

AVENUE



OCTOBER 2005

LALLY WEYMOUTH
PORTRAIT OF A
JOURNALIST

ELIOT SPITZER
PROSECUTOR,
CRUSADER,
DAD

PROFILES
IN POWER
INCLUDING

- ROGER AILES
- CLIVE GILLINSON
- HOWARD LORBER
- PETER SOM

AVENUE'S
A-LIST:
NEW YORK'S
MOST INFLUENTIAL

THE D&D TURNS 40



Private Aviation Roundtable

FED UP WITH WAITING IN LINE FOR ANOTHER DELAYED FLIGHT? READ ON . . .

This summer, *AVENUE* invited a range of leading companies in the private aviation field to discuss numerous issues focused on this fast-growing area. While a corporate staple, the private jet is becoming an increasingly popular lifestyle choice with individuals and their families fed up with commercial airlines and interminable airport delays. *AVENUE* asked the panelists about trends in the industry and the range of choices available: from charter to fractional ownership, and from card membership to whole aircraft purchase and management. The edited highlights follow.

AVENUE: Private aviation over the last several years seems to have undergone nothing short of a boom. Has that been your experience?

RUSSELL: Private aviation is very much affected by the economy. If the economy is good, people make investments in whole aircraft and fractional shares, and charter activity is up. We're in an economy that has rebounded from the recession of 2000 to 2003, and business today for all aspects of private aviation is good. If I look back over 90 years, and if history would continue to repeat itself, I would guess we'll have another five to seven years of strong economic growth and therefore a continued strong aviation market.

CAREY: Business is definitely increasing. Even though we're a smaller boutique firm, we're bullish. We're taking more office space and increasing staff.

WOLIN: Growth has been tremendous over the last couple of years. Last year our business was up 35 percent from the prior year, and in 2005 it's running up 30 to 35 percent again. We added 13 aircraft to the fleet. Commercial airlines have been the real driver—the way they're dropping the ball and pointing fingers at each other. As long as there's disposable income, we're in good shape.

AUSTIN: It's been a bumper four years for Marquis Jet. First, our exclusive alliance with NetJets has enabled us to

provide the largest, safest aviation product in the world. Second, growth has been driven by a mix of younger first-time users and older retiring CEOs who are moving away from their corporate jets. We've made private aviation very easy to buy and use. At the end of the day, Marquis Jet's offering is like a prepaid phone card in its ease of use.

The predominant driver of our business is personal use, and we estimate 70 or 80 percent of Marquis Jet Card owners are using it for themselves, their loved ones and, in some cases, business associates. And, to Gil's point, if you have \$110,000 to spend on private travel, which we estimate 800,000 people in the United States do, why stand in line at an

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A lot of people have not experienced using helicopters in their travel equation. Once they do fly, it becomes very valuable to them. —Cary Brown

airport being inconvenienced in every way, shape and form?

AVENUE: From that universe of 800,000 people, how many do you estimate are currently availing themselves of private aviation options?

AUSTIN: We have around 2,000 active Marquis Jet Card owners today. And that's really the tip of the iceberg. Many people just don't know how easy it is to access a quality private jet versus just sourcing a jet out of the Yellow Pages. Smart consumers are starting to understand the difference between NetJets fractional ownership or a Marquis Jet Card versus chartering from a non-operator.

RUSSELL: If you look at the total fractional population, I would say that we have only scratched the surface and have less than five to seven percent of the marketplace.

AVENUE: What about the helicopter niche?

BROWN: The whole helicopter niche is obviously trailing the corporate aviation market. While helicopters don't occupy a large segment, they're becoming more acceptable, especially in the northeast. Heliflite is looking for very strong growth over the next two or three years—not just in the northeast, but in other cities that are starting to have the same kind of demographic that allows us to look for fractional plane charter work.

AVENUE: Let's look at some private aviation options. Panelists should put their cards on the table here and tell us what their companies offer specifically.

