

THE BUSINESS JET AIRCRAFT MARKET A MARKET WITH SOME SERIOUS BEHAVIORAL ISSUES

Prepared for the

SPEEDNEWS AVIATION INDUSTRY SUPPLIERS CONFERENCE

SCOTTSDALE, AZ

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Presented by

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Annual Informal WAV Business Jet Survey

Middle / Upper Management Usage

- How many of you came to the conference on a business jet?
- How many of you have flown on the company corporate jet in the last two years (2009 / 2010)?

Corporate Image Issues

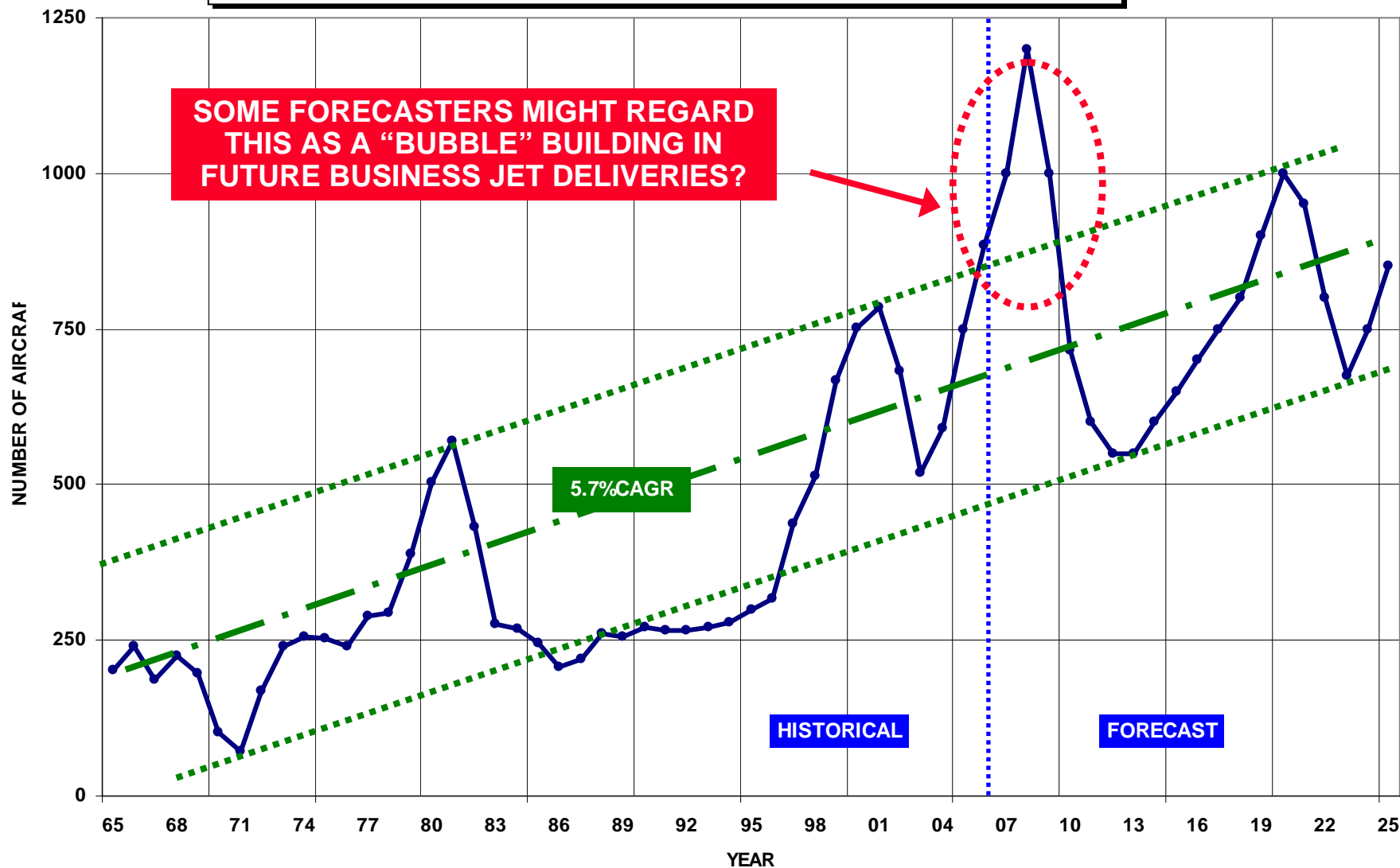
- How many of your companies will be taking / took delivery of a business jet in 2009 / 2010 / 2011?
- How many of your companies will be ordering /ordered a business jet in 2009 / 2010 / 2011?

