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November 7, 2005

Confidential Settlement Communication

VIA FEDERAL EXPRESS

David Collins, President
Kathleen O. Argiroupoulos, General Counsel
The Airline Reporting Corporation
4100 North Fairfax Drive
Suite 600
Arlington, VA 22203-1629

Re: Complaint of 1st-Air.Net, Inc. Regarding Anticompetitive Conduct of the
Airline Reporting Corporation

Dear Mr. Collins and Ms. Argiroupoulos:

My firm is counsel to 1st-Air.Net, Inc. ("1st-Air"), a Rochester, New York-based broker of international business and first class air travel. Since my last correspondence with Ms. Argiroupoulos, 1st-Air has obtained a vast amount of documentary proof of the campaign by the Airline Reporting Corporation ("ARC"), to damage the business reputation of 1st-Air, to interfere with 1st-Air's business relationships, and to promote an antitrust conspiracy to drive 1st-Air out of the market.

Below I provide details (based mainly on ARC's own documents), to demonstrate your company's improper conduct. Unless you agree to cease this improper conduct and to compensate 1st-Air for the injuries you have caused, 1st-Air reserves the right to file a civil suit against ARC.

As a matter of background, 1st-Air's primary business is providing discounted First Class and Business Class tickets to U.S. airline passengers traveling internationally. (See <http://www.1st-Air.Net>) 1st-Air is not a travel agency. Nor does it issue airline tickets. Instead, it purchases tickets from global travel agency distribution partners based on the partners' contracts with airline carriers. In addition to its agreements with travel agencies, some of which agreements have been in place for several years, 1st-Air has also over the years entered direct contractual arrangements with several foreign carriers.

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ARC's campaign against 1st-Air began at least as early as 2000. At that time, ARC first sought – unsuccessfully – to shut 1st-Air down. You also provoked an investigation of 1st-Air that has gone nowhere. Over the past few months ARC has revived its effort to destroy 1st-Air. Your goal is evidently to eliminate 1st-Air as a source of competitively-priced premium airline tickets. We also have reason to believe that you have sought to involve other airlines and other travel agents in your scheme.

ARC's anticompetitive activities have taken many forms. You have threatened to cancel relationships with several of 1st-Air's travel agency partners unless the agencies cancel their contracts with 1st-Air. You have spread false and defamatory information about 1st-Air. You have used false accusations to instigate unfounded investigations of 1st-Air. You have, we believe, caused the cancellation of 1st-Air's contracts with several foreign carriers. You have colluded with one of 1st-Air's former travel agency partners to help that former partner in an arbitration with 1st-Air. You have, we believe, sought the assistance of other domestic airlines (including United Airlines) with your efforts.

The following are some examples of the misconduct of ARC that have been reported to our client:

- On April 14, 2004, an ARC senior field representative named Peter Woods met with the owner of Livingston Travel, a New York travel agency with which a subsidiary of 1st-Air had a contract. During that meeting, Mr. Woods, along with Deborah Erickson of ARC, who participated in the meeting by phone, made many false and defamatory statements about 1st-Air and its principals. As a result of those statements, the ARC representatives induced Livingston Travel to abandon its ARC certification, thereby effectively voiding and terminating 1st-Air's contractual arrangements not only with Livingston Travel but with over ten international carriers.
- Travel Planners, an agency in Altamonte, Florida, terminated its relationship with 1st-Air in April 2004. Travel Planners told our client that the termination was the result of the activities of Kenneth Gilbert, an ARC employee.
- At the same time, ARC representatives sent several documents to Singapore Airlines, alleging – falsely – that the documents proved 1st-Air had engaged in fraudulent ticketing practices. Singapore Airlines, with which 1st-Air had had a mutually profitable two and one-half year relationship, immediately, and without explanation, stopped doing business with 1st-Air.
- On or about May 15, 2004, Arriva Travel, an agency in White Plains, New York, terminated its agreement with 1st-Air. 1st-Air has evidence that ARC improperly procured that termination.

