

AA Equity Q&A

How much equity did TWU hold back? TWU held back 14% of the equity.

Why did TWU hold back 14% of equity? It was estimated that this would permit TWU to satisfy any judgment obtained by plaintiffs, while also covering legal and administrative expenses incurred.

Where is the reserve fund being currently held? TWU has a segregated account, where nearly all of the shares are being held. Because this is a union-owned account, we have asked the IRS that it treat all investment income as it would all other union income as tax exempt.

What happens if the IRS determines that returns on investments are taxable? TWU has already paid taxes as well as estimated taxes on investment returns in the event the IRS should make such a determination. These payments will enable TWU to avoid fees and penalties, in the event our tax position is not successful.

Was the reserve always held by TWU? No, initially the AAL shares were held in a trust account. American provided the trustee, who followed instructions provided to him by a TWU committee. However, because a court order required that the reserve be diversified and managed professionally, it was necessary to transfer the shares out of the original trust account.

How are investment decisions made? All investment decisions are made independently by professional investment managers at Highland Capital, acting in accord with standards put together by TWU and a separate financial consulting firm, Reynolds Consulting Services. TWU meets periodically with both Highland and Reynolds to review the results.

What is the current state of the litigation? The Federal District Court Judge in San Francisco ordered that the complaint be dismissed. Plaintiffs have appealed this decision to the Court of Appeals, which we expect will hear arguments in the case in the early part of next year. If TWU prevails, we will begin to deal with the mechanics of the final distribution in accordance with the equity distribution plan adopted in 2013.

What is the value of the equity? As of October 31, 2015 the Reserve Fund Portfolio had a current balance of \$70,871,671.75.

How is the equity shown on TWU's books? On the asset side, a portion is shown as "Federal income tax on deposit AA equity- reserve," for \$4,146,724 and the remaining balance is shown as investments "AA equity- reserve," for \$70,621,518. On the liability side, we have equal and offsetting payable line items; "AA equity distribution payable- reserve," for \$70,621,518 and "AA equity distribution payable- contingent," for \$4,146,724. TWU established a contingent payable for amounts on deposit with the IRS, due to the unknown tax status of the fund's investment returns.