What Are the Serious Behavioral Issues?

- The business jet market has been around for 45 years – it should behave better than it does.
- It is very unpredictable.
- It is extremely volatile in terms of aircraft deliveries.
- An aircraft “firm order” and “firm backlog” are somewhat meaningless terms.
- There are a lot of large players (manufacturers) on the sales side with varying reasons for being in the market.
- There are a lot of different market segments on the buyer side with varying reasons for wanting a business jet.
- It is the entry portal for a lot of aviation “enthusiasts” equipped with the usual smoke and mirrors justification for a new a/c model.
- The product’s real economic value is difficult to justify particularly if you use it to travel to Washington DC to testify before Congress.
- The business jet market defies logic and rational thought. I have been forecasting this market for many years and have concluded it just has a mind of its own as it wanders off to seek new adventure.
- It is unlikely to change or get any better – get used to it.

PRIOR YEARS AT SPEEDNEWS.....

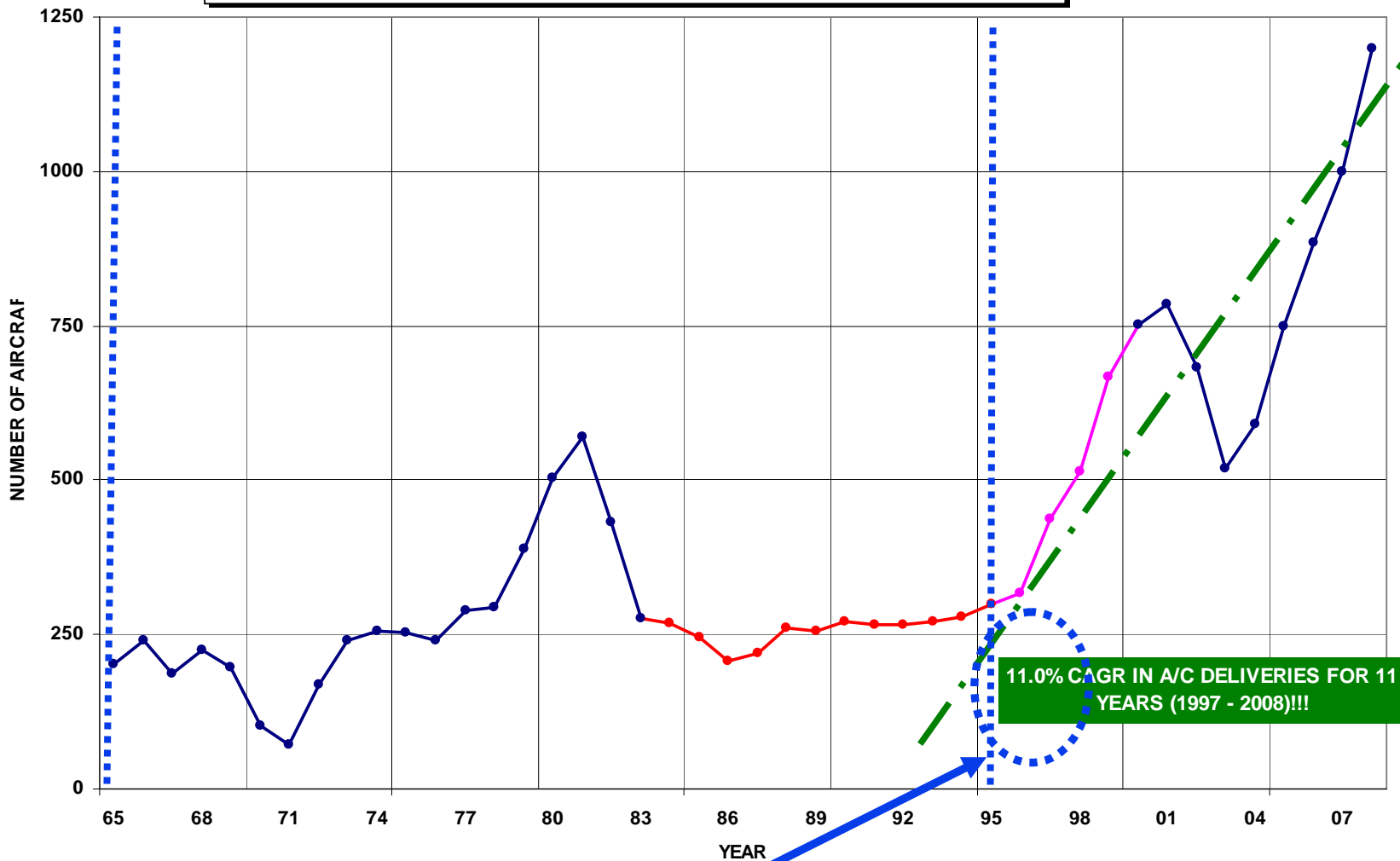
BUSINESS JET AIRCRAFT DELIVERIES - 20 YEAR FORECAST



