UNITED STATES DEPARTMENT OF TRANSPORTATION
FEDERAL AVIATION ADMINISTRATION
OFFICE OF CHIEF COUNSEL

SETTLEMENT AGREEMENT

In the Matter of:


This Settlement Agreement is entered into between the Federal Aviation Administration ("FAA") and American Airlines, Inc. ("AALA"), American Eagle Airlines, Inc. ("SIMA"), Executive Airlines, Inc., d/b/a/ American Eagle ("TRBA"), and Eagle Aviation Services, Inc. ("E4GR"). It is the intent of the parties to resolve all FAA Claims defined in Section I.A below, that involve alleged violations of the federal aviation law, 49 U.S.C. § 40101 et seq. and the Federal Aviation Regulations ("FAR") that as to either or both occurred before November 29, 2011, the date that AALA, SIMA, TRBA, and E4GR petitioned for bankruptcy protection under chapter 11 of title 11 of the United States Code (the "Bankruptcy Code").

This Settlement Agreement is executed under the authority contained in 49 U.S.C. §§ 40113, 46102(a), and 46301.

WHEREAS AALA is the holder of Air Carrier Operating Certificate No. AALAO25A, issued under Part 119 of the Federal Aviation Regulations, 14 C.F.R. Part 119, and operations specifications authorizing it to engage in scheduled air transportation under 14 C.F.R. Part 121.

WHEREAS, AALA agrees to fulfill the Commitments (as defined in Section I.C below).

WHEREAS the FAA and AALA, SIMA, TRBA, and E4GR agree that it is in the best interest of the parties and the public to resolve certain pending and potential FAA enforcement matters against AALA, SIMA, TRBA, and E4GR.

WHEREAS the FAA and AALA, SIMA, TRBA, and E4GR have reached a settlement of the FAA’s bankruptcy Proofs of Claim Nos. 7530, 13137 (amending Claim No. 7273), 13138 (amending Claim No. 7531), and 13139 (amending Claim No. 7272) (collectively, the “Proofs of Claim”) and certain pending and potential enforcement actions, and all of the parties are willing to enter into this Settlement Agreement.

WHEREAS in determining the monetary amount of this settlement, the FAA considered AALA, SIMA, TRBA, and E4GR’s assertions that certain of the facts and circumstances alleged by the FAA may not constitute a violation of the FAR, the overall record of compliance with the FAR by AALA, SIMA, TRBA, and E4GR and the current compliance disposition of AALA, SIMA, TRBA, and E4GR.
WHEREAS, the FAA would not have agreed to the monetary amount of this settlement absent AALA’s recent, current, and planned remedial efforts, including specifically AALA’s agreement to perform the Commitments and to accomplish additional industry best practices.

WHEREAS AALA has incurred substantial costs in initiating and/or accelerating the safety and regulatory compliance initiatives that AALA and the FAA both agree demonstrate an improved compliance culture and improved processes for maintenance oversight. Such initiatives include, but are not limited to, the following:

1. Providing inspectors at the FAA’s Certificate Management Office for AALA (“AMR CMO”), which is assigned to oversight of AALA, with more seamless access, via an AALA-hosted website, to a mutually agreed-upon list of manuals provided to the AMR CMO on September 24, 2012.

2. Revising its Airworthiness Directive (AD) process through the implementation of a first article validation for each complex AD, standing up a group specifically charged to audit on-wing compliance with ADs, and authoring work cards in the maintenance program that ensures AD compliance during the operation of the aircraft.

3. Enhancing its existing process to further ensure all maintenance accomplished on the aircraft is incorporated into the aircraft logbook or accounted for as a part of the aircraft release of the General Procedures Manual (“GPM”) or Bill of Work envelope consistent with AALA aircraft and logbook training courses.

4. Further refining its management structure and developed several additional organizations (Quality Assurance, Fleet Team, Compliance Engineering, Director of Maintenance-Compliance) to support internal and external quality, reliability and compliance initiatives.

5. Developing an audit requirement in the Continuing Analysis and Surveillance System (“CASS”) manual section 06.03 that provides additional audits of the processes most frequently used to develop engineering documentation, e.g. Engineering Authorization (“EA”), Field Engineering Authorization (“FEA”), Engineering Specification Order (“ESO”), Engineering Change Order (“ECO”).