BROWN: Heliflite offers fractional ownership of helicopters. We have a card also, for those who don't want to make a five-year commitment or who don't fly the hours to justify a fractional ownership. We also offer traditional charter services. A lot of people have not experienced using helicopters in their travel equation. Once they do fly, it becomes very valuable to them. That's why we rely heavily on offering value-added service to people who have spent a lot of money on a G5 into Teterboro and then spend an hour and a half in a limousine trying to get to Manhattan.

Talon Air can arrange charters anywhere in the world. —Adam Katz

KATZ: Talon Air provides luxury air charter services in new aircraft, with flight safety-trained crews, to destinations throughout the entire world. We provide turnkey service, including dining reservations anywhere in the world, ground transportation and the services normally provided by a concierge in a luxury environment. We offer five types of aircraft to customers, spanning a price range of \$800 to \$7,000 per flight hour, dictated by the size of the aircraft. Talon Air can arrange charters anywhere in the world and is competitively priced as a market leader providing unparalleled service.

CAREY: Our business is client-centric. We operate as brokers. My business began with a client who had an interest in chartering. I did due diligence to find out what was available. We now



customize our work for clients—whether for a charter trip, entering a fractional ownership program or outright ownership. We will see the operations firsthand, meet the pilots and so on. If I find someone who's more suited to a fractional program—like 400 hours a year—then that's when I make a referral to someone like Kevin.

AVENUE: What part of the spectrum does NetJets come into here?

RUSSELL: We really cross the whole spectrum. We started back in 1964 as the first private business jet charter and private jet management company in the entire world. This changed the way a lot of people fly. Richard Santulli acquired NetJets—Executive Jet Aviation at the time—in 1984 and recognized that while chartering certainly had benefits, there had to be a better product out there. The shortfalls of charter versus whole aircraft ownership are primarily the cost and availability. Richard created the concept of fractional aircraft ownership in 1986. He took what was available for the select few and made it a much broader offering by introducing the NetJets product. And he revolutionized business aviation by making it more affordable than ever before.



Today, at NetJets, we manage more than 570 aircraft, including 120 for those individuals or companies who want their own plane. In 2001, we formed a relationship with Marquis Jet and introduced the Marquis Jet Card, expanding the market even more by offering the benefits of NetJets in 25-hour increments.

NetJets is the only company in the world that if you want to buy an entire aircraft, we'll help you buy an aircraft and manage that aircraft for you. If you

“At 40,000 feet, when flying through very rough weather, you don't want to be saying, 'Don't worry about it, we saved \$30,000.' —Kevin Russell”

to expand private aviation to a broader consumer. Our branding, marketing and product are all about lifestyle. We offer you access to the NetJets fleet in 25-hour increments to give you freedom in your personal and business life.

WOLIN: TAG has been around for 30 years, and its focus is on personal solutions. We manage more than 130 whole aircraft at more than 50 locations around the country. If somebody wants to own an aircraft, our job is to establish a flight operation tailored to their requirements. About 70 percent of our customers also want their aircraft made available for charter. They're successful individuals who can't stand to see a \$20 million asset sitting around idle. This makes us a pretty good charter resource as well—on a select basis, of course. We don't do road trips or rock stars.

We specialize in mid-sized aircraft and larger. Our strength has been that we refuse to compromise safety or

AVENUE: What's your advice on how people should start to explore private aviation options?

RUSSELL: People who are buying privately don't necessarily ask the most important questions. For example: "I want to go from New York to Wichita with five people. What's the price?" And the next question unfortunately is, "Do you have anything cheaper than that?" That's the wrong question to ask. Warren Buffet says if you're having brain surgery, would you choose the best brain surgeon in the world or the most inexpensive? It's the same thing with the decision to fly privately. At 40,000 feet, when flying through very rough weather, you don't want to be saying to your significant other, "Don't worry about it, we saved \$30,000 by choosing the less expensive provider."