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In addition to ARC's efforts to injure 1st-Air, ARC has also aided United Airlines ("United") in its similar efforts. For example, on or about July 1, 2004, a United representative came to the offices of Incentive Travel, a Phoenix agency with which 1st-Air had a contract. The United representative directed Incentive Travel to cease doing business with 1st-Air. Instructions were also given to cancel all tickets purchased by 1st-Air, causes many passengers to get stranded mid-trip. After Incentive Travel canceled its contract, 1st-Air brought an arbitration against Incentive for breach of contract. Documents produced by United and ARC in that arbitration show that United worked with ARC – and perhaps with other carriers – to damage 1st-Air. They also show that ARC colluded with Incentive to create evidence, in the form of debit memos, designed to help Incentive defeat 1st-Air. Of course, United is an owner of ARC.

I have enclosed (as Exhibit A) examples three emails produced by United. In the first, on July 8 of last year, United employee, Jim Carras, wrote to Jeff Gundlach, also of United, explaining how United planned to cooperate with Incentive Travel and ARC in a plot to "put [1st-Air.Net] away for good":

"Because there is potential litigation, I have also informed Matt Wexley in legal. Additionally, I have explained to Robert, that United will have to 'play by the rules' going forward. I further explained that I would put debit memos together for the 4 tickets that we discussed on the phone. This can be used by Incentive should they actually be sued by First Air. I will let you know the amounts and details prior to setting anything up, so we can be in agreement before they are released.

Robert is speaking with ARC's fraud group today (actually with Ken Gilbert and Jim Manning). This may be the break that ARC was looking for to put First Air away for good. They have been after First Air for many years." (UN1000106 – 107.)

The following day, Carras expanded on what he had said and evinced eagerness to involve not just Incentive and ARC but other airlines in the conspiracy:

"Thank you for the synopsis of key events regarding First Air. Both Scott and I had pieces of the puzzle, but didn't have the full picture. Are there any other airlines that you think might/should also be involved? I can try and contact them and try and set up something, similar to what you set up last year regarding Carter's. Let me know of any other carriers and we can start the ball rolling." (UN1000125.)

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The third email was sent to Ken Gilbert of ARC, with a copy to Carras of United, on July 12, 2004. It shows the three companies attempting to work together to get 1st-Air while worrying about the legality of their tactics:

"Jim Carras of United just called and said you told him that we are hesitant to supply you with certain information. This puts a bad light on us and so I am reducing to writing what transpired.

You called Robert and asked him to supply several unusual passenger names and their credit card numbers so that you could possibly trace and see if these people are being booked by 1st-Air with another ticketing outlet. . . .

Would you not be hesitant to enter into the gray area of illegality by supplying credit card numbers without some official protection? I think it unfortunate that you would make this issue sound like lack of cooperation and I and Robert will be very careful in the future when working with you.

I am very disappointed in how this was misinterpreted as I thought we were all working toward the same goal." (ARC0040.)

There are many other documents (attached as Exhibit B) showing ARC's campaign against 1st-Air, including:

- A report by Peter Woods demonstrating the pressure ARC was putting on Livingston Travel to repudiate its agreement with 1st-Air (ARC0005-8).
- A report about setting up a meeting with Livingston Travel on its relationship with 1st-Air (ARC0009-10).
- Documents from Ken Gilbert indicating that he represented himself as a government agent at a Lufthansa ticket counter to interfere with the travel of a 1st-Air customer. (ARC 0018 et al.) As you know, it is crime to falsely represent oneself as a law enforcement officer.
- Email from Ken Gilbert to Incentive seeking information on 1st-Air's customers (ARC 0040).
- Emails showing that ARC interfered with 1st-Air's agreement with Arriva Travel (ARC0047-48).

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- Email showing Ken Gilbert seeking information on 1st-Air's president (ARC0079).
- Documents showing ARC's efforts to trace the travel of 1st-Air's president (ARC 0101).
- Email from Ken Gilbert to United discussing starting the "hunt" for 1st-Air's president (UN1000078).
- Ken Gilbert's email to United about issuing debit memos to put pressure on 1st-Air and efforts to start a criminal investigation (UN1000126).
- Email to Ken Gilbert about arranging the issuance of debit memos relating to Travel Planners and Incentive (UN1000129).

