

# Regional Aviation News

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## VLJs Expected to Siphon Commercial Passengers

The advent of Very Light Jet (VLJ) air taxi/air limousine services could lure business travelers away from the scheduled airline sector, according to a new report by **Forecast International (FI)**, as part of its Market for Business Jet Aircraft, published last week. While most predictions center on the ability of VLJs to lure business travelers out of their cars, the Newtown, Conn.-based consultancy is the first to forecast that this revolutionary form of air service will exert a significant and lasting impact on the airline industry.

Forecast International predicted manufacturers would deliver 4,355 VLJs during the 2006-2015 timeframe, for \$8.7 billion in forecast value. FI said these unit production numbers are the largest of the eight business jet market classes it tracks.

However, FI said the potential for siphoning passengers from scheduled services depends largely on the development and growth of VLJ-based air-taxi services of-

(See *Business Aviation*, page 7)

## Republic Airways Chief Sheds Light on Industry Trends

**Republic Airways (RJET)** Chairman, President and CEO Bryan Bedford gave a lesson in regional airline economics, in his candid and often provocative remarks at the recent **Merrill Lynch** Global Transportation Conference. He also showed why his high-flying airline is a case study in how to run profitable routes.

Notably, the always-quotable airline insider asserted that network aircraft replacement would benefit regionals, adding that it is too early in the game to predict the future of 70- to 90-seat regional jets. "There is a pent-up demand at **US Airways (LCC)**, **Northwest (NWACQ)** and **Delta (DALQ)** who are looking at larger capacity products," Bedford said, "but it is un-

certain whether any of the low cost carriers will enter this space to build out their networks. The travel patterns in domestic North America show that 80 percent of all departures leave with fewer than 100 passengers aboard; over 50 percent depart with fewer than 50 passengers. If you want to match the machine to the mission – capacity to demand – there is an overwhelming requirement for products in the sub-100 seat space. Clearly we think the market has a lot of opportunity in it and not a lot of providers to satisfy demand."

Bedford thinks the industry is entering a cycle in which network carriers want to pursue fleet replacement. He predicted they would use

(See *Republic*, page 4)

## Regionals Jockey for Position in Various Performance Stats

Projections for 2006 show stage lengths doubled in a decade and **Delta Connection** carriers will account for more than a quarter of all regional available seat miles (ASMs) by year's end, according to a **BACK Aviation Solutions** analysis commissioned for *Regional Aviation News*.

The top 20 regionals accounted for 96 percent of industry passengers and flew 98.5 percent of regional revenue passenger miles (RPMs) during the first quarter, according to the **Regional Airline Association (RAA)**, which released its statistics last week.

Meanwhile, the **U.S. Department of Transportation Bureau of Transportation Statistics (BTS)** reported

the seven largest regionals experienced a 9.1 percent profit margin for the first quarter of 2006, besting both the seven network carriers and low cost carriers (LCCs) the organization tracks. Network carriers narrowed their collective loss during the quarter to a 4.2 percent loss margin and LCCs posted a 7.4 percent profit margin (without ATA).

Passenger trip length is increasingly gaining interest, as airlines such as **Continental (CAL)** suggest that RJs work best in the two to three-hour range maximum. Continental Chairman and CEO Larry Kellner said recently, "As we try to go beyond that, we worry that the

