September 1, 2010

TO: Comair Team
FROM: President John Bendoraitis
RE: Ongoing Transformation of Comair

In our business, the only thing we can count on for sure is change; this year has been no exception. Through the first eight months of the year, we have seen significant change across the airline industry, with consolidation occurring at the mainline and regional level, including the sale of Compass and Mesaba to Trans States and Pinnacle, respectively, the purchase of ExpressJet by SkyWest and the bankruptcy filing of Mesa.

Comair has not been involved in these transactions, leading some of you to ask about our future. Absent any action on our part to change our current direction, our future will remain in question. We have been in that undesirable position too long, and it's time to dramatically change course.

Our need to change is significant, and the scope of change will be difficult but necessary. Our current cost structure – which remains approximately 20 percent higher than our peers on a cost-per-block-hour basis – does not enable us to be competitive in the current industry environment. To secure our future, we need to demonstrate our ability to operate as a standalone entity. We must be able to earn a profit while reducing our operating costs to what the market is willing to pay for our services.

In the coming months, we will focus on addressing our main challenges – our aging fleet, high overhead costs and uncompetitive crew costs – by transforming Comair in three key areas:

- Retaining our important CRJ-700 and CRJ-900 fleets while accelerating the reduction of our aging, less efficient 50-seat fleet, in keeping with Delta's plans for its regional operations. Reductions will be timed to avoid upcoming costly maintenance events and engine overhauls on aircraft leaving the fleet, resulting in a savings of approximately $110 million over the next four years;
- Aligning staffing levels – including our leadership structure – with what is needed to support a smaller operation; and
- Working with our unions to secure long-term competitive agreements.

Fleet Reductions

For some time, Delta leaders have been open about their desire to reduce the Delta network's use of the Delta Connection 50-seat fleet, made up of older, less-efficient aircraft. Comair's 50-seat fleet reductions will be staggered over 2011 and 2012, as determined by a combination of lease return deadlines and upcoming Maintenance schedules.

As we know from experience, the number of aircraft in our fleet fluctuates based on market demand, scheduling decisions made by our mainline partner and other factors. While these factors make it difficult to predict exact numbers, here is what we know at this time: By the end of this year, as planned, we will have 65 50-seat aircraft in our fleet. Starting in January of next year, we will reduce our 50-seat fleet by 49 aircraft to a total of 16 airplanes: We will retire 19 by the end of 2011 and 30 in 2012. We will retain our CRJ-700s (15) and 900s (13), and by the end of 2012, expect to operate a fleet of 44 aircraft.

Staffing Adjustments

With such a significant change in fleet size, we must also re-align our staffing over the next two years to support the new, smaller size of the airline. All departments and areas will be impacted, with the number of reductions varying by department. By the end of 2012, staffing will be commensurate with what is needed to run a 44-aircraft operation.

Timing will vary by department. In operational areas (for crew and Maintenance team members, for example) and in some support areas, the timing and number of reductions will be closely tied to the reduction of the fleet. Based on what we know today, we expect the first round of crew furloughs to occur in the second quarter of 2011. At the same time, we will continue to evaluate our crew and Maintenance bases and anticipate the need to make changes to ensure we are best aligned to support the operation. Comair leaders are committed to providing team members timely information to make informed decisions regarding their careers, and as decisions are made, we will communicate that information.

In other administrative areas, we expect staffing reductions to occur over the next four to 16 months. Notifications in some departments will begin as soon as this month with some employees leaving the organization by the end of the year. Other positions will be retained over a longer period of time. Department leaders continue to work through the staffing specifics in their areas and will be meeting face-to-face with employees wherever possible to share details.

We have continued to downsize our officer and director ranks over the past two years. As with all staffing, we will continue to adjust these groups to ensure we have the right people in the best positions to lead the company given our current direction. Some of these changes have already been communicated, and we will share additional information as decisions are made.

Comair is committed to easing the transition for employees leaving the company. Employees who are furloughed will follow the terms of their collective bargaining agreements, which include provisions that provide for these situations. In addition, Comair leaders will be meeting with union leaders in the coming days to explore their interest in offering voluntary exit packages for contract employees, and we will communicate additional details as decisions are made. For merit employees, we will offer severance packages that include financial and career assistance. We will offer voluntary exit packages for scale employees.

Competitive Union Agreements

In the coming weeks, we will also begin negotiations with all three of our unions: the Air Line Pilots Association (ALPA), International Association of Machinists (IAM) and International Brotherhood of Teamsters (IBT). Securing new, competitive agreements with these groups is critical to our success, and I look forward to sitting down with our union leaders to reach common ground.

Beyond the significant changes outlined above, we will continue exploring every opportunity to decrease costs, including options for moving out of our headquarters building, which was designed for a much larger workforce than what we have today. We will remain headquartered in Northern Kentucky but will be evaluating more appropriately sized office facilities near the airport.

The result of these changes is that, over the next two years, Comair will become a much more cost-competitive and smaller company, both in terms of our fleet and the staff necessary to support that fleet. The changes we are undertaking are based on economics and are not a reflection on the people of Comair and the good work we have done and continue to do. Instead, the need to reduce our aging 50-seat aircraft is more indicative of what is happening in the regional industry as a whole, with a move toward newer, larger-gauge aircraft. And while it may seem premature to talk about changes that will occur in 2011 and 2012, you have proven that you are a tremendous group of professionals capable of handling the challenges ahead of us, and you deserve information that may potentially impact your career.

Many current employees have seen reductions in previous years, and while these are not pleasant or easy decisions to make, they are necessary to keep us viable. The Comair team has consistently demonstrated our ability to run a safe airline and deliver a great product while providing excellent customer service and operational reliability. Even with these latest developments, we must remain focused on these key areas.

The other Comair leaders and I will host our next series of town hall meetings the week of September 13, and I look forward to meeting with many of you face-to-face and talking about the upcoming changes and the important work ahead of us.