1st-Air possess additional documents demonstrating your improper conduct. 1st-Air also has deposition testimony from Mr. Gilbert confirming many of these activities.

As this record shows, ARC has been on a campaign to drive 1st-Air out of the market. This conduct constitutes antitrust violations, defamation, and tortious interference with contract, to name just a few of the potential causes of action. Unless ARC agrees to cease this conduct and makes an offer to compensate 1st-Air for the damages ARC has caused to 1st-Air and its shareholders (which currently approach \$3,000,000), 1st-Air reserves the right to file a lawsuit to seek its remedies. 1st-Air expects your response to this letter with 10 days of the date written above.

Very truly yours,

Andrew P. Zappia

APZ:pjl
Enclosures

Carras, Jim

From: Carras, Jim /whqmv
Sent: Thursday, July 08, 2004 8:23 AM
To: Gundlach, Jeff /phxss
Subject: RE:

We should be ok. I agree with your email to Ronalyn. Because there is potential litigation, I have also informed Matt Wexley in legal. Additionally, I have explained to Robert, that United will have to "play by the rules" going forward. I further explained that I would put debit memos together for the 4 tickets that we discussed on the phone. This can be used by Incentive should they actually be sued by First Air. I will let you know amounts and details prior to setting anything up, so we can be in agreement before they are released.

Robert is speaking with ARC's fraud group today (actually with Ken Gilbert and Jim Manning). This may be the break that ARC was looking for to put First Air away for good. They have been after First Air for many years.

Jim

-----Original Message-----
From: Gundlach, Jeff /phxss
Sent: Wednesday, July 07, 2004 7:30 PM
To: Carras, Jim /whqmv
Cc: Garvey, Ronalyn /whqsn
Subject: RE: FIRST AIR ISSUE / Incentive Connection
Importance: High

Jim:

Jack from a day on the road and now some interesting reading! I also see Harvey Siamon's very detailed e-mail as well. So... with law suits now threatened between First Air (sub-agent) my account we should definitely talk. My cell phone #480-452-4052. I will be out and about again tomorrow on sales calls. I have also copied in my boss, purely as an F.Y.I. in case this one comes around the corner and broad sides us!

Best Regards,

Jeffrey R. Gundlach
Account Executive -Arizona Sales
Ph: 800-825-0940 ext. 2567
Fax: 480-636-8607

-----Original Message-----
From: Carras, Jim /whqmv
Sent: Wednesday, July 07, 2004 11:02 AM
To: jeff.gundlach@ual.com;
Subject: RE: FIRST AIR ISSUE

Robert:

I am contacting United's legal department for advice. As we discussed on the phone this morning, the "cleanest" approach may be for United to issue debit memos for the violations that occurred which Incentive can

then use as a basis to counter sue. Before anything is generated however, both Jeff and I will be contacting you for the best approach.

Thanks for your cooperation in this investigation.

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Carras, Jim

From: Carras, Jim /whqmv
Sent: Friday, July 09, 2004 4:59 PM
To: 'KGilbart@arccorp.com'
Cc: McIntosh, Scott /whqmv
Subject: First Air

Ken:

Thank you for the synopsis of key events regarding First Air. Both Scott and I had pieces of the puzzle, but didn't have the full picture. Are there any other airlines that you think might/should also be involved? I can try and contact them and try and set up something, similar to what you set up last year regarding the Carter's. Let me know of any other carriers and we can start that ball rolling. Moving forward we need to be cognizant that not everyone has all the information, but just about everyone can contribute worthwhile information.

Regarding meetings -

Most of us have at least some travel restrictions. Last year the ATA fraud group held several conference calls which proved to be highly successful. With ATA's non-sponsorship and Denny's departure this has slipped over the past few months. The problem we run into is that the more airlines involved, the less likely we are able to talk about much. Our European counterparts meet regularly for "Euro-summits". The US based carriers - at least the so-called legacy carriers may want to take look into this. A good start may be to involve those airlines that have investigated some of this years bigger cases. United will be meeting with its STAR Alliance partners sometime this year - just waiting for things to settle down with Jen's retirement.

Let me know what you think.

Jim