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## Regional Aviation News

### Performance

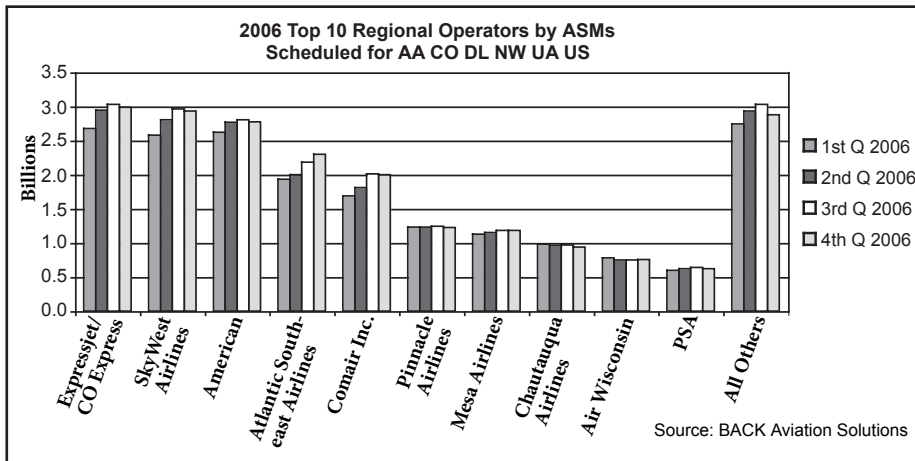
▶ *cont'd from page 1*

passenger does not have the capacity to do that." (RAN, June 19, p.1)

Continental's regional stage length has grown in the past several years. Ex-

pressJet (XJT), operating as **Continental Express**, is expected by the end of 2006 to lead the industry in terms of stage length at 550 miles, a flight of about 2 hours. Indeed, average stage length seems to have nearly doubled in the last decade.

(See Performance, page 3)



### U.S. REGIONAL AIRLINE INDUSTRY PASSENGER TRAFFIC ACTIVITY FIRST QUARTER 2006 (Scheduled Operations Only)

48-STATES/HI/PR/VI	First Quarter 2005	First Quarter 2006	Percent Change
Revenue Passenger Miles	14,412,226,778	15,871,533,655	10.1
Available Seat Miles	21,580,293,029	22,061,555,803	2.2
Passengers Enplaned	33,676,738	35,202,451	4.5
Departures	1,162,158	1,132,046	-2.6
Load Factor (%)	66.8	71.9	5.2 pts.
Passengers per Departure	29.0	31.1	7.2
Average Passenger Trip Length (miles)	428.0	450.9	5.4
<b>ALASKA</b>			
Revenue Passenger Miles	49,945,726	52,034,125	4.2
Available Seat Miles	112,380,612	115,644,665	2.9
Passengers Enplaned	233,471	255,441	9.4
Departures	103,445	100,993	-2.4
Load Factor (%)	44.4	45.0	0.6 pts.
Passengers per Departure	2.3	2.5	12.1
Average Passenger Trip Length (miles)	213.9	203.7	-4.8
<b>TOTAL - ALL REGIONALS</b>			
Revenue Passenger Miles	14,462,172,504	15,923,567,780	10.1
Available Seat Miles	21,692,673,641	22,177,200,468	2.2
Passengers Enplaned	33,910,209	35,457,892	4.6
Departures	1,265,603	1,233,039	-2.6
Load Factor (%)	66.7	71.8	5.1 pts.
Passengers per Departure	26.8	28.8	7.3
Average Passenger Trip Length (miles)	426.5	449.1	5.3

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## Performance

► cont'd from page 2

BACK Aviation Solutions forecasts that ExpressJet will finish first in 2006 in terms of ASMs with SkyWest (SKYW), American Eagle and Atlantic Southeast following close behind.

By year-end, Delta (DALQ) will account for more than a quarter of regional ASMs at 28.37 percent, followed by United (UAUA) at 16.96 percent, American (AMR) at 16.15 percent, and Continental at 15.15 percent. US Airways (LLC) will account for 15.10 percent, while Northwest

(NWACQ) will have the fewest in the industry at 8.28 percent.

The regional carrier group tracked by BTS reported a 9.1 percent profit margin in the first quarter of 2006, up 0.6 percent from the 8.5 percent profit margin reported in the first quarter of 2005. The seven regionals reported a \$213 million operating profit during the first quarter.

### BTS Reports

The top operating profit margin was reported by Atlantic Southeast followed by Pinnacle (PNCL) and American Eagle.

Regionals also took the highest spots in terms of unit revenues in the first quarter at 15.4 cents per ASM (RASM) compared with 14.4 cents for network carriers and 9.5 cents for Low Cost Carriers (LCCs). American Eagle and Comair topped the list for highest unit revenues at 16.8 cents and 16.7 cents, respectively.

