

# LINEAR<sup>®</sup>air



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Thanks for taking the time to talk to us today, Bill. What is wrong with today's system? Can you paint us a picture of either driving or flying in today's system and what we can do to change it?

## **Linear Air**

Thanks, Curtis. I think that the rationale for this business is sort of two-fold. There's an opportunity that's presented by the failures of the existing public transportation system to, you know, adapt to the way in which business travelers, in particular, need to get around and I think you can sort of point to the hub and spoke system that the airlines have created as being at the center of that failure.

For example, to get from the Boston area, where we're based, to a place like Elmira, New York for a day trip you'd have to leave Boston at 5:00 am in the morning, fly through either Newark or Philadelphia, one of the airlines' hubs and then connect to a feeder regional airline to get out to Elmira and then reverse all of that to get back through either Philly or Newark back to Boston at 11:00 pm at night.

So, when you've got the TSA and the security and the lines and the crowds and the potential for the system breaking down through the hubs, there's a lot of risk associated with whether or not you can accomplish that kind of trip in a day and if you're doing it at the last minute, because of the volumes that are served, to places like Elmira, the tickets aren't cheap. They can be \$800, \$900, a \$1,000 per person so, we see that as creating an opportunity for an alternative mode of transportation.

So, that's environmental factors that are leading to the opportunity. And, the other is the technological advances in small turbine engines that have made the Very Light Jets (VLJ), as a class, possible.

We've chosen the Eclipse Jet because we think it's the best in class aircraft. It's about a \$1.5 million to buy, which is only about a third of the cost of the current smallest light jet that's out there and it's about half as expensive to operate. And what that means is, that for three or four people traveling from say, Boston to Elmira, they can do that trip in a day, depart a Boston area satellite airport at 7:00 am in the morning, arrive at Elmira at 7:45 am, have a good long day's worth of meetings and get back home in the late

afternoon...5:00pm in the afternoon, for about the same price as what it would of cost them to fly on the airlines starting at 5:00 am in Boston, connecting through Newark or Philly and getting back home the same way at around midnight, that same night.

And we think that, with that sort of a value proposition, there are a tremendous number of people, who, would transition from the airlines to that mode of traveling. We actually describe it as sort of a car service with wings and we think that's kind of the demographic profile of the folks that'll be using it. The kind of people that are using an executive car service, say, for airport transfers or for local transportation, who can look at this as an option to flying on the airlines and paying full coach when they've got two or three people traveling a regional day trip.

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How far will you be going on a typical trip?

**Linear Air**

Well, for the VLJ model to make sense, a typical trip profile is going to be about 500 miles and that's based upon the constraints of the capabilities of the aircraft in terms of how much fuel you can put on board with three or four people on it and then also, the economics. You know, once it gets out beyond 500 miles or so, there are different sorts of aircraft that begin to make more sense for those sort of longer range trips and the comparison against the airlines begins to be not as favorable.

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So, what do you see being the typical trip profile for your Air-Taxi?

**Linear Air**

Well, when we think about the distribution of the types of trips, and again this is based upon three years of operating the Cessna Caravan turboprop as a proxy for the VLJ's, you know we've already got about 700 customers who've flown with us and about 7,000 people in our database who are interested in flying in this air-taxi model.

So, when we say we think it's going to be, it's based upon this experience set of data that we've created over the course of the last few years. So, the model, we think is going to be people who are traveling on business day trips and we think that'll be the bulk of the people who are traveling this way.

And then there'll be some other people that'll be using it for leisure. There'll be people that'll be using it for multi-day trips and so on and so forth but, you know, in the 80/20 analysis that's always there, we believe that 80% of the model will be people who are flying for regional business day trips and the 20% will be those other sort of trips.

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You mentioned the Cessna Caravan...where all do you fly the Caravan?

**Linear Air**

Well, we started in August of 2004 and we got our 135 FAA Commercial Air Carrier Certificate in August of 2004. We started with one Cessna Caravan here in the Boston area at Bedford's Hanscom Field, which is a satellite airport. It is the primary General Aviation (GA) Business Airport in the Boston area.

We started off targeting people who owned homes on Martha's Vineyard and Nantucket, the islands that are off the coast of Massachusetts, and a lot of folks that have vacation homes out there. And we began targeting those people with the notion that those folks would have the right demographic profile to be the decision makers for the sorts of car service with wings style trips we see coming down the road with the very light jets, those regional business day trips.

