest passenger revenue per available seat mile in the industry. Lower than Delta, United/Continental, American, JetBlue, Alaska and US Airways, Southwest has by far the highest pay rates in the industry.

The same can be said with Alaska and JetBlue; they both have a passenger revenue disadvantage as compared with Delta, United/Continental and American, and both of these airlines pay more than those carriers as well. When we asked how these three "disadvantaged" airlines can pay its pilots more than airlines that enjoy a revenue advantage we were met with obscene and abusive language. Maybe we hit a nerve.

Stage length adjustment may be a proper measure when comparing some areas of airline financials, however pilot pay rates is not one of them. If it were the correct measure, then the three airlines with the lowest passenger revenue (Southwest, Alaska, JetBlue) wouldn't be paying its pilots at the top of the industry. However, if the Company is insistent on using this metric then let's use routes where we actually compete and not routes to Asia where US Airways doesn't have a single ASM. This long and ultra long flying, not surprisingly, skews the stage length result in the Company's favor. Stay tuned for a new excuse as to why the Company is unable to pay us industry standard.

Rikk Salamat's presentation compared, on a city pair basis, the fare charged by US Airways and our competitors. This analysis was prepared to show a true "apples to apples" comparison of revenue and, once again, prove that there is NO "stage length adjusted revenue disadvantage." In fact, on an overall basis, US Airways' fares are 4.7% higher than the competition on head-to-head routes. This is not some 'hocus pocus' math but comes from data reported to the DOT by all airlines.

We know that the Company is not printing money, and we understand the need to be realistic about our expectations. However, when we see that the picture may not be as bleak as they would like us to believe, it is our responsibility to ensure we are not stuck with bankruptcy-era wages because the Company says that's the only way we can compete. Other carriers with revenue discrepancies far greater than US Airways (Southwest and JetBlue) have figured out how to pay industry wages and benefits. It's time for this management to step up and demonstrate that it can compete with their counterparts without asking the pilots to shoulder the

load for them.

The rest of the week we presented our comprehensive proposal to the Company. A comprehensive proposal is where one party "bundles" a multitude of positions into a single package, in this case, encompassing every section of our contract. A summary explaining our proposal by section, similar to the Quick Reference Guide, is included [here](#) in this update. This comprehensive proposal was approved by the BPR, prior to presentation to the Company, as is required by the USAPA Constitution. We reiterated to the Company that this is a comprehensive proposal and as such should be viewed as a whole. It is an "all in" package.

Our proposal focused on finding common ground with the Company in an attempt to both jump start and move the process along. While we did make moves in some areas, we still maintained our philosophy of an 'industry standard' contract. You will see from the attached overview that we took the Company position in some areas and maintained ours in others. We felt the give and take was well balanced but it appears, not surprisingly, the Company does not agree.

Among the major sections discussed this week were Section 3, Compensation; Section 4, Min Pay Guarantees; Section 7, Vacation; Section 10, Covered Pilots; Section 12, Hours of Service; Section 14, Sick; Section 25, Scheduling; Section 27, Health & Welfare; and Section 28, Retirement.

In Section 3 (Compensation) we proposed a lower pay rate for 2009 that will reduce the retroactive pay due to the pilots. This was not a decision we made lightly, but felt it was necessary if there was any hope of obtaining retroactive pay. The 2009 rates were adjusted to match those listed for the last year of the Kirby proposal while the rates from 2010 and subsequent years took into account the rates expected from the LOA 93 arbitration decision. Additionally, we proposed that the retroactive pay due to the pilots would be paid out over a three-year period. The lower 2009 rate and three-year retro payout reduced the year one cost to the Company by approximately \$700 million dollars. We had hoped the Company would be more amenable to such a significant move, however what the Company noticed was that the second year cost increased due to the three-year retro phase-in.

Section 4 (Min Pay Guarantees) discussions centered on training pay. The West contract provides for 4:17 per day (on average, 13 minutes a month) for the two sim sessions during CQT. While it is a significant percentage change in this pay, we believe the other improvements in the contract will more than offset this decrease.

While the Company still owes the Association a response to the main body of Section 7 (Vacation), we did agree with the Company proposal to phase in the vacation improvements for the East pilots. During the first year of the contract the East pilots will receive a portion of the improvement in vacation hours and the remainder in pay no credit (PNC), the second year brings more vacation hours and again the remainder as PNC, and by year three the East pilots will receive the full vacation allotment as vacation credit hours.