Comair posted the highest unit cost (CASM) for the industry at 16.4 cents, while ExpressJet reported the lowest first quarter unit costs at 12.2 cents, compared to Mesa's (MESA) 12.7 cents and SkyWest's 14.4 cents. American Eagle posted a 15 cent unit cost for the quarter.

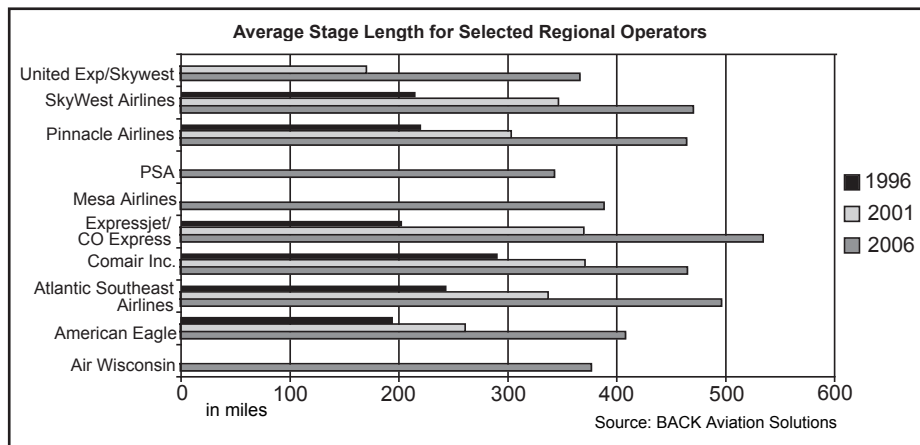
Although regional domestic passenger yield dropped in comparison to the 2005 period, the group still reported the highest average yield at 20.6 cents per RPM.

### RAA Reports

Regionals carried 35,457,892 passengers during the first quarter of 2006, a 4.6 percent increase over the 2005 period, according to RAA. During this period, the industry flew 15.9 billion RPMs, a 10.1 percent increase over the year-ago-period. At the same time, ASMs were up 2.2 percent to 22.1 billion.

Industry departures were down 2.6 percent to 1.2 million, while load factor was up 5.1 points to 71.8 percent.

(See Performance, page 4)



### LARGEST U.S. PASSENGER-CARRYING REGIONAL AIRLINES FIRST QUARTER 2006

Rank	Airline	FIRST QUARTER 2006			
		Passengers Enplaned	Percent of Total	Revenue Passenger Miles (000's)	Percent of Total
1	SkyWest Airlines	4,468,074	12.6%	2,109,869	13.2%
2	American Eagle Airlines	4,246,945	12.0%	1,918,299	12.0%
3	ExpressJet Airlines	4,083,317	11.5%	2,319,235	14.6%
4	Mesa Airlines	3,118,178	8.8%	1,455,027	9.1%
5	Atlantic Southeast Airlines	2,937,259	8.3%	1,542,264	9.7%
6	Comair	2,437,115	6.9%	1,193,741	7.5%
7	Pinnacle Airlines	2,020,171	5.7%	973,909	6.1%
8	Horizon Air	1,594,114	4.5%	620,595	3.9%
9	Chautauqua Airlines	1,531,630	4.3%	679,755	4.3%
10	Air Wisconsin Airlines	1,420,730	4.0%	536,916	3.4%
11	PSA Airlines	1,159,907	3.3%	412,118	2.6%
12	Mesaba Airlines	1,082,348	3.1%	370,992	2.3%
13	Trans States Airlines	875,882	2.5%	366,145	2.3%
14	Shuttle America	756,907	2.1%	541,047	3.4%
15	Piedmont Airlines	727,699	2.1%	136,765	0.9%
16	Executive Airlines	640,497	1.8%	138,333	0.9%
17	Colgan Air	326,924	0.9%	62,230	0.4%
18	Freedom Airlines	238,697	0.7%	132,308	0.8%
19	Gulfstream Int'l Airlines	230,765	0.7%	47,425	0.3%
20	GoJet Airlines	221,746	0.6%	123,478	0.8%
Sub Total		34,118,905	96.2%	15,680,448	98.5%
Total		35,457,892		15,923,568	

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## Performance

► *cont'd from page 3*

Passengers per departure experienced a 7.3 percent increase to 28.8 percent. The average passenger trip length increased 5.3 percent, to 449.1 miles.

