



INSIGHTS

In what will surely go down as the most eventful year in many people's business careers, 2009 is coming rapidly to a close. For business aviation leaders, it has been a time of difficult choices, when surgical skills have been repeatedly called upon to secure and stabilize our businesses.

From our perspective, industry leaders have performed exceptionally well - both individually and collectively - in these times of unprecedented duress and triage. Operating in an environment of multiple shocks and limited visibility, we have all been tested and given the opportunity to learn some valuable lessons. We appreciate the confidence that many of you have shown in our work, and we are thankful for the opportunity to help you succeed through this time.

American industrialist Henry J. Kaiser once said that problems are only opportunities in work clothes. I wish you, your families and organizations only the best in this holiday season, and a year full of meaningful work, intriguing opportunity and repeated success in 2010.

Rollie



Rolland Vincent
President
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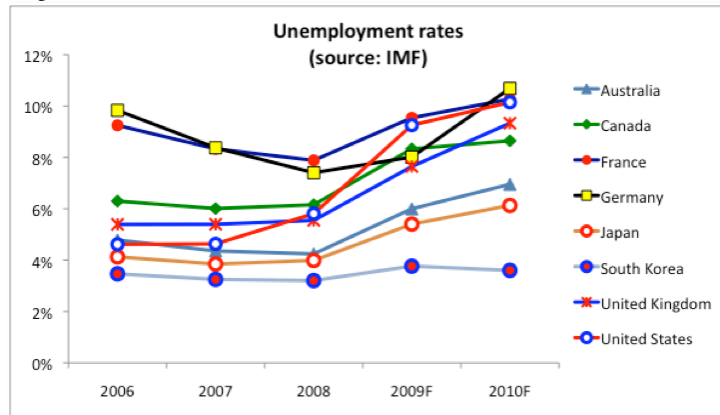
Economic Update

The world's major economies continue on their road to recovery, lifted by improved liquidity, unusually buoyant stock markets, and an increasing realization that 'we are all in this together'. Talks of decoupling, all the rage just a few months ago, seem like a distant memory as world leaders strive to develop coordinated policies to deal with some of the world's biggest issues, including the economy and the environment.

Revised estimates of economic output just released from the U.S. Bureau of Economic Analysis indicate that U.S. GDP grew at an annual rate of 2.8% from Q2 to Q3 2009, revised downwards from 3.5% as reported last month. This truly remains 'good news' from the U.S. after bouts of negative growth in 5 of the last 6 quarters. Other regional economies, including Germany, France, Australia, Japan, South Korea, Canada, China, and India also report positive GDP numbers.

Unemployment in California, now considered the world's 10th largest economy, has reached 12.5%, while in auto-ravaged Michigan, the jobless rate is 15.1%, and 17.3% in Detroit. Amongst 20-24 year old U.S. males, unemployment has reached 18.6%, a 44% increase in one year. (Note: All data are seasonally adjusted and preliminary as of October 2009, and are sourced from the U.S. Bureau of Labor Statistics).

Far from the re-energized trading floors of bond and equity markets, many households - at the epicenter of the economy - are faced with a drawn-out period characterized by tight credit and limited job prospects. For businesses, cutbacks and closer scrutiny of discretionary budget items - travel, headcount, R&D, marketing, inventory re-stocking, and capital investment - have helped to limit margin erosion. With most companies finalizing their 2010 fiscal year budgets and operating plans, it is clear that the path to recovery will be decidedly U-shaped.



For many air travel consumers, however, the notion that the economic crisis is over seems far-fetched, as unemployment rates across many of these same countries continue to climb (see chart).

In the United States, national unemployment is now at 10.2%, essentially matching the levels last seen in late 1982/early 1983 and the highest since the 1930s Great Depression.