So, that's how we got started and then, in early 2005, we added another Cessna Caravan and began providing a similar kind of service from the New York City area out to Martha's Vineyard and Nantucket flying from Teterboro and also from White Plains. Then, we added a third airplane in the middle of 2005, just to keep up with demand, which was shuttling back and forth between Boston and New York. In 2006, we added a fourth airplane, which was dedicated to the New York markets so, at the beginning of 2006 we had two Caravans in the Boston area and two Caravans in the New York City area. And then in the winter, we moved one of our Caravans into the Caribbean to offset the seasonality of the Northeast in the winter time and just this spring we added a fifth Caravan, which was put into the Mid Atlantic market, based at the Manassas Airport, which is just a little bit South of Dulles.

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And where will you be flying the Eclipse?

**Linear Air**

Well, in 2005 we placed an order for 30 Eclipse Jets and we were rewarded, basically, for our work identifying who the ideal customers are going to be and building a model that was working with the Caravan, which is a proxy for the Eclipse. It costs about the same to buy, it costs about the same to fly on a trip basis and what we found is while the Caravan seats eight people when we charter it, we only have about three people on board so, that sort of trip profile will work well with the Eclipse.

So, we ordered 30 of them back in November of 2005 and we are poised to take delivery of our first one this summer and that first one will be based here in the Boston area. This year we expect to somewhere between three and five airplanes on line and those will be spread between the Boston, New York and Mid Atlantic bases.

We expect that all 30 of those airplanes will be deployed in the three bases in the Mid Atlantic, Northeast and New England. And then possibly open up some bases on the West Coast, as well.

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Do you think the customer base will change once you're flying the Eclipse?

**Linear Air**

Well, initially, the customers that we attracted with the Caravan, that we targeted with the Caravan, were those people that owned the vacation homes on Martha's Vineyard and Nantucket but, what we did is we targeted those people based upon who they were, not where they were traveling specifically to their vacation homes. And then what we've done is we've used a sales process, that's proprietary to Linear Air, to transition those folks from the vacation trips to Martha's Vineyard and Nantucket to business day trips.

Those same people are now flying with us in the Caravans on regional business day trips. So, we expect it'll be the same kind of people that we've cultivated using the Caravan who will then transition to the Eclipse and the benefit will be, that for the same price, on a particular trip, say, a \$3,000 500 mile day trip in a Caravan, that will be the same price in the Eclipse. And so, it'll have the benefit of increased speed and performance that the Eclipse Jet will provide over the Caravan.

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Do you see some city pairs flying coming from the Washington, New York or Boston areas or mostly just point to point on demand flying?

**Linear Air**

Well, it'll be point to point, it's on demand and everything we've done is on demand, even the per seat service that we provide to Nantucket is technically on demand because, there's a carve out under 135 that allows up to four round trips per week, but, that requires that you not use a turbojet airplane so, you can't use an Eclipse Jet to fly any scheduled service, even under the four round trip per week exclusion. So, all of the service that we'll provide with the Eclipse, and the majority of what we provide right now with the Caravan, is and will be point to point on demand service. Now, what we've seen is that there are recurring city pairs for which there is demand that is not well served by the airlines. So, for example, the trip that I described when we first started chatting, Boston to Elmira, that's a recurring trip that, for us, occurs with a particular group of people who need to travel that way but, some common city pairs for us right now are like the Boston and New York area, we go up to Montreal and Toronto. We go to, sort of the outlying regions within Pennsylvania, all around New England and those sorts of things.

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With the increase in VLJ Air-Taxi flying expected in the next few years, what will differentiate Linear Air from other Air-Taxis?

**Linear Air**

Well, what differentiates us now from the existing charter operators that we compete against, I think, will continue to be a differentiator as we go forward with the air-taxis and with any new competitors that come in. And namely, that's a focus on providing a more convenient, more flexible, more affordable alternative to our customers. Our mission statement is we provide short hop, private air accommodation to executives and families with superior, personalized service, flexibility and convenience, all at unbeatable fares.

And we've really managed to, you know, to the credit of 30 some odd people that now work for Linear Air, been able to put that into practice on a day to day basis and there's literally not a week that goes by, Curtis, that I don't hear from one of our customers, thanking me for the performance that they were the beneficiary of, from our sales group to our customer service group to our pilots on the line, we're living that mission statement on a day to day basis.

And that will allow us to continue to be competitive and to continue to provide a differentiated service and allow Linear Air as a brand to grow and prosper relative to any competitors who come in.

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Well, there'll be a lot of competitors coming in and it will be a big market. Do you have any plans for the future, as far as expansion, to maybe partner with an FBO chain like Magnum Jet did with Million Air or will you prefer to grow internally?

**Linear Air**

Well, we certainly respect Magnum Jet's and Million Air's partnership and the decision that they've made. We certainly anticipate partnering with folks that are in the market, such as your self, with the ability to broker trips and attract customers and then provide a compelling partnership opportunity and be a responsible operator that reflects well on the people who are wanting to bring our customers and give them to us.