SkyWest, serving as a Delta Con-

nection and **United Express**, was the largest carrier for the period, said RAA, accounting for 12.6 percent of industry passengers at 4.4 million and 13.2 percent of industry RPMs at 2.1 billion. It was followed by American Eagle, Continental Express carrier ExpressJet, Mesa, and Atlantic Southeast

in the top five spots. **GoJet** was the smallest, accounting for 0.6 percent of passengers at 221,746 and 0.8 percent of RPMs at 123,478.

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### AIRLINE DOMESTIC UNIT REVENUE (Cents Per Mile)

Regional Carriers Ranked by 1st Quarter 2006 Domestic Unit Revenue (Domestic Operating Revenue Per Available Seat Mile)

1Q 2006 Rank	Regional Carriers	1st Quarter 2005	2nd Quarter 2005	3rd Quarter 2005	4th Quarter 2005	1st Quarter 2006	1st Quarter Operating Revenue \$(Millions)
1	American Eagle	17.2	16.6	16.7	17.2	16.8	455.6
2	Comair	14.1	14.8	15.0	15.3	16.7	283.3
3	Atlantic Southeast	13.6	13.7	14.7	15.9	16.2	313.6
4	SkyWest	15.3	15.0	15.4	15.9	15.9	429.3
5	Pinnacle	15.1	14.3	14.1	15.0	15.4	207.1
6	Mesa	12.2	12.2	12.3	12.7	14.0	276.3
7	Express Jet	13.9	13.0	12.8	13.2	13.3	366.2
	Seven-Carrier Total	14.5	14.3	14.5	15.0	5.4	2,331.3

Source: Bureau of Transportation Statistics; Form 41, Schedule P1.2. T100; T2 Data

### AIRLINE DOMESTIC UNIT COSTS (Cents per Mile)

Regionals Ranked by 1st Quarter 2006 Domestic Unit Costs (Domestic Operating Expenses per Available Seat Mile in cents)

1Q 2006 Rank	Regional Carriers	1st Quarter 2005	2nd Quarter 2005	3rd Quarter 2005	4th Quarter 2005	1st Quarter 2006	1st Quarter Operating Expenses \$ (Millions)
1	Comair	13.8	14.1	14.7	15.4	16.4	279.0
2	American Eagle	14.8	14.2	14.6	15.4	15.0	405.7
3	SkyWest	13.7	13.3	13.7	14.3	14.4	388.9
4	Atlantic Southeast	13.7	12.3	13.3	13.8	14.0	271.1
5	Pinnacle	13.5	12.8	16.2	13.9	13.8	185.6
6	Mesa	10.6	10.5	10.7	11.4	12.7	251.6
7	Express Jet	12.7	11.8	11.7	12.1	12.2	336.4
	Seven-Carrier Total	13.3	12.7	13.4	13.7	14.0	2,118.3

Source: Bureau of Transportation Statistics; Form 41; Schedule P1.2. T100; T2 Data.

## Republic

► *cont'd from page 1*

their resources on wide-body aircraft, because they can be used in higher yield international routes with built in barriers to entry driven by bilateral treaties. "Airline capital has been constrained over the last five years," he said. "They have to be judicious in how they allocate their resources. I expect them to outsource the large capital requirements for smaller planes to

regional carriers that can buy and finance those planes for them."

He does not put much stock in the lower labor agreements network carriers have hammered out. "I've seen the strategy of lower labor costs associated with operating smaller jets come and go and apparently it is not played out yet," he said. "Mainline labor has never been welcoming to what we would call a 'B scale.'"

He added that, over the long term, even if network carriers obtain lower

costs to operate smaller capacity aircraft, those agreements would not sustain themselves. "Outsourcing is the best model," he said. "Simplifying their fleet equals lower costs and outsourcing helps that. Operating fewer fleet types is key and complicating that with larger regional jets, I don't think, is value added to them compared to outsourcing. You also have to maintain market discipline and once you make a decision to bring those operations  
(See Republic, page 5)