Dominique Strauss-Kahn, Managing Director of the IMF, spoke recently on this topic in an aptly entitled speech: 'Takeoff or Holding Pattern? Prospects for the Global Economy': *"Today, the storm has passed. The worst has been averted. Thanks to a bold and rapid policy response, delivered in an atmosphere of unprecedented policy cooperation, global economic activity is rising again. And yet, the global economy remains very much in a holding pattern—stable, and getting better, but still highly vulnerable."* →

Business aviation: High-end solace

Although it may be difficult to see in the aftermath of a burst bubble, the business aviation community and its investors should take solace in knowing that the seeds are already in the ground and others are being planted for a return to growth. Our view reflects the philosophy of Mark Twain, who noted that a pessimist sees the difficulty in every opportunity; an optimist sees the opportunity in every difficulty.

Demand from international and emerging markets remains encouraging, especially at the high-end of the business jet market. Gulfstream has a funded backlog of \$19 billion (4X revenues in 2008), and we estimate that about 60% of this represents orders for the new ultra-long range G650. The company experienced a relatively strong Q3 2009, with a 1.5 book-to-bill ratio, improving its year-to-date book-to-bill performance to a respectable 1.0. Gulfstream claims it's large-cabin order backlog is 60% non-North American, and that 2/3rds of the backlog is with individuals and private companies.

Bombardier, known to be developing a new Global-series aircraft to compete in this space, delivered 42 Global XRS and Global 5000 aircraft in the first 9 months of 2009, an increase of 4 aircraft over the same time last year and fully 2x the output achieved as recently as 2005. Although Bombardier Business Aircraft's book-to-bill ratio (based on net orders) was just 0.45 through the first half of this fiscal year, the company's broader product line creates exposure to the more volatile light-to-midsize market.

Dassault's 7X is on track to achieve 30 deliveries in 2009, up from 21 units in 2008. The company's jet designs, renowned for their fuel efficiency, will no doubt be increasingly attractive in an environment of \$80+ oil.

With range limitations being pushed to their logical limits, the next emerging high-end market will be for high-speed travel. Aerion, the most likely first-mover in the supersonic segment, has signed 50 letters of intent with prospective customers representing \$4 billion in backlog. LOIs are well-balanced between North America, Europe, the Middle East and Asia. The aircraft promises surprisingly competitive fuel burns even at 0.96-0.99 Mach.

With relatively few order cancellations, a well-distributed order base both geographically and demographically, and active R&D investment across supply chains, we remain particularly bullish on the prospects for high-end business aircraft.

The Big Squeeze: Airline cabins, airports, and airspace

As we have noted on these pages, business travel customers have multiple commercial and private travel options, and choose from amongst these each time they fly. For city-to-city or long-haul flying, their preferred option is often a commercial airline. In the United States, a 2008 survey found that 51% of domestic airline travelers were flying for business purposes.

Capacity, fares and loads

Domestic and international flights have been reduced by 8.4% over the first 8 months of 2009 YOY. With the combination of reduced capacity and the traffic-stimulating effect of 19% lower airfares, U.S. airlines are now operating at an unprecedented 85% passenger load factor on both domestic and international flights. In this challenging economic environment with high fixed costs, most network carriers are charging fares that barely cover operating costs, let alone their costs of capital. For many, this does not bode well for their requirement to renew their fleets anytime soon. Aging

fleets tend to be more expensive to operate, and unscheduled maintenance can cause exponential delays throughout an airline's operations.

On-time arrivals

For business travelers, on-time arrival performance is perhaps the most basic requirement. Nevertheless, based on U.S. airline industry performance over the last 5 years, little progress is being made in getting business travelers to their destinations on-time.