Section 10 (Covered Pilots) saw a number of modifications in an attempt to complete this area. We agreed with the Company proposal of a 10% override for CKAM and IPs, but in exchange for this the pay would be 5:38 per event. We maintained our previous event proposal of 16 events per month with the ability to assign to 17 and volunteer to 18, but increased the number of fly days allowed during 16-event months up to four. This will give the CKAM the opportunity to fly more and also give the Company some flexibility during times of reduced training needs. The Company will also have the ability to schedule more training lines -- up to 38 per month system wide. The savings from this area would offset the cost associated with providing longevity credit for furlough time.

In Section 12 (Hours of Service) we proposed two pay caps. We maintained our proposed 90-hour cap while also allowing, in limited circumstances, the ability for the Company to build lines to 95 hours. Lines with the 95-hour cap, however, would be limited to 10 duty periods and no greater than two flight segments per duty period. The thought behind this was to allow the Company to build "out and back" trans con pairings as a result of the new FAA rules and reduce the amount of days a pilot works. The segment and duty period restrictions would ensure that the Company builds the most efficient pairings possible and not just give the Company another opportunity to schedule "productivity breaks."

While our Section 14 (Sick) proposal remains basically the same, we did reinsert language on payout of unused sick leave upon retirement. You may recall that we attempted to increase the amounts provided for in LOA 93 (\$13.50 cash and \$18.50 for medical benefits), and after that was unsuccessful we decided to use that money for the affected pilots elsewhere. We based that decision on costing data provided by the Company. Recently they revised their costing of this area, stating that it is worth only about a third of what they had previously calculated. In light of the revised costing, we reinstated the provision and increased the amount from \$13.50 to \$40.00 per hour. If it was only worth a third of what it was earlier then we should be able to get triple the value with little to no cost increase. When we inquired about the different costing values, incredibly, the Company explained that the cost in getting the \$13.50 cash out is worth more in value than if we were to give it up. Unbelievable!

During all previous discussions on Section 27 (Health & Welfare) the Company maintained that if we wanted to pay the same as other employee groups then we have to accept the same plan that the other groups have. After a study by an independent firm that specializes in benefit analysis, we determined that we would accept the health and welfare plans proposed by the Company with a few modifications for pilots. This is a significant move on our part and we would hope that the Company views it in the same way. Another major issue in this section is the offset provisions for pilots on LTD. The Company is proposing offsets that are far outside the norm in the airline industry -- even among those still operating under bankruptcy contracts. Our proposal attempts to rectify this situation for our pilots and bring this back in line with the industry.

The major issues remaining in the retirement section deal with the contribution rates and providing contributions for those on LTD. While today's East contract provides for LTD contributions, the Company is proposing to eliminate them. As you will see in the summary, we have proposed contribution rates ranging for 12.5% up to 18% at the end of the contract.

The Company's attitude continued throughout the week concluding during our presentation of Section 25 (Scheduling). The Company showed little interest in our discussion since it did not contain PBS. They half listened and childishly rolled their eyes as we spoke, and appeared to spend their time counting the number of 'unagreed' sections rather than listening to the substance of the discussion. From the beginning of the week it was obvious that the Company came with a closed mind about this session and set the bar at a new low for professionalism and etiquette at the bargaining table. One member of their team continues to be intentionally disruptive. At times during the week their side was rude, arrogant and, at one point, ultimately profane.

In light of the fact that we were presenting the Company with a comprehensive proposal that made significant moves in the Company's direction, we had requested to have some members of US Airways senior management attend the session. It is not uncommon for this to occur at important sessions; President Scott Kirby was at the sessions during the presentation of the Company's last comprehensive proposal in May 2007 -- hence the name 'Kirby Proposal.' Not a single member of US Airways senior management attended our presentation. The Company's excuse was that due to a "Board of Directors" meeting senior management's attendance was not possible. Excuses aside, the absence of any of the Company's principles is indicative of their lack of respect for the pilot group and disdain toward this federally mandated Mediation.