We don't have any specific formal partnerships that would create exclusive relationships at this point in mind. Our goal is to leverage our reputation, our ability to provide good service and build our business that way.

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After your Eclipses start arriving, I'm sure you'll need lots of pilots. Can you tell us, for the aspiring Air-Taxi pilots out there, what it's like being an Air-Taxi pilot for Linear Air?

**Linear Air**

Right, you know, our plan is to have 300 airplanes operating by the beginning of the next decade and we've got, right now, a three pilot per aircraft target compliment, which is about a thousand pilots so, right now we've got about a dozen pilots. By the end of this year, we expect to almost triple that number and have about 30 pilots on the line.

And the experience that our pilots have...first of all, we fly two pilots, so, we've got a Captain and a First Officer (FO) on every flight. We do that with the Caravan even though it's a single pilot airplane, we'll be doing it with the Eclipse even though it's a single pilot airplane for a couple reasons.

One is that it's verifiably safer when you've got two heads, versus one, thinking about what's going on at any given time. It also makes it a more comfortable customer service experience for our passengers and makes it easier on our pilots. You know, there's two guys that are loading bags and doing weight and balance and managing the details of getting a flight running...and it makes it more enjoyable.

I'm a Certified FO in the Caravan so, I've spent time in the cockpit and it just makes it a little easier when you've got a long day if you've got somebody you can talk to and it just makes the work environment a little better.

With regard to how it works, for the most part, our guys are home at night and I think that's one of the compelling elements of value that we offer, relative to say, going in and spending an indefinite amount of time in the right seat of an American Eagle ATR and going into the regional airlines. We've got a business model which, again, based primarily on day trips, so, you leave in the morning and you come back at night. Your customers are doing that and your pilots are doing that, too. So, you're home at night most of the time with some overnight trips and so forth.

We do have multiple bases so, for example, in the winter time when we've been based at San Juan, we've not hired pilots down there because it's TDY (Temporary Duty Assignment). We've had guys from up here in the Northeast who go down there in two week rotations so, that's kind of a nice duty assignment, to head down to San Juan for a couple weeks of flying.

And then, probably most importantly, we basically get pilots from two phases in their careers...young guys coming up and then, older guys who are retired from the airlines at age 60 that are still looking for something to do. For the young guys that are coming up, we offer what we think is an accelerated career path. You know, they come in and they fly with us in the right seat of a Caravan and within a year they typically move to the left seat and are Captains in the Caravan. Those guys, after a period of time, will then move into the right seat of the Eclipse and then move into the left seat of the Eclipse all within probably a 3-4 year time frame and have a significant amount of turbojet experience on their resumes that they can then use to accelerate their career to the right seat or left seat at a fractional operator or charter carrier or back to the airlines at a faster pace than they could if they went to the regional airlines or work with some other operator.

So, while we would certainly like to have people work with us for a long period of time and ultimately go into management, get into flight operations and get into instructing and so forth, we're realistic and recognize that most pilots make a number of moves during the course of their career and so, what we're trying to offer is a way to accelerate the moves in the early part of a pilot's career and get them experienced more quickly than they would any other way. So, we think it's a pretty compelling value proposition for young pilots in their careers.

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We've heard that these new Eclipse Jets will bring a whole new level of reliability through trend monitoring and redundant systems. How will this effect Linear Air's maintenance and it's mechanics?

#### **Linear Air**

Our maintenance folks and our flight operations folks have spent a lot of time with the guys from Eclipse and we're pretty comfortable that the aircraft is going to be an easy aircraft to maintain because of the way it's been designed. It's a relatively simple design. The avionics and some of the other components in the airplane are LRU's or Line Replaceable Units.

There is a diagnostic computer which is somewhat unique in small jet aircraft of this type. Very similar to the kind of diagnostic computer that your mechanic has when you pull your car into the shop and they plug in the laptop and read the codes and understand what the faults are. There is a maintenance computer of this type for the Eclipse.

So, we believe we'll be able to extend the model that we have with the Caravan, which is basically a mix of in-house maintenance and then scheduled maintenance with maintenance partners in order to maintain the aircraft. With the Eclipse, we will enter into a power by the hour fleet maintenance agreement for the engines and then we may enter into an arrangement with Eclipse to help us do scheduled maintenance, at least

initially. Then, the unscheduled maintenance we'll handle with a mechanic who we'll send to training at Eclipse.

But, we're pretty confident, based upon what we've learned, that, because of the design of the airplane and the decisions that Eclipse has made, that the airplane is going to be easy to maintain. They also have a facility that they're going to be opening up, an Eclipse Service Center, in Albany in July which will be instrumental in helping us maintain our fleet.