Major U.S. Airport On-Time Arrival Performance

Rank	Jan. 1 - Sept. 30, 2009	% on-time	% of Sept. 2009 flights
1	Salt Lake City, UT (SLC)	86.2%	2.0%
2	Houston, TX (IAH)	84.7%	2.8%
3	Chicago, IL (MDW)	84.4%	1.4%
4	Phoenix, AZ (PHX)	84.3%	2.8%
5	Portland, OR (PDX)	83.3%	0.8%
6	Los Angeles, CA (LAX)	83.2%	3.1%
7	Las Vegas, NV (LAS)	83.2%	2.5%
8	Baltimore, MD (BWI)	82.4%	1.6%
9	San Diego, CA (SAN)	82.2%	1.3%
10	St. Louis, MO (STL)	82.1%	0.9%
11	Detroit, MI (DTW)	81.9%	2.4%
12	Cincinnati, OH (CVG)	81.9%	0.7%
13	Tampa, FL (TPA)	81.7%	1.0%
14	Seattle, WA (SEA)	81.5%	1.6%
15	Orlando, FL (MCO)	81.0%	1.7%
16	Minneapolis/St. Paul, MN (MSP)	80.9%	1.8%
17	Washington, DC (IAD)	80.8%	1.0%
18	Denver, CO (DEN)	80.8%	3.7%
19	Charlotte, NC (CLT)	79.8%	1.8%
20	Chicago, IL (ORD)	79.8%	5.1%
21	Washington, DC (DCA)	79.7%	1.2%
22	Dallas/Ft. Worth, TX (DFW)	79.5%	4.3%
23	Fort Lauderdale, FL (FLL)	78.1%	0.9%
24	Boston, MA (BOS)	75.1%	1.7%
25	Miami, FL (MIA)	74.9%	0.9%
26	Philadelphia, PA (PHL)	74.0%	1.4%
27	San Francisco, CA (SFO)	72.9%	2.2%
28	Atlanta, GA (ATL)	72.3%	6.7%
29	New York, NY (JFK)	71.4%	1.8%
30	New York, NY (LGA)	66.4%	1.6%
31	Newark, NJ (EWR)	64.1%	1.8%

SOURCE: U.S. Bureau of Transportation Statistics

BEACONS

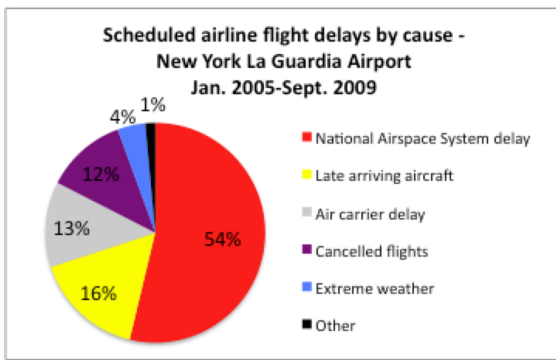
- ✓ Revised annualized US GDP growth was 2.8% in Q3 2009
- ✓ Gulfstream: book-to-bill ratio improved to 1.5 in Q3 2009; G650 first flight occurred 11/25/09; funded backlog > \$19 Billion
- ✓ Used business jet inventory has stabilized
- ✓ Fleet utilization rates have stabilized
- ✓ Many key aerospace stocks have rebounded strongly from their 52-week lows
 - ✓ Boeing +85%
 - ✓ Bombardier +107%
 - ✓ Embraer +122%
 - ✓ General Dynamics +90%
 - ✓ Honeywell +71%
 - ✓ Rockwell Collins +97%
 - ✓ Rolls-Royce +96%
 - ✓ Spirit Aerosystems +135%
 - ✓ Textron +473%

All-aboard for Atlanta, Chicago, or Dallas/Ft. Worth

The three largest hub airports in the United States are Atlanta Hartsfield, Chicago O'Hare, and Dallas/Ft. Worth, and each is consistently ranked amongst the worst performing for on-time arrivals. In the year-to-date through September 2009, only 72% of Atlanta flights arrived on-time (within 15 minutes of schedule), and the average delay was 57 minutes. All major New York-area airports fared even worse (see table above), with on-time arrivals as low as 64% at Newark, where average flight delays have recently been as high as 80 minutes.

New York La Guardia

On-time arrivals at New York La Guardia have averaged only 63.5% in the last 5 years, equivalent to 122 late flights each day since 2005. A little more than half of flight delays are attributed to the National Airspace System (NAS), which comes under considerable stress during times of inclement weather. About 40% of delays involve factors that are controllable by the airlines (see chart).



