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New Jets Inspire New Business Plans

If regulatory and production schedules hold true, 2006 will represent a potential sea change in the business aviation sector as the long-promised very light jets (VLJ) take to the sky.

In a niche long dominated by charter operators, and more recently fractional ownership companies, the introduction of the first very light jets, or micro jets, will spur new developments in the air taxi industry. New firms are waiting off stage for the arrival of these new planes before introducing new business and marketing plans designed to lure the business community away from the scheduled carriers or their cars.

However, these new planes will not leave established players by the wayside. Charter operators, fractional ownership companies and fixed base operators are all expecting 2006 to be a good year.

The first very light jet expected to be certified is the Eclipse 500, (See *Business Aviation*, page 6)

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Another Year Of Musical Chairs Expected For Regional Carriers

If last year could be dubbed the 'Year of New Alliances' for regional airlines, this year could be hailed as 'New Alliances: The Sequel.'

In the closing days of 2005, Continental Airlines [CAL] gave notice that it is now seeking a second code-share partner to fly up to 69 50-seat regional jets. Continental is pulling 69 planes from ExpressJet [XJT] in order to find a cheaper operator.

As Continental seeks a new partner, Northwest Airlines [NWACQ] is also soliciting potential new partners to fly both 50-seat and 75-seat regional jets.

And then there is Independence Air; the operating unit of bankrupt

FlyI [FLYIQ] that is on the auction block with its future very much in doubt. A court-supervised auction is to take place this week.

Last year, Air Wisconsin and Mesa Air Group [MESA] changed partners as the network carriers tried to sort out financial difficulties.

ExpressJet

Unable to come to terms on a long-term capacity purchase agreement with ExpressJet, Continental last week decided the rates offered by ExpressJet were not low enough for Continental to be competitive with other network carriers, or to protect its 42,000 employees. (See *Regionals*, page 4)

FAA Starts New Unit To Assist Part 135, Part 142 Operators

The Federal Aviation Administration (FAA) now has a team at its Washington headquarters devoted to handling issues and problems from Part 135 operators.

Formed last month, it is a four-man operation within the flight standards unit, dubbed ASS 250. It is responsible for both Part 135 and Part 142 operations, said spokesman Hank Price. The division includes a manager and three staffers.

The office will handle on-demand charter operations, some smaller scheduled passenger carriers, sight-seeing flights, cargo operators and mail handlers. It will also handle air ambulances under Part 142.

Part 135 operators have long needed to have a centralized contact point in the FAA's Washington headquarters, said Stan Bernstein, president of the Regional Air Cargo Carriers Association (RACCA). The trade group, composed primarily of Part 135 operators, first proposed this office more than two years ago, he noted.

"We are convinced that a 'one-stop shop' for operators and FAA personnel alike will be of great benefit to the agency and the industry it regulates," he said.

"We believe having a Part 135 branch at headquarters will go a long way towards standardizing operating and safety standards," Bernstein (See *FAA*, page 3)



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manufactured by Albuquerque, N.M.-based Eclipse Aviation. Because of a supplier certification problem, the delivery of the first plane is not expected until early next summer. Next up is the A700 from Adam Aircraft, out of Eaglewood, Colo. Both Eclipse and Adam are start-up companies pioneering the development of the very light jet.

Cessna's entry-level business jet in this new niche, the Mustang, is scheduled for certification and delivery late this year. Embraer [ERJ] has plans to enter the very light jet field with the Phenom 100 in 2008.

The Federal Aviation Administration (FAA) estimates that these very light jets will proliferate once they hit the market. Already, 2,500 VLJs have been ordered. By 2016, the FAA estimates there may be 4,500 very light jets owned by individuals and corporate operators. By comparison, the FAA predicts that the current fleet of 2,812 regional jets in 2004 will grow to 3,961 by 2016.

Optimistic Estimates?

Two industry observers, however, believe the government's and manufacturers' estimates are overly optimistic.

"We think they will do pretty well. We don't expect 5,000," said Bill Dane, an analyst with Forecast International. "I don't see them undercutting any existing manufacturer. We think someone is looking at the sector through rose-colored glasses."

It would be a bull market that could build more than 300 a year, said Richard Aboulafia, an analyst at the Teal Group. "People are talking 1,000 per year - that is lunacy."

Three relatively new air taxi firms plan to deploy the Eclipse 500 and the A700 as they roll off the assembly line.

Linear Air, based outside of Boston, currently has a charter operation using Cessna Grand Caravans. While the company does traditional charter by the hour operations, it also has pioneered a "sell a seat" business model similar to that of the scheduled carriers, said CEO Bill Herp. Linear has seasonal routes to Martha's Vineyard and Nantucket from regional airports outside of Boston and New York. It also flies between the two major markets as well as to some New England ski resorts.

"The strategy is to build the business around the Caravan, which has similar economics as the Eclipse on similar trip lengths," Herp tells *Regional Aviation News*.

Linear has ordered 15 Eclipse 500s and has options for another 15. It anticipates that it will get its first planes late this fall. It is scheduled to get the first plane after the aircraft has been in production for six months, Herp said.

When the Eclipse arrives, Linear will not use the jet for its per-seat business. Instead, it will be used in a traditional charter by the hour program. Linear hopes that its per-seat business will initially draw new customers from the regional airlines. These repeat customers will then want to charter the Eclipse for direct flights, he hopes.

"The economics of chartering will change dramatically, as clients get business jet performance at turboprop economics," he said.

Herp has plans to grow Linear outside of the New England marketplace. A Caravan will be used to establish a beachhead in a new market with established routes, then the Eclipse will be brought in to provide direct charters in that market.

