EXECUTIVE SUMMARY

A major retooling of mainline partners’ Capacity Purchase Agreements (CPAs) is taking place. The following is an analysis that was done last summer by the Joint Negotiating Committee (JNC). This analysis contained some confidential information, which has since been made public, hence the reason it is only now being provided to the pilot group. Data is current through October 2013.

Since the Delta Air Lines and Northwest pilots completed their Joint Collective Bargaining Agreement (JCBA), mainline pilots have spent significant capital capturing reductions in the number of regional jets. With the completion of the current Delta Pilot Working Agreement (PWA), this new paradigm drives future CPAs to reduce the overall number of regional aircraft in exchange for increases in the quantity of Large Regional Jets (LRJ), e.g. EMB 170/175, MRJ-70, CRJ 700/900, C100.

The terms typical of these agreements follow the Delta PWA model, designed to prevent a repeat of the perceived decade long runaway expansion of regional flying at the expense of mainline flying. These Scope terms include: (1) hard caps placed on the number of regional jets, (2) regional fleet growth scaled to a predefined metric versus the major fleet, (3) purchase of new LRJs are dependent on acquisition of small narrow body mainline aircraft typically in the 120- to 150-seat range (EMB-190/195, C300, B717), and (4) additional restrictions on stage lengths, ASMs, block hours, or aircraft Maximum Allowable Takeoff Weights (MATOW).
The terms of the applicable CPA agreements are approximately 10 years, meaning that most current agreements will transition, become amendable, or expire by 2024. However, the seminal period for these new agreements, driven by the retooling of the industry, is occurring now; we should expect these will gradually mature in the next 24 months. Already, we have observed new CPAs signed for 76-seat regional jet flying with United Airlines, Delta, and American. This means that an opportunity for these LRJ CPAs still exist; however, we believe that in no more than 24 months from now, the lion’s share of these agreements will have been consummated, leaving only a few small “clean up” agreements, if any, for bid. Even in such cases, it is likely that those small agreements will be distributed to existing operators as addendums to their contracts. Stated differently, now is the time for ExpressJet to start winning such CPAs if we are to participate in the re-fleeting of the Fee for Departure (FFD) industry.

UNITED AIRLINES

The number of 51-76-seat aircraft still available for placement in the United Express operation is affected by several factors. In the worst-case scenario, it is assumed that the number of 70-seat regional jets (i.e. currently CRJ-700s and EMB-170s) is static and the size of the 76-seat fleet will remain capped at 153 aircraft. Under this static scenario, with the recent announcement of CPAs with Mesa for 30 EMB-175s and SkyWest Airlines with 40 EMB-175s, there are no additional 76-seat aircraft permitted at United Express carriers. This scenario is depicted in Figure 1 below:
However, in a dynamic scenario that exercises the full rights of the Company under the United CBA: (1) the number of 76-seat aircraft may increase to a maximum of 223 76-seat regional jets, (2) the number of 70-seat regional jets are capped at 102 and the number of 50-seat jets are reduced, and (3) any increase over the current cap of 153 aircraft will only occur after United places new narrow body aircraft on the mainline property. The placement of these aircraft into the United fleet will trigger an increase of an additional 70-seat and/or 76-seat aircraft into the United system. Several caveats exist if United management chooses to exercise this option. These additional restrictions require a change in block hour ratio of United Express flying block hours to mainline narrow body scheduled flying block hours; limit the total number of 70-seat aircraft to 102 hulls (a number that is now exceeded by the current fleet); and permit an increase of combined 70- and 76-seat aircraft to a maximum of 325, provided that the quantity of 70-seat aircraft is limited to 102, once the combined total of 255 70- and 76-seat aircraft has been reached. With this information, there is potentially 121 additional 76-seat aircraft that are available for CPAs with United. One could expect United to order new narrow body aircraft in the 2014-2015 timeframe, which should trigger the purchase of additional 76-seat regional jets. We believe that this scenario is the most...
likely outcome for future LRJ flying.