6. Staffing Alliance Fort Worth (“AFW”) and Tulsa (“TUL”) docks with on-site engineering support, providing guidance and disposition when needed.

7. Revising the GPM to establish effective and verifiable communications systems throughout all levels of the AALA workforce for distribution of information relative to safety issues, changes to policies and procedures, etc.

8. Adding additional auditors in TUL and AFW maintenance bases to audit in-process ADs as they are completed.

9. Providing FAA-approved in-depth training to all personnel on Part 145 repair station
10. Revising the procedures for Quality Assurance contained in GPM section 34.01, “Quality Assurance Oversight of Maintenance Bases and Line Maintenance Completed by AALA Personnel,” to include in-process audits of maintenance performed by AALA.

WHEREAS the FAA and each of AALA, SIMA, TRBA, and E4GR agree that safety in air transportation and the public interest are best served by carriers and air agencies who take actions voluntarily to address past concerns and adapt to changing operational and maintenance requirements, and the FAA acknowledges that AALA has invested and/or has committed to invest significant resources in certain processes, its organization, and systems that exceed FAA regulatory requirements.

WHEREAS the FAA and AALA, SIMA, TRBA, and E4GR agree that the Allowed FAA Unsecured Claims, as defined in Section I.A below, for the amount of civil penalty set forth below is both fair and reasonable.

NOW, THEREFORE, in consideration of the mutual covenants and payments described herein, the FAA and AALA, SIMA, TRBA, and E4GR hereby agree as follows:

I. OBLIGATIONS OF AALA, SIMA, TRBA, and E4GR

A. AALA, SIMA, TRBA, and E4GR agree that in full and final settlement of (1) the Proofs of Claim, (2) the EIRs listed in Attachments A–D, (3) any EIR that is not listed in Attachments A–D if the date of the alleged violation (or for any EIR implicating multiple alleged violations the date of the original alleged violation) occurred before November 29, 2011, (4) any potential civil penalties that might otherwise be administratively adjudicated by the FAA or judicially adjudicated by a United States District Court for alleged violations that occurred before November 29, 2011, and (5) any other claims of the FAA resulting from any action, omission, duty, or obligation of any or each of AALA, SIMA, TRBA, or E4GR and any of their direct and indirect subsidiaries or affiliates that occurred or arose before November 29, 2011 (clauses (1), (2), (3), (4), and (5), collectively, the “FAA Claims”), the FAA shall have allowed, prepetition, general unsecured claims not subject to subordination (the “Allowed FAA Unsecured Claims”) against each of AALA, SIMA, TRBA, and E4GR as follows:

AALA - $24,000,000
SIMA - $800,000
TRBA - $95,000
E4GR - $5,000

B. AALA will seek approval of the Bankruptcy Court to modify the automatic stay imposed by section 362 of the Bankruptcy Code to allow the United States of America
(the United States), on behalf of the FAA, and pursuant to 31 U.S.C. § 3716, 11 U.S.C. § 553, and common law setoff, to set off from funds held by the United States Postal Services and the United States Department of Defense the amount of $4,741,888 (the “Allowed FAA Setoff Claim”) on account of the FAA Claims.

C. AALA further agrees to undertake the commitments described in this paragraph, Section I.C, to further advance its maintenance processes and procedures by the dates specified therein (the “Commitments”).

1. Subject to the availability of FAA subject matter experts, within three months of the Effective Date (defined in Section IV.1 hereof) of this Settlement Agreement, reconvene the Minimum Equipment List (“MEL”) SAT with the AMR CMO and a representative of the FAA’s Seattle Aircraft Evaluation Group to address any agreed upon outstanding MEL-related issues including: oversight of MELs issued by contractors, clearly defining the decision making process, roles and responsibilities of persons involved in deferrals of maintenance and procedures that prevent an aircraft from being operated under an incomplete or improper MEL.

2. Deliver regulatory-based training to all current AALA Engineers and Engineering Managers. Training in this course should provide a greater degree of standardization between all AALA engineering departments. The training syllabus will be provided to the AMR CMO for review prior to the start of the training. Training to be a minimum of eight hours in length and completed within one year of the Effective Date of this Settlement Agreement.

3. Require an eight-hour general troubleshooting course for all current AALA line maintenance Aircraft Maintenance Technicians (“AMTs”) and Maintenance Control Technicians (“MCTs”) to be completed within one year of the post reduction-in-force process. Additionally, AALA’s Line Maintenance and Training will meet internally to ensure avionics training supports new work rule agreements. Syllabi for any developed troubleshooting/avionics courses to be provided to the AMR CMO for review prior to the start of training.