AUSTIN: The assumption is that if you have an FAA Part 135 license you're OK. We call that a minimum standard.

“TAG Aviation's strength has been that we refuse to compromise safety or security. —Gilbert T. Wolin”

want to charter an aircraft, we created the jet charter inventory more than 40 years ago and continue to be the largest charter provider in the world.

Our NetJets fractional ownership program and the Marquis Jet Card program are providing individuals and companies with all the benefits of whole ownership and charter without the shortcomings typically associated with both.

AUSTIN: Our business model at Marquis Jet is very simple. Our goal is

security. Then comes personalized and tailored service. We're not the cheapest, and there's a reason for that. Price is not the determining factor here.

CAREY: The demographic we deal with is already living that lifestyle. It's naïve to think that we create a lifestyle for them. We simply service that lifestyle. With all the options out there, people do not want to have to do research. They are looking for a little transliteration on who is best if they're in the market to buy, or in the fractional market, or charter.



“Our business model at Marquis Jet is very simple. Our goal is to expand private aviation to a broader consumer. —Ken Austin

Nobody wants to fly with anyone who just meets the minimums.

AVENUE: What questions need to be asked of a private aviation provider?

WOLIN: The first question would be: “Are the pilots dedicated to your aircraft? And what kind of training do they have?”

AUSTIN: Another big question is: “How much training do you provide?” Marquis Jet Card owners access NetJets’ unrivaled infrastructure—NetJets’ aircraft, pilots and maintenance. It’s also good to know whether a company is always providing its own aircraft. Or what is the standard for a third-party charter provider?

CAREY: There’s a long list of questions. The whole point is you do get what you pay for. If the price is too low, there’s a reason.

AUSTIN: It is mathematically impossible to deliver the same quality product and service for 40 percent less than we charge, yet people love to believe that. Neophytes in the aviation business don’t know that and ask for the cheapest price. They are trained by their experience with commercial aircraft to ask for the cheapest price regardless.

There are bedroom brokers out there who set up in the back room of an apartment with a directory of aircraft and a telephone, and they shop the low price, marking it up to the best of their ability and reselling it. But the public doesn’t know this. You are doing a great service here by providing this information to your readers. By doing that you’ve done more than we could ever hope to do. Virgil Grissom, one of the original Mercury astronauts, was

once asked a question by a reporter about how it feels to be atop a rocket. His response was along the lines of, “How would you feel sitting on top of two billion dollars-worth of parts each awarded to the lowest bidder?”

AVENUE: What are the pros and cons of a membership card versus a fractional ownership?

AUSTIN: Let me focus on membership cards. We don’t call ours a membership card. We call it an ownership card. We consider our customers owners because they are subleasing a NetJets fractional ownership share. That being said, there are charter membership cards and there are fractional ownership card programs. We are one of the four fractional jet cards that are out there.

AVENUE: Should someone flying ‘x’ hours go into fractionals?

AUSTIN: It depends on what someone actually needs. Is it 25 hours a year, is it 50, is it 100? The number of hours does not necessarily equate to what you should buy. It depends on the terms.

AVENUE: With fractionals, should you have a three- to four-year time horizon?

RUSSELL: All the fractionals have management agreements that last five years. At NetJets, a minimal fractional commitment is 24 months for a light-sized jet, 30 months for a mid-sized jet and 36 months for a large cabin jet. If you change your mind one day, or one month, into the program, you can change your solution.

AVENUE: How do the fractional versus membership card options work at Heliflite?



BROWN: They work the same way. Insofar as the terms and conditions, it’s almost a mirror image. However, we manage very carefully how many cards we put out. Our primary customer is the fractional owner. Everyone may want to fly at the same time to the same place on the same day, so we have to make sure we can service the needs of all those customers.

AVENUE: What about full ownership, what are the chief benefits there?