Although, we consider this scenario as the “best case scenario” for future flying for the pilots of ExpressJet Airlines, Inc. (the Company), it is less favorable for the Company and mainline partners in comparison to a completely unrestricted scope section. We can only expect that United management negotiated this language toward a regional jet/mainline jet fleet mix that was already in a target range similar to their pre-JCBA plans. In other words, we expect United to take full advantage of the United CBA Section 1-Scope language regarding express-type carriers. For that reason, using the previous charts, it is clear that the Association should focus on a 24-30 month transition period (see Figure 2) spanning approximately July 2013 through January 2016. This is critical to capturing large regional jet CBAs under the United agreement. Within this transition period, the seminal timeframe from July 2013 through December 2015 will be the driver for the next 10 years of United’s FFD business opportunities.
### Table 1: UAL Fleet Plan through 2013

<table>
<thead>
<tr>
<th>Aircraft</th>
<th>YE 2012</th>
<th>1Q Δ</th>
<th>2Q Δ</th>
<th>3Q Δ</th>
<th>4Q Δ</th>
<th>YE2013</th>
<th>FY Δ</th>
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<tr>
<td>Q400</td>
<td>16</td>
<td>5</td>
<td>5</td>
<td>1</td>
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<td>28</td>
<td>12</td>
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<td>-</td>
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<td>-</td>
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<tr>
<td>Q200</td>
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<td>-</td>
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<td>-</td>
<td>16</td>
<td>-</td>
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<tr>
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<td>ERJ-135</td>
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<td>-</td>
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<td>2</td>
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<tr>
<td>CRJ200 CRJ700</td>
<td>75 115</td>
<td>--</td>
<td>1</td>
<td>(1)</td>
<td>--</td>
<td>75 115</td>
<td>--</td>
</tr>
<tr>
<td>EMB 120</td>
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<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>9</td>
<td>-</td>
</tr>
<tr>
<td>EMB 170</td>
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<td>-</td>
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<td>-</td>
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<td>38</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total Regional Aircraft</strong></td>
<td><strong>551</strong></td>
<td><strong>7</strong></td>
<td><strong>11</strong></td>
<td><strong>2</strong></td>
<td><strong>5</strong></td>
<td><strong>572</strong></td>
<td><strong>21</strong></td>
</tr>
</tbody>
</table>

Source: UAL 2nd Quarter Fleet Plan, July 2013

### Figure 2. The transition period will see the most active changes to 50-76-seat aircraft CBAs.

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1 Source: UAL 2nd Quarter Fleet Plan, July 2013
DELTA AIR LINES

Delta Air Lines set the standard for the current regional jet scope agreements. In fact, the United scope agreement closely mimics that created previously as part of the Delta PWA. Therefore, similar features already discussed in the United agreement can be found in the Delta agreement. These include:

1) A hard limit on the number of 76-seat aircraft at 223 hulls.
2) A hard limit on 70-seat regional aircraft at 102 hulls.
3) Inclusion of certain turboprops into regional aircraft limits.
4) Terms permitting additional 76-seat aircraft if new narrow body aircraft are added to the mainline fleet.
5) Reduction and drawdown of 50-seat regional aircraft.

The Delta agreement also has some features not present in the UAL scope provisions. These include:

1) Limits on the MATOW of aircraft categorized as “regional jets”
2) New small narrow body aircraft are defined as A-319 and B 717s.
3) An exception is made for aircraft currently operated by Chautauqua.

The Delta acquisition of 76-seat aircraft above the 153 initial hulls is based on eight tranches of 10 aircraft each. A pre-cursor to commencement of this process is the operation of new narrow body aircraft, i.e. the B717. Delta Air Lines has met or is meeting all of its requirements to maximize their 76-seat regional jet fleet. Therefore, one should expect that the planned drawdown of Delta Air Line’s aircraft will take place as provided in Chart 1:

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2 When the Delta PWA was crafted, the C300 was in its initial stages of design, which is a reasonable explanation of why no mention is made of it as a “small narrow body.”
The drawdown of Delta flying is specifically focused on the 50-seat regional jet, as Delta Connection carriers will be required to operate no more than 125 50-seat aircraft upon completion of the re-fleeting. ExpressJet, SkyWest, and Endeavor are most at risk for this drawdown. Endeavor’s bankruptcy restructuring (including Delta’s ownership stake) suggests that it will continue operating these aircraft at a lower block hour cost and for a longer period than either SkyWest, Inc. carriers. The complete breakdown of Delta Connection carriers is provided below in Table 2.

Based on the data provided, there is a clear opportunity for approximately 70 additional 76-seat aircraft at Delta. Delta has firm orders for 40 aircraft, and options for 30 additional 76-seat aircraft. Activation of these options would consume their available limits on 76-seat flying. These aircraft will replace a corresponding reduction of 50-seat aircraft many of which could come from SkyWest, Inc. carriers (as is evidenced in ExpressJet’s static fleet chart, below).