4. Maintain the increased level of oversight provided to outsourced maintenance providers (25% increase from 2010) through the performance of on-site CASS and Quality audits at MROs and repair/overhaul vendors. Document the risk-based criteria that would require further oversight of 2nd or 3rd tier vendors within three months of the Effective Date of this Settlement Agreement.

5. Require maintenance personnel to sign off maintenance tasks “In Accordance With” approved technical documentation within one year of the Effective Date of this Settlement Agreement. Provide “In Accordance With” training to all current AALA Maintenance & Engineering (“M &
E") personnel within one year of the Effective Date of this Settlement Agreement.

6. Review the Weight & Balance training and the following sections of the Line Cargo Manual; Section 7.0.2 A-G, Unit Load Devices Serviceability, Section 9.0.3-10, Aircraft Ground Handling, and Section 10, Aircraft Servicing with the AMR CMO, whose review is to be conducted within two months of the Effective Date of this Settlement Agreement in an effort to subsequently determine and agree upon sections that may be moved from an “accepted” to an “approved” status.

7. Review and revise, as necessary, existing line and base shift turnover procedures and provide training for current AALA AMTs and crew chiefs on the procedures for work across multiple shifts within one year of the Effective Date of this Settlement Agreement.

8. Bring in an outside entity experienced in regulatory requirements for 121 air carrier receiving processes to review AALA’s current processes for compliance, identify improvement opportunities, and to make recommendations. This evaluation may be expanded to include procurement processes. The evaluation phase of this project will be completed within one year of the Effective Date of this Settlement Agreement with completion of accepted recommendations to follow as determined by AALA. Additionally, aspects of this process will be addressed with the AMR CMO through the vendor SAT already convened.

9. Review and enhance those processes, where necessary, in base and line maintenance to provide more effective control of E-58s and a more effective bill of work review prior to aircraft release within one year of the Effective Date of this Settlement Agreement.

D. Nothing in this section relieves AALA, SIMA, TRBA, and E4GR from the obligation to timely comply with previously issued Letters of Correction.

E. On motion or other appropriate proceeding by the FAA and a determination by final order of the Bankruptcy Court that AALA has failed to timely satisfy the Commitments set forth in Section I.C, above, in addition to the Allowed FAA Unsecured Claims described in Section I.A, above, AALA will pay a civil penalty of $250,000 for each 45 days that AALA has not satisfied the terms and requirements of a particular Commitment set forth in Section I.C, subsection 1 – 9. The civil penalties set forth in this section will be administrative claims (“Allowed FAA Administrative Claims”) to the extent the Bankruptcy Court determines such civil penalties are properly imposed before AALA has emerged from Chapter 11 bankruptcy proceedings.
II. OBLIGATIONS OF THE FAA

A. In consideration of the covenants and payments set forth in this Settlement Agreement, the FAA will not initiate or pursue any enforcement actions against AALA, SIMA, TRBA, and E4GR related to the FAA Claims.

III. ENFORCEMENT OF THE TERMS OF THE SETTLEMENT AGREEMENT

A. AALA, SIMA, TRBA, and E4GR waive any and all rights to further notice of the allegations of violations with respect to the FAA Claims.

B. AALA, SIMA, TRBA, and E4GR waive any right to appeal or otherwise seek judicial or administrative review of this Settlement Agreement, except as otherwise provided in sections III.C and IV.H hereof.

C. The parties hereby consent to the continuing jurisdiction of the Bankruptcy Court to enforce the terms of this Settlement Agreement, including the Commitments against any party hereto.

IV. MISCELLANEOUS PROVISIONS

A. The terms set forth in this Settlement Agreement shall constitute a full and final settlement and release of any and all FAA Claims to the extent the date of the alleged violation occurred before November 29, 2011, the date that AALA, SIMA, TRBA, and E4GR petitioned for bankruptcy protection under the Bankruptcy Code.

B. This agreement to compromise and settle the FAA Claims is civil in nature and does not address any possible criminal matters, nor is it intended to preclude any action based on future evidence raising a reasonable question regarding the qualifications or showing of a lack of qualifications of AALA, SIMA, TRBA, and E4GR, which would warrant suspension or revocation of AALA’s, SIMA’s and TRBA’s air carrier certificates and E4GR’s air agency certificate.

