

RETIREE MEDICAL SETTLEMENT

LETTER OF AGREEMENT No. 18
between
AIR WISCONSIN AIRLINES CORPORATION
and the
AIR LINE PILOTS
in the service of
AIR WISCONSIN AIRLINES CORPORATION
as represented by the
AIR LINE PILOTS ASSOCIATION, INTERNATIONAL

THIS LETTER of AGREEMENT (“Agreement”) is made and entered into in accordance with the provisions of the Railway Labor Act, as amended, by and between Air Wisconsin Airlines Corporation (the “Company”) and the air line pilots in the service of Air Wisconsin Airlines Corporation, as represented by the Air Line Pilots Association, International (“Association”).

WHEREAS, the mandatory retirement age for pilots was statutorily changed from age 60 to age 65 in December 2007, and

WHEREAS, the current Collective Bargaining Agreement between the Company and the Association (“CBA”) includes a provision for retiree health benefits for pilots who retire at age 60, and

WHEREAS, many pilots currently in the employ of Air Wisconsin have planned on having retiree health benefits following their anticipated retirement date, and

WHEREAS, the parties have agreed that it is in their best interest to resolve any dispute concerning the eligibility of pilots for the retiree health benefit by agreeing to the terms outlined herein rather than resorting to arbitration, and

WHEREAS, the parties anticipate that the subject of retiree health benefits shall be the subject of collective bargaining when the CBA becomes amendable on October 1, 2011, and

WHEREAS, the parties wish to enter into a settlement regarding the application of Section 27.B.5. until such time as a new collective bargaining agreement becomes effective.

THEREFORE, BE IT RESOLVED:

A. Current Book Language

The parties agree that the words contained in Section 27.B.5. of the CBA will remain as written. The parties agree to address the subject of retiree health benefits in the negotiations that will take place in conjunction with the amendable date of the CBA.

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B. Settlement Concerning the Application of Section 27. B. 5.

Notwithstanding the words found in Section 27.B.5., that Section shall be applied such that any pilot who is on the Air Wisconsin System Seniority List on the effective date of this Letter of Agreement and who reaches (or who has reached) the age of 58 following the effective date of this Letter of Agreement shall be entitled to select one of the Lump Sum options, and may be entitled to participate in a bid to remain in a Company Health Plan, in accordance with C., below. A pilot who is hired after the effective date of this Letter of Agreement will not be eligible for any of the options described in this Letter of Agreement and as such is not eligible for any Retiree Medical Benefits. However, nothing herein shall be construed to mean that such pilots will be ineligible for any benefits agreed upon as a result of the negotiations that will take place in conjunction with the amendable date of the CBA.

1. Lump Sum Payouts

The Lump Sum Payout will be based upon the Net Present Value (calculated at an 8% discount rate) (“NPV”) of the employer’s share of the health insurance premium for the Plan in which the pilot is participating at the time of his retirement, and at the level (employee, employee plus one, family) the pilot is utilizing at the time of retirement in accordance with the Table outlined in paragraph 2. below. The actual medical premium rates in effect for the year in which a pilot retires will be used to calculate the benefits for the first calendar year that comprises each pilot’s Lump Sum Payout with an 8% escalator that will be applied to calculate the values for the subsequent years.

2. Table

At Age 58	NPV 100% of Company share of medical premiums until age 65
At Age 60	NPV 75% of Company share of medical premiums until age 65 plus an additional \$8,000.00
At Age 61	NPV 66.7% of Company share of medical premiums until age 65
At Age 62	NPV 58.3% of Company share of medical premiums until age 65
At Age 63	NPV 50% of Company share of medical premiums until age 65

3. In addition, on a one-time basis upon date of signing of this Letter of Agreement, a pilot who is currently between 58 and 59 years of age will be eligible to elect the Lump Sum Payout on the same terms as a 58 year old pilot, except that the period of time used in the calculation would be the time period between his retirement date and the date he will reach age 65, i.e. a pilot who is 58.5 would get 6.5 years worth of benefits. A pilot who is between 59 and 60 years of age on

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date of signing of this Letter of Agreement would get 87.5% of the Company share of medical premiums based on the time period between his retirement date and the date he will reach age 65. A pilot may elect this option by giving the Managing Director of Flight Operations no less than two (2) weeks written notice of his intended retirement date, and will be eligible to elect this one-time option with a retirement date no later than April 1, 2009.

4. In order to receive a Lump Sum Payout, a pilot who is electing a Lump Sum Option (other than the one-time option described in paragraph 3. above that is available to 58- and 59-year old pilots) must provide the Managing Director of Flight Operations, in writing, notice of his intent to elect the Lump Sum Option at least 90 days prior to the birthday that corresponds to the ages listed above. If a pilot does not exercise a Lump Sum option by his 63rd birthday, he will not be eligible to receive any Lump Sum payout.
5. The Lump Sum shall be paid in full no later than the second semi-monthly pay cycle following the pilot's retirement date.
6. The Lump Sum will not be subject to any 401(k) contributions by the Company. All other elected deferrals will apply.
7. A pilot who returns from either a Leave of Absence or from a Furlough that exceeds five (5) months must have been in active service (including training) for 90 consecutive days to be eligible, or if returning from a Medical Leave, must have presented evidence of medical qualification at least 90 days prior to being eligible to elect a Lump Sum option.

C. Continued Plan Participation

1. A total of fifteen (15) pilots may elect to continue to participate in the same Company Health Plan that is available to other active employees. Such pilots will be permitted to continue to participate in the same Plan that he is in during his retirement year.
2.
 - a. A one-time seniority bid, which will open on January 5, 2009 and which will close on March 5, 2009, will to be held to allow a pilot who is in active service at the time of the bid and who will reach age 60 on or before January 1, 2013 to elect to continue to participate in a Company medical plan. The award will be published by the close of business on March 6, 2009.
 - b. If, during the bid process, fewer than 15 pilots elect this option, then the total number of pilots bidding the option will be the only pilots eligible to continue participating. There will be no subsequent bid or substitutions.

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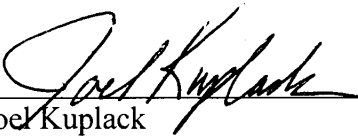
By bidding for this option, the pilot is permanently foregoing his right to elect the Lump Sum.

- c. A pilot awarded this option will be permitted to continue to participate in the Company medical plan in which he is participating in his retirement year and will pay 25% of the premium cost of the health plan and the Company will pay the other 75% of the cost for a term of 3.5 years. A pilot who bids and is awarded this option will retain eligibility to remain in the Medical Plan in accordance with the terms of this Letter of Agreement if he retires between the ages of 60 and 61.5.
- d. A management pilot who meets the eligibility requirements of this Agreement will be allowed to bid to continue health plan participation. If a management pilot bids for and is senior enough to be awarded one of the 15 openings, that management pilot will be awarded a phantom opening in the health plan. A management pilot awarded a phantom opening will be allowed to exercise his right to continue plan participation in accordance with the terms of this Agreement provided that the management pilot returns to the line in accordance with Section 10 prior to his retirement date. Any phantom opening awarded and/or exercised will not reduce the total 15 openings that were awarded to non-management pilots.

This Letter of Agreement shall become effective on the date of execution and shall remain in full force and effect concurrent with the CBA.


IN WITNESS WHEREOF, the parties have signed this Letter of Agreement on this 18th day of December, 2008.

For AIR WISCONSIN AIRLINES
CORPORATION

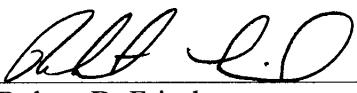


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For AIR LINE PILOTS ASSOCIATION,
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