The privately held Linear Air aims to be profitable in 2007 as its fleet approaches 50 airplanes. The company is near to closing on another round of equity from private investors, Herp added.

On a grander scale, DayJet, based

in Delray Beach, Fla., has 310 Eclipse 500s on order with the first five anticipated in July. It is pioneering a business model closely tied to sophisticated computer modeling and demographic studies. Although DayJet is now leasing two business jets in traditional charter arrangements, the company already has 57 employees working on its future schedule and flight operations, said CEO Ed Iacobucci.

It has taken to coining a number of in-house terms such as Dayports and Daystops.

The Eclipse will be the focal point of the "per seat on demand" business model. The planes will provide on-demand service to about 40 cities in a particular region. The planes will fly between the cities in a region, the Dayports, on a point-to-point basis, but these will not be established city pairs. The route plan is akin to a net with all points being equal.

DayJet will price its tickets based on the flexibility a client gives the operator to schedule the flight from point A to point B. The tighter the window, the greater the ticket price will be, he noted.

A customer will know within 5 seconds after making an inquiry if the flight schedule can accommodate the request, he said. It is the company's goal to match 85 percent of all inquiries, Iacobucci added.

Each leg of a reservation will be treated as a one-way flight in the scheduling. Once a reservation is made, DayJet will then try to sell the remaining seats on the plane to its established clientele. However, it promises to fly at the designated time even if the remaining seats are empty, he explained. Describing the entire business plan as a "science project," Iacobucci said the company's computers are now running simulations on a fleet of 600 airplanes to develop procedures to assure dependable service.

DayJet intends to announce its first service region by February and its first

three or four service cities by April. By its second quarter of operation, DayJet will add an additional eight cities.

"Our gut feeling is that it will be [automobile] drivers who will be our prime customers. The bulk of them are not now flying at all," he said. DayJet projects that "mission urgent" employees will be able to make same-day trips on its flights rather than being forced to stay over night because of long drives or inconvenient schedules on commercial carriers.

At the same time, however, he said the flight-planning tools that will be provided to its customers would permit one leg of a trip to be on a scheduled carrier if the connections make sense.

DayJet has already raised \$21 million in start-up funding and is in the process of obtaining another \$135 million in an offering promoted by financial services firm **Raymond James**. The company hopes to be profitable in 2007, "depending on how the pieces come together," Iacobucci tells *Regional Aviation News*.

A third air taxi firm, **Pogo Air**, is waiting for the introduction of the A700. Founded by **People Express** founder Donald Burr and former **American Airlines** [AMR] CEO Robert Crandall, Pogo will be more like a charter service.

As to the overall impact of the very light jets on business aviation and commercial aviation, the jury concludes the effects will be minimal.

If there are indeed 500 four-seat VLJs in the market in the next several years, Linear Air's Herp notes that at 2,000 seats a day it will take a while for a significant percentage of the regional market to be served by the VLJs.

The very light jets will not draw customers from current charters, predicted Nathan McKelvey, president of **CharterAuction.com**, based in Quincy, Mass. "The vast majority will not be happy to step down to an Eclipse. These planes are not replacements for a Learjet 60. It

is a very different product."

"It will be a rounding-off number," Daryl Jenkins, a visiting professor at **Embry-Riddle Aeronautical University**, said of the VLJ's impact. "It will be years before [the VLJ] is a serious plane."

The top 80 city-pairs account for 95 percent of all travel. "These guys will pick up passengers in 350 to 400 airports. This may hurt some regional carriers somewhere on their least traveled routes. But I don't see them breaking the system," Jenkins said.

However, they will be a "godsend" for a business flyer who has to visit a local plant, for example, he said.

While the planes may not enter the market in the numbers predicted by the FAA, Jenkins cautioned that air traffic controllers and the FAA will need to develop a new set of procedures to prevent congestion.

The air taxi operators noted that while the new jets will be certified for single-pilot operation, they intend to use two pilots due to insurance and financing requirements.

Charters

"The outlook is excellent" for charter operators, said Ron Smith, director of business development at Atlanta-based **FlightWorks**. The company manages about 35 planes owned by others that are available for charters.

"The business aviation market is on the rebound. We are seeing an increased demand fueled by a good economy and the continual demise of the commercial airline business and its security hassles," he says.

Fortune 100 companies are scrapping their own private fleets because of increased stockholder oversight and regulatory requirements. Instead, some of these major companies book so many hours with FlightWorks and similar high-end charter operators that an entire plane may be dedicated to one client, Smith said.

"It has been growing quite rapidly,"

added McKelvey. "I would not expect that to change in the next one to three years. You are seeing a market that has matured with a more educated client base. They want new aircraft."

The charter operators have benefited from the growth of fractional ownership companies, such as NetJets. Dubbed "fractional fallout," Smith said those with maturing investments in membership clubs sold by NetJets and others are turning to charter operators. Without paying a large sum upfront, he said these former fractional owners can get similar service from charter operators.

At the same time, the demand for planes by fractional owners has been a boon for the charter operators. Both Smith and McKelvey noted that NetJets does not have enough planes at certain peak travel times and it in turn leases its planes and crews to fulfill its scheduling demands.

As in 2005, fuel costs will be the challenge for the fixed-base operators, said Stephanie Jordan, the general manager of **Business Jet Centers** in Dallas and Oakland, Calif.

"We definitely see some of the fuel costs coming down in 2006. [But they] will not come down to the 2004 levels," she said.

Last fall, fuel prices got high enough that some of the 40 planes based at Jordan's Dallas facility reduced their flying. "There was a trigger point," she said, noting that some companies reduced their trips to the bare minimum and sent staff members on commercial airlines. ➔

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