C. As of the date of this Settlement Agreement, the FAA has found no basis in evidence gathered for a referral for any criminal action to any other agency. Further, the FAA is aware of no evidence that would warrant suspension or revocation of AALA’s, SIMA’s, or TRBA’s air carrier certificate and E4GR’s air agency certificate.

D. Execution of this Settlement Agreement, including provisions for the Allowed FAA Unsecured Claims and the Allowed FAA Setoff Claim, does not constitute a finding of violations by the FAA or an admission of any wrongdoing by AALA, SIMA, TRBA, or E4GR, all such liability being denied by AALA, SIMA, TRBA, and E4GR. This
Settlement Agreement states the entire agreement of the parties hereto, is intended as the complete and exclusive statement of their agreement, and supersedes all prior agreements, understandings, negotiations, and discussions of the parties, whether oral or written. No amendment, supplement, modification, waiver or termination of this Settlement Agreement shall be binding unless executed in writing by the party to be bound thereby. No waiver of any provisions of this Settlement Agreement shall be deemed or shall constitute a waiver of any other provision or breach of this Settlement Agreement, whether or not similar, unless otherwise expressly provided.

E. Each of AALA, SIMA, TRBA, and E4GR agrees that it will not alter any of the obligations set forth in this Settlement Agreement, including the Commitments specified in Section 1.C, above, under any Chapter 11 plan of reorganization. AALA's obligations to timely satisfy the Commitments, as specified in Section 1.C, above, shall continue notwithstanding any change in AALA's ownership, or corporate, or other legal status.

F. The representative of each party signing this Settlement Agreement warrants that he/she is duly authorized to do so. AALA, SIMA, TRBA, and E4GR on behalf of themselves, their affiliates, and direct and indirect subsidiaries, agree to waive any claims or causes of action against the United States and/or against any current or former United States employees, agents, contractors, or officials arising out of or related to the enforcement actions listed in Attachments A, B, C, and D, and any EIR that is not listed in Attachments A, B, C, and D to the extent that the date of the alleged violation occurred before November 29, 2011, the date AALA, SIMA, TRBA, and E4GR petitioned for bankruptcy protection under the Bankruptcy code.

G. Each party to this Settlement Agreement shall bear its own costs and attorney's fees.

H. Nothing in this Settlement Agreement shall waive any additional setoff or recoupment rights that an agency of the United States Government may have with respect to AALA, SIMA, TRB-SA, or E4GR, provided that additional setoffs or recoupments shall not be applied to the Allowed FAA Unsecured Claim.

I. This Settlement Agreement shall be effective and deemed approved on the date (the Effective Date”) that an Order of the Bankruptcy Court approving this Settlement Agreement (the “Settlement Approval Order”) is no longer subject to appeal. The Settlement Approval Order shall specifically (a) approve the Allowed FAA Unsecured Claims, (b) approve the modification of the automatic stay to effect the set off of the Allowed FAA Setoff Claim, (c) approve the Allowed FAA Administrative Claims, and (d) affirm the continuing jurisdiction of the Bankruptcy Court to enforce the terms of this Settlement Agreement. In the event the Bankruptcy Court declines to enter a Settlement
Approval Order that contains the foregoing provisions, this Settlement Agreement shall be null and void with no force or effect.

J. A photocopy, facsimile, or PDF copy of this Settlement Agreement shall have the same force and effect as an original of this Settlement Agreement.

SO AGREED

FOR THE FEDERAL AVIATION ADMINISTRATION:

PETER J. LYNCH
Assistant Chief Counsel for Enforcement

[Signature]

By: Allan H. Horowitz
Manager, Special programs
Enforcement Division
Office of the Chief Counsel

Dated this 7th day of May, 2013

PREET BHARARA
U.S. Attorney for the Southern District of New York

[Signature]

By: Emily E. Daughtry
Assistant U.S. Attorney

Dated this 7th day of May, 2013

FOR AMERICAN AIRLINES, INC.,
AMERICAN EAGLE AIRLINES, INC.,
EXECUTIVE AIRLINES, INC., d/b/a AMERICAN EAGLE, and
EAGLE AVIATION SERVICES, INC.:

[Signature]

Kenneth W. Wimberly
Corporate Secretary, AMR

Dated this 8th day of May, 2013