The costs of these repetitive delays, measured in wasted fuel and lost productivity, are simply staggering. We estimate that delays on flights into La Guardia have affected 11 million business travelers since 2005, which even with conservative estimates of the value of their time, represents more than \$1 billion in lost productivity. →

Delivery Demand Driver	Turboprops	Regional Jets	Commercial Jets
	ATR, Q Series	CRJ, ERJ	E-Jets, CSeries, MRJ, ARJ, Superjet
Global recession	Negative	Negative	Negative
Availability of customer financing	Negative	Negative	Negative
Oil price inflation / focus on fuel efficiency	Positive	Mixed	Positive
Legacy carrier financials / consolidation	Positive	Positive	Positive
Regional service contracts across airline groups	Positive	Positive	Positive
Retirement of older-generation mainline jets	Positive	Positive	Positive
International hub service development	Positive	Positive	Positive
Weak \$US	Positive	Positive	Positive
New products / technology	Mixed	Mixed	Positive
Passenger perceptions	Mixed	Mixed	Positive
Quality / depth of order backlog	Mixed	Negative	Positive
Delivery outlook - next 2 years	Positive	Negative	Negative
Delivery outlook - next 5 years	Positive	Mixed	Positive
Delivery outlook - next 10 years	Positive	Mixed	Positive

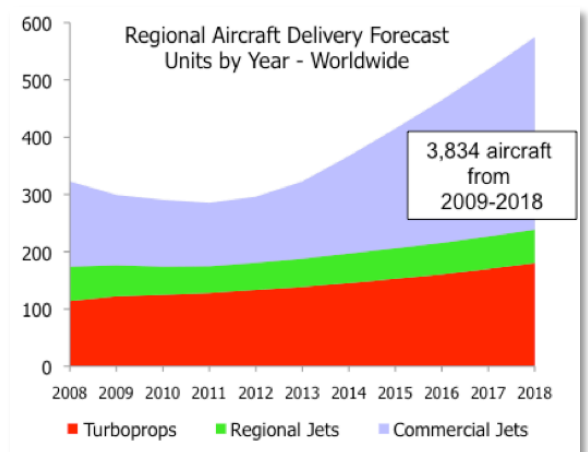
Regional aircraft forecast: Time to climb

Despite the many challenges currently facing the commercial airline industry, there are some relative bright spots. Most airlines with reduced cost structures, such as Low Cost Carriers (LCCs) and regional airlines, have been able to maintain positive operating margins throughout the Great Recession, with both segments climbing to 7%+ margin on average in Q2 2009. This respectable performance was achieved primarily through better LCC yield management (now slightly higher than network carriers, but at much lower cost structures) and aggressive cost reductions at regional airlines (where expenses are down 31% through 2Q 2009 YOY, more than compensating for a drop in average yields of 29%).

Although tempered in the next several years by the tough economy and a weak order backlog, we believe that the medium- and longer-term outlook for new regional aircraft deliveries is relatively bright (see table). A new generation of aircraft, including 100+ seat commercial jets and large turboprops, are currently in development or under

consideration, and these will come on-line to coincide with the next economic upcycle. Designed to fill a void below Boeing and Airbus models, new commercial aircraft from Embraer, Bombardier, Mitsubishi, AVIC, and Superjet will offer improved cabin comfort and near-seamless service for airline passengers.

New or rejuvenated sources of customer financing will need to develop to facilitate this delivery performance. Recent oil price volatility, trading speculation, Middle East instability, and a weak \$US monetary policy shape our thinking about future prices for Jet-A fuel, and our view that oil will remain above \$80/barrel through the planning horizon. In our regional aircraft delivery forecast, we believe that economic and environmental considerations will drive aircraft manufacturers and operators towards newer, larger regional aircraft of 90+ seats.