THIS WAS MY JULY 2007 MODEL FOR THE BIZJET INDUSTRY.

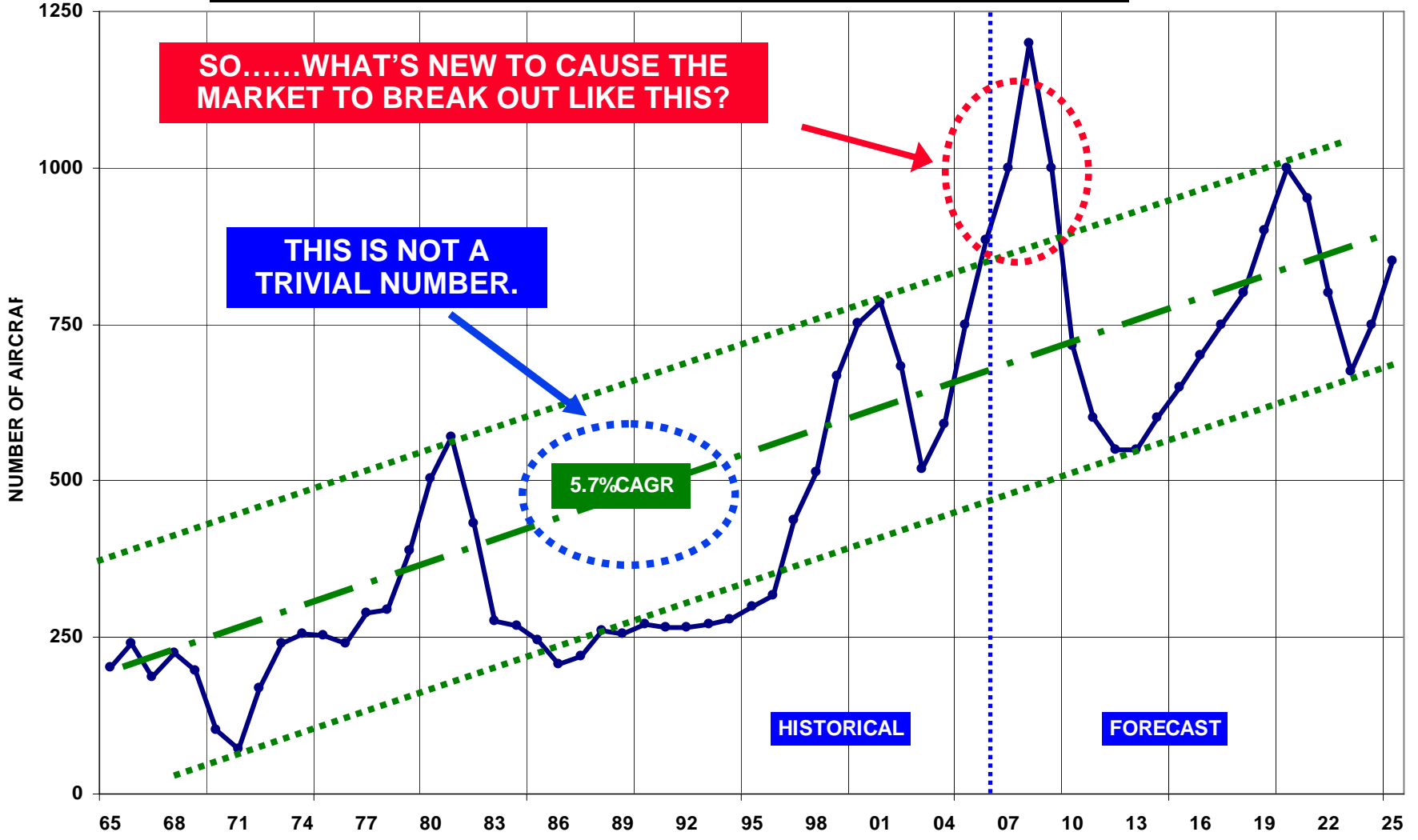
THIS WAS MY JULY 2007 MODEL FOR THE BIZJET INDUSTRY.