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Well, we've talked about pilots and mechanics...now, what about CEO's? What brings you into this business?

**Linear Air**

Well, I have an affinity for flying. I've been a pilot for about 11 years now, personally but, that's not enough, typically, to, or at least it shouldn't be enough to pull you into a business. The reason I'm involved in this business and the reason why I've chosen to spend the next part of my career working on an Air-Taxi model built around VLJ's is because of what I believe is the tremendous growth potential for new entrants coming into this space, flying what is in essence disruptive technology.

The disruptive technology of these jets is classic in the use of that term, the disruptive technology which, is a phrase coined by a Harvard business school professor, in that it's dramatically changing the economics of the marketplace which, in this case, is a very large marketplace.

The private air travel market last year was about a \$6 billion market which, seems pretty big until, you compare it to the public air transportation market which was about a \$120 billion. Now, this new technology is certainly going to take a piece of the \$6 billion private air travel market but, the opportunity, as I alluded to earlier, is to serve business travelers on regional day trips who would otherwise be choosing the airlines to meet those travel needs.

And we believe that of the \$120 billion public airline market, about \$30 billion of that is the type of travel which an Air-Taxi with a VLJ can substitute for. So, there's a \$30 billion market opportunity out here and with the 300 airplanes that we'd like to be operating at the beginning of the next decade, we foresee that as being about a half a billion dollar business, a \$500 million enterprise which, gives us the potential to have a very big business. \$500 million is a pretty good sized enterprise but, still only be a relatively small percentage of the overall market. Less than a half of a percent of the overall public transportation market and only about one and a half percent of that \$30 billion segment.

So, that's really what attracted me to this, is the opportunity to be a new entrant, operating disruptive technology, incredibly, having the ability to be competitive in a market that has the potential to be very big...and then I like to fly, too.

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So, where do you like to fly to?

**Linear Air**

I do quite a bit of travel and most of it is for business so, you know, as we've expanded our enterprise, I've spent a lot of time down in White Plains with our guys in our facility down there. I've down to the Caribbean just once this year, unfortunately, to check on things down there and attend a travel and tourism trade show.

I get to travel a lot around the country meeting with people in the industry. I've got a couple of events in May and June. The one in Florida is the Aviation Week Forum and one in Aspen for the Esther Dyson Flight School event, which will be great. So, most of it is for business, I don't get to do a lot of personal travel but, I do get around quite a bit.

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Do you have any favorite spots you like to travel to?

**Linear Air**

The Cape and the islands, out here in Massachusetts, are very nice in the summer time. It's good fishing out there.

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Describe one of your most important attributes and how it melds with what you want to accomplish here with Linear Air.

**Linear Air**

Well, I think one of the things that I've been successful with so far in my career is finding the right kind of people to help me to build things.

We've got a terrific team here at Linear Air, ranging from the folks who are on the line flying the airplanes and talking to the customers and giving them the service up to the board and investor level. We've got some folks at the investor level who understand a value proposition at a very deep level and have the ability to support what we're doing going forward.

So, if I've had any success, it's been in being able to articulate the idea of the opportunity and then find the right kind of people to come in and make it happen.

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What do you see 5 to 10 years from now for Linear Air?

**Linear Air**

Well, as I alluded to, we'd like to have about 300 aircraft in operation by the beginning of the next decade, which is our 5 year plan. That would be a \$500 million business with about 1,000 pilots and about 1,500 total employees. And, I'd like to think, at that point, we'd be one of the top players in this space because, I think the people that are involved in the company right now have every opportunity to do that and we certainly have the right people in place to build a foundation to make that happen.

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Is there anything or anyone that you would like to give credit to that helped get you to this point?

**Linear Air**

Well, it's a cumulative effort. One of the things I've discovered, in terms of being an entrepreneur, is that you got to pick up your glove and go in the game every day and play. So, certainly, I've been at it a long time since I graduated from Harvard Business School

and I've been in entrepreneurial activities ever since. And the people that we've met along the way and the people that have gotten excited about the things we've been talking about and helped us is really what it's all about.

At this point, we're now almost three years into Linear Air and when we first started it, we had a couple of PowerPoint slides and an idea. Now, between our employees and the pilots and the people who are our partners and the maintenance, the sales and marketing level and the board and our investors, we've got over a hundred people who are supporters of the vision that we have for providing short hop private air travel with superior personalized service, flexibility and convenience, all at unbeatable fares and really those people deserve the credit.

**Air-Taxi.com**

Well, Bill, we appreciate your time and thank you so much for letting us do this interview.

**Linear Air**

Alright Curtis, thank you.