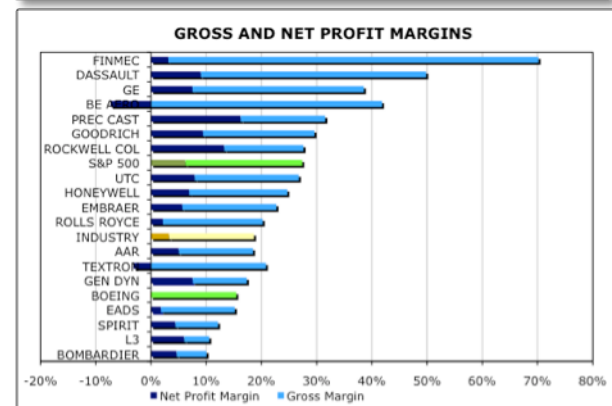
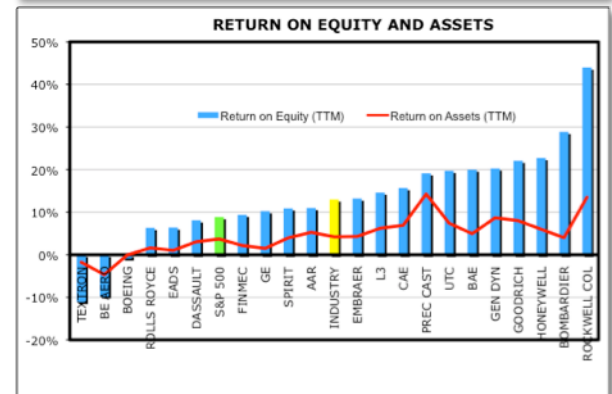
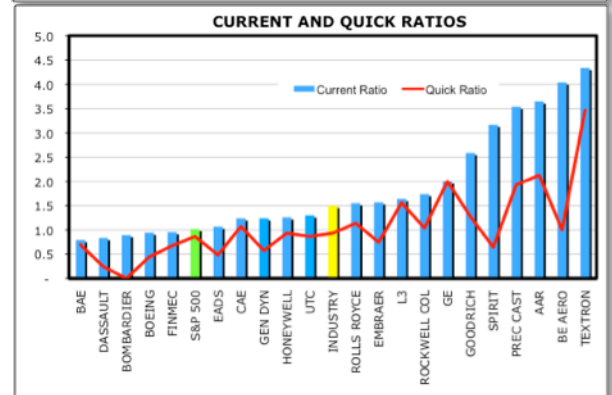
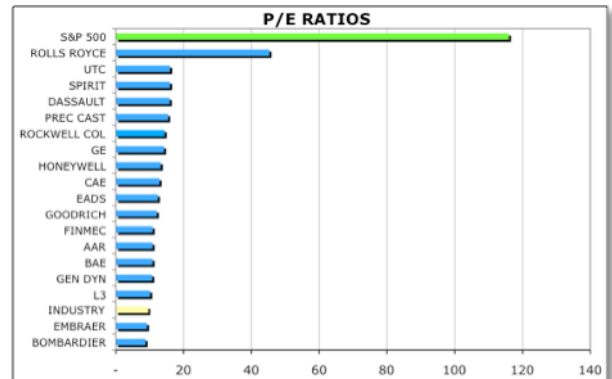
Rolling the dice

Former New York City resident and Gulfstream jet owner Nelson Rockefeller once said that opportunities take shape within the problems. With no major runways in the planning stage, full airliners, delays in ATC upgrades, and with odds only about 2:1 that an airline flight into New York will arrive on-time, the environment remains ripe for business aviation entrepreneurs to introduce and perfect innovative services. These include branded charter, managed aircraft, supplemental lift solutions, air taxi, and regional fractional programs, all of which hold promise in our view.



Aerospace Industry Financial Highlights

Sources: Reuters, Forbes, ADVFN – November 30, 2009. ('Industry' includes both civil and defense.) →



Rolland Vincent Associates, LLC is an aviation consulting firm. Drawing from over 25 years of aviation experience, we deliver trusted insights in market research, strategy, business and product development, industry analysis and financial modeling. We are here to help you understand customer needs and preferences, design products and services to delight your customers, and discover and seize business opportunities. We provide you with practical, intelligent solutions to unleash the power of your business and navigate for global aviation leadership.

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