WORLD BUSINESS JET AIRCRAFT DELIVERIES - HISTORY



NOT MANY MARKETS DO 10% PLUS ANNUAL COMPOUNDED GROWTH IN DELIVERIES FOR A 10 YEAR PLUS TIME PERIOD.

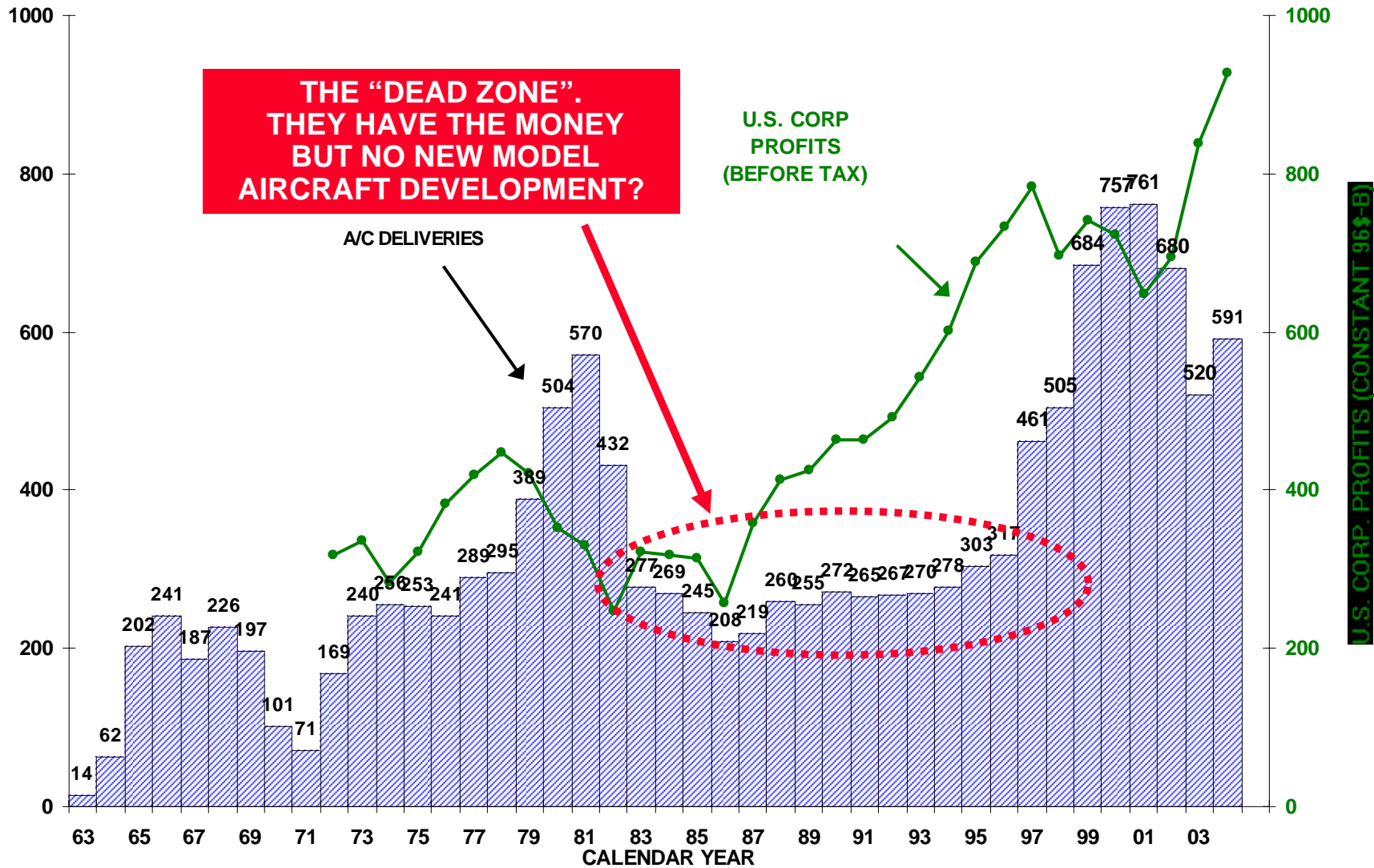
BUSINESS JET AIRCRAFT DELIVERIES - 20 YEAR FORECAST