So as you can see, this was a not a good week at the bargaining table. We approached this session with optimism, as we felt our comprehensive proposal would be the catalyst to jumpstart these talks and possibly move the Company away from their 'Just Say No' position. Unfortunately, given the Company's attitude, we were disappointed to say the least. The Company clearly came to this session with an agenda to disrupt the Association's financial and contract presentations.

We are scheduled to meet again in early December and will be interested to see what, if any, response the Company has to our proposal. While we are always optimistic that the Company will do the right thing and negotiate in good faith rather than going through the motions and killing time, their actions this past week put a strain on that optimism.

Below is the opening statement made by NAC Chairman Paul DiOrio prior to the presentation of our comprehensive proposal.

USAPA's November 9, 2011 Comprehensive Proposal

Opening Statement

It has been almost 3 1/2 years since USAPA and management resumed negotiations aimed at creating a single contract to cover the combined US Airways pilot group. When we first met in Dallas in June 2008 to set the ground rules for our discussions, I, for one, would have been willing to bet that by this time a single contract would have been achieved and that both sides would now be preparing for the next round of negotiations.

I definitely would have lost that bet.

To say it's been frustrating, for both sides, would be an understatement. The stacks of

proposals that reside in a spare room at my house attest to the work that has been done over those 3 1/2 years, and yet serious differences still remain between us.

Speaking for USAPA, our frustration is born from having been unable to persuade you of the pilots' need to regain a reasonable yet very small portion of the 10 billion dollars in compensation, retirement, benefits, and work rules that were sacrificed in order that the airline survive for the sake of us all. We have not asked for an industry-leading contract; which we once had. We have not asked to be made whole for the 40 to 50% reduction in wages that occurred on the East over the last six to eight years; we have not asked to have our pension restored. We have only asked to be compensated, on average, with that of our peers.

Yes, we understand that the world has changed; we have heard that from you often and don't dispute it. However, while the changes in the airline industry have been dramatic since 2001, there have also been very encouraging changes for the better since our bankruptcy contracts. So, since we are not asking to return to the times prior to 9/11, we don't think you should be asking us to stay mired in the bad times either.

What we have sought is to lift this pilot group out of the depths of the bottom of the industry and provide a level of compensation and lifestyle that not only reflects the piloting profession, but also the contribution we have made and continue to provide in ensuring a safe and efficient operation.

Until yesterday, Management has relied on the revenue disadvantage argument and that it's only able to pay little more than what we are receiving today because our Company cannot compete with the Delta's, United's and American's of the world, thus we should not expect to be paid at the same level as the pilots at those carriers. After seven years at the bottom of the industry, why would we ever accept pay and benefits from a proposal made 4 1/2 years ago that ensures we will remain at the bottom of the industry for another six to eight years for a total of roughly 15 years?

The financial presentation you viewed yesterday demonstrates that US Airways, if not leading the industry, is definitely holding its own in terms of revenue and margins.

So, today, the Association is making what we believe should be properly viewed as a

comprehensive proposal. In a number of areas we have adopted the Company's position; in other areas we have maintained the Association's position.

Some provisions, such as Scope, remain unchanged because we have yet to receive a formal response from management. Others, Scheduling for example, will still require the parties to hash out details, such as the reserve rules for which we believe there is general agreement in principle.

You will also note that for Section 22, Seniority, this document incorporates the Association's September 2008 seniority proposal. In doing so, we reject the statements that have been made by senior management that a solution on seniority must be reached before there can be an agreement. The decision of the Ninth Circuit in the Addington litigation makes it abundantly clear that there is no seniority dispute to be settled until there is a ratified agreement that contains a seniority provision which someone seeks to challenge.

What this comprehensive proposal does represent is a reduction in the annual cost of the agreement and a substantial reduction in the first year. USAPA is proposing rates of pay, vacation, and pension contributions which, spread over the life of the contract, create lower annual costs for the Company. With these reductions, the proposal attempts to reflect the financial analysis that has taken place over the last 60 days.

Unlike the intransigence which appears to have been built in to the Kirby proposal, the proposal being made by the Association today is not intended to be a line in the sand. This proposal is a good faith effort that makes significant moves on our part to reach an agreement and hope you will respond in kind.

What we would also hope is that this proposal could serve as a framework upon which to build a ratifiable agreement -- one by which the pilots can regain some of what was lost for the sake of survival and by which the Company can proceed -- either to position itself for further consolidation within the industry or as a viable stand alone carrier.

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