Operating Partners | Fleet | Detailed Fleet | Expiration Date
--- | --- | --- | ---
Chautauqua Airlines | 31 | 31 CRJ145s | 2016
Compass | 42 | 6 EMB170s, 36 EMB175s | 2020
ExpressJet | 152 | 93 CRJ200s, 41 CRJ700s, 18 CRJ900s | 2020
GoJet | 22 | 22 CRJ700s | Term not disclosed

Chart 1: Changes to DELTA regional flying
Table 2: CURRENT DELTA CONNECTION FLEET OF REGIONAL JETS. Table produced by E&FA

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<th>AMERICAN AIRLINES</th>
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American Airline’s regional fleet plan is unlike the Delta and United example, in that the American fleet plan is based almost entirely on a predetermined ratio of the number of aircraft in the mainline narrow-body fleet. Unlike Delta and United, no hard caps exist on future American Eagle flying, rather a ratio of the number of regional aircraft of greater than 30 seats must be met on a specific schedule. Also, the number of 76-seat aircraft is compared to the number of mainline aircraft with this ratio becoming more favorable toward 76-seat regional jets over time. Chart 2 below depicts the ratio of the 76-seat regional jets based on American’s projected fleet plan changes. These changes and numbers may be impacted by the ultimate outcome of the American/US Airways merger (i.e. new American Airlines).

Under the new American Airlines agreement between the Allied Pilots Association, USAPA, and US Airways, the scope section remains essentially the same as the imposed contract brought about by bankruptcy. The differences being the imposed contact permitted regional jets up to 88 seats, and 114,500 lbs MATOW. Unfortunately, projections of fleet plans for US Airways are poorly defined. Therefore, it is not possible to get accurate data on the US Airways fleet plans to determine a maximum size of the regional jet fleet going forward. What is clear is that a successful merger will produce additional opportunities for 76-seat flying with the new American.
Based on the available data for American Airlines, an additional 255 76-seat aircraft will be needed. In April 2013, American announced they had awarded Republic Airways a 12-year contract for 53 EMB-175s, leaving American with 202 aircraft left to be placed. This does not include aircraft for a merged US Airways fleet. As previously stated, the data for US Airways is extremely limited, but based on available data, an additional 35 aircraft above the number estimated by the relaxed American scope agreement will be available for bid.

**Other Regional Flying**

On September 23, 2013, Air Canada announced that it was seeking a U.S. or Canadian regional to begin trans-border services between the U.S. and Canada. This is an opportunity for Air Canada to capture additional revenues through a sixth freedom rights arrangement. One can anticipate that the unusual act of opening this opportunity to a non-Canadian regional carrier insulates the company from American regulatory, industry, or labor objections. Air Canada’s pilot scope agreement permits a maximum of 60 76-seat Medium Jet Aircraft (MJA-defined as a jet aircraft of 55 to 90 seats). Jazz currently operates 18 CRJ-700s in service for Air Canada.
From February to June 2013, SkyRegional will be operating 15 76-seat EMB-175s being transferred from Air Canada’s mainline operation. This leaves an additional 27 aircraft available for a future 76-seat CPA with Air Canada.

The Air Canada example may provide some interest for other foreign carriers to exploit opportunities that are made available by partnering with a U.S. regional operator.

In any event, unexpected opportunities are bound to avail themselves. Pilot leadership should remain vigilant for these especially as U.S. domestic regional operations contract.

Conclusion

It appears that ample opportunities exist for ExpressJet to win additional flying contracts. For the foreseeable future, the premium contracts for flying will be in 76-seat regional jets. Without any new flying, and the certain drawdown of the 50-seat fleet, ExpressJet will have no semblance of its current structure by year end 2020. A graphical representation of the ExpressJet fleet plan is depicted in Chart 3 below.

![Chart 3: Current Static Fleet Plan for ExpressJet Airlines](chart3.png)
Reduction of the CRJ-200 fleet is already taking place. The contractual requirements of the Delta PWA Scope provisions may drive a more aggressive drawdown of this fleet in 2013-2014. Utilizing the United, Delta, American (or new American) contract scope provisions as the driving force for the future structure, we estimate that contracts for as many as 455 premium 76-seat regional jets are still available. With the usual shuffling of aircraft that occur over these CPA periods, there will likely be some additional opportunities in the 37-70-seat range, but nothing of the magnitude we see today. Typical with the FFD environment, additional unanticipated opportunities may present themselves. However, the successful regional carriers will be those able to capture that 76-seat flying.

Timing is the single most critical factor for this process. Although, we identified as many as an additional 455 available 76-seat aircraft hulls, the seminal period for the capture of this flying is over the next 24 months. Once that period has passed, CPAs will be amended and reset for the next 8 to 12 years. Furthermore, the availability of CPAs will decline rapidly starting from late-2013 onward, such that regionals will find only a few opportunities remain if they don’t capture significant 76-seat flying contracts during the seminal period ending around the fourth quarter 2015.

If you have any questions, please contact the JNC at JNC@alpa.org.