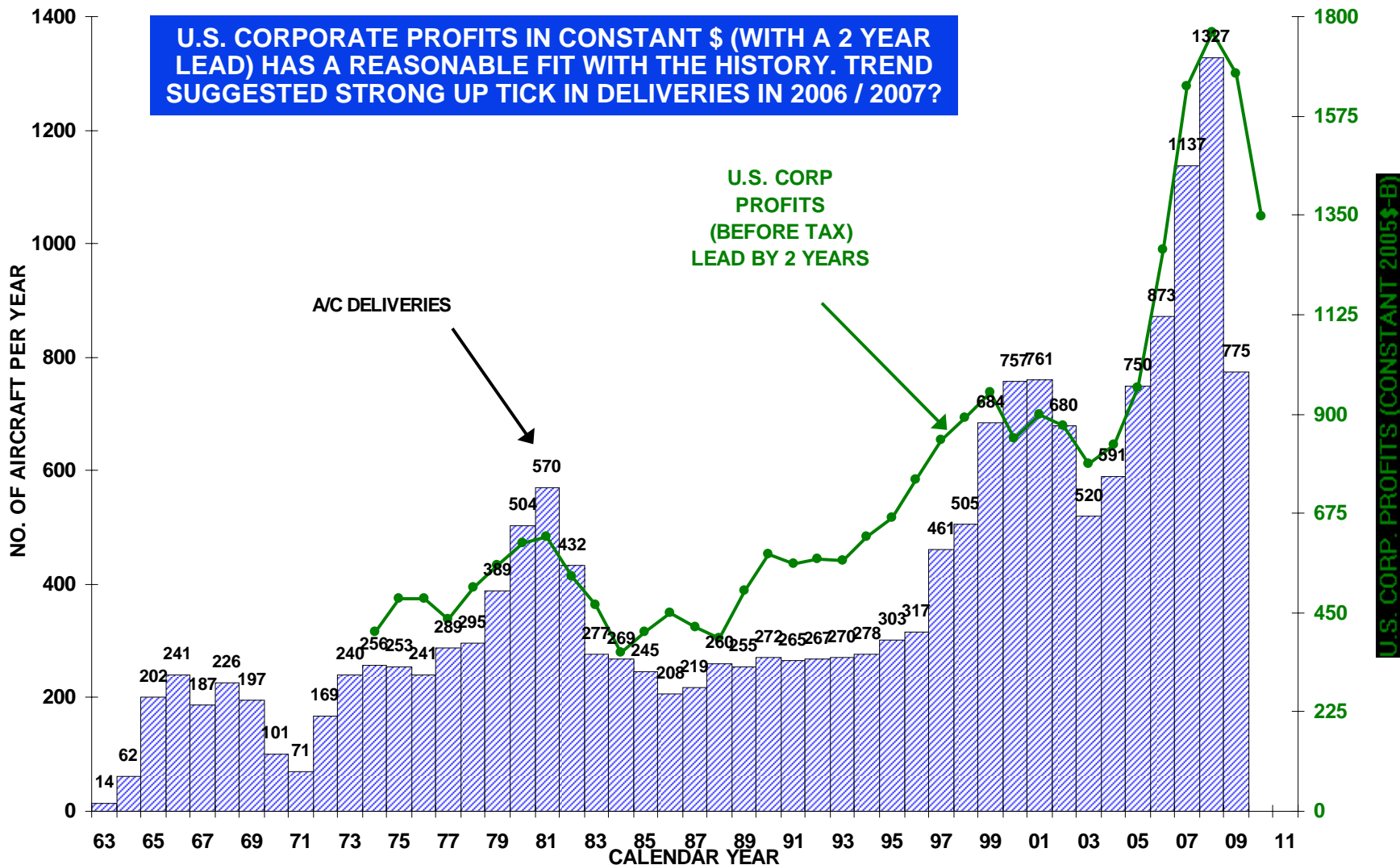
THIS WAS MY JULY 2007 MODEL FOR THE BIZJET INDUSTRY.

CORPORATE PROFITS AS A MARKET DRIVER?

WORLD EXECUTIVE TURBOFAN / JET AIRCRAFT DELIVERIES