WOLIN: Every product we’re discussing here has a use and fits a niche. Fractional is great if you’re flying one-way. If most of your travel is round-trip, an option charter makes more sense from an economic standpoint. The move from fractional to global ownership usually makes sense when you get north of 200 hours.

There’s been a lot of personal wealth created lately. There are more millionaires than ever before—particularly in the New York area. Being a millionaire doesn’t qualify you to buy an airplane, but it certainly qualifies you to charter, to buy a card or explore other private aviation options.

AVENUE: What is the cost of the entry point for ownership?



“I see a lot of consolidation in the market. I'm looking forward to that, because I think the focus is going to be on quality. —Kellie Carey

WOLIN: A first-year budget to fly 400 hours on a large cabin aircraft is going to be in the neighborhood of \$1.5 to \$2 million, depending on whether the owner wants to make that aircraft available for charter. A late model Challenger 604 costs \$25 million; a mid-sized aircraft is around \$9 million.

RUSSELL: Arnold Schwarzenegger joined the NetJets program about eight years ago, and when asked by an NBC interviewer if he'd rather own his own jet said, "I'd rather mutilate myself than own a private business jet again." The reporter was absolutely stunned. Arnold continued to share with the reporter that NetJets allows you to acquire the number of hours you need and offered the greatest flexibility in having the right aircraft for the right travel mission, and at the right price. I couldn't have said it better myself.

Whether you have one trip, or need 25, 50, 100, 1,000 hours or more, NetJets can tailor a solution for you better than anyone in the world.

CAREY: Acquisition and sales is a lesser portion of our business; however, we've seen increasing activity recently. Over the last three months, we've put five aircraft acquisitions under contract, and we've sold two.

AVENUE: Talk to the future of private aviation, please.

KATZ: I believe that as stress in the airline business continues to increase—related to reduced schedules, poorer service, more delays and greater inconvenience—charter will continue to flourish. This is especially the case in the service of wealthy individuals who can choose to avoid the crowds in terminals and the inconvenience, and businesses that need to save time and make their staff more productive. Efficiencies are paramount.

BROWN: Everyone sees very strong growth in the market for the foreseeable future. There will be some moderate cost growth. Fuel prices are not going to go down. Labor costs are not going to go down. Insurance rates are not going to go down. But the cost will still provide a significant value to the customers.

WOLIN: Kevin made the point earlier that we sell the one non-renewable resource: time. Unless someone invents a time machine, we have one hell of a future. Some of the best marketing is done for us by the commercial airlines, which continue to create unhappy passengers. The challenges will involve issues of system capacity and funding. The government is leaning toward a system that is paid for by the users. Access is going to be a big challenge—keeping airports open, and our ability to get into where we need to get. With Vietnam, we experienced a big war that created lot of veteran pilots that have fed the commercial system. But that big surge in pilots from Vietnam is running dry

as they retire. That will be another challenge: not demand for, but availability of, hardware and pilots.

KATZ: I think the supply of charter aircraft will continue to grow as demand supports the need. New aircraft are constantly replacing old ones due to the stiffening of regulations for the charter fleet that force older aircraft to retire.

CAREY: As a broker, I see a lot of consolidation in the market. I'm looking forward to that, because I think the focus is going to be on quality. My biggest challenge remains competitive pricing and the availability of the right kind of equipment.

AUSTIN: I think that pricing for quality aviation will go up, and it should. The margins are very thin in this business. People of wealth will not go away. The rich are getting richer and the outlook is incredibly rosy. In the card business, there's a mad rush towards the sweet spot of private jets, but there will be a shakeout. There will be new models: for example, micro jets and air taxis. In short, we should all feel very good about luxury lifestyle time-saving products.

RUSSELL: I agree. The opportunity has barely been scratched. Every day I'm delightfully surprised with what's on our radar screen. As long as the economy is strong, the private aviation marketplace will be strong. As long as people want to focus on the benefits of private travel, and continue to have the challenges they have traveling commercially, they will look to private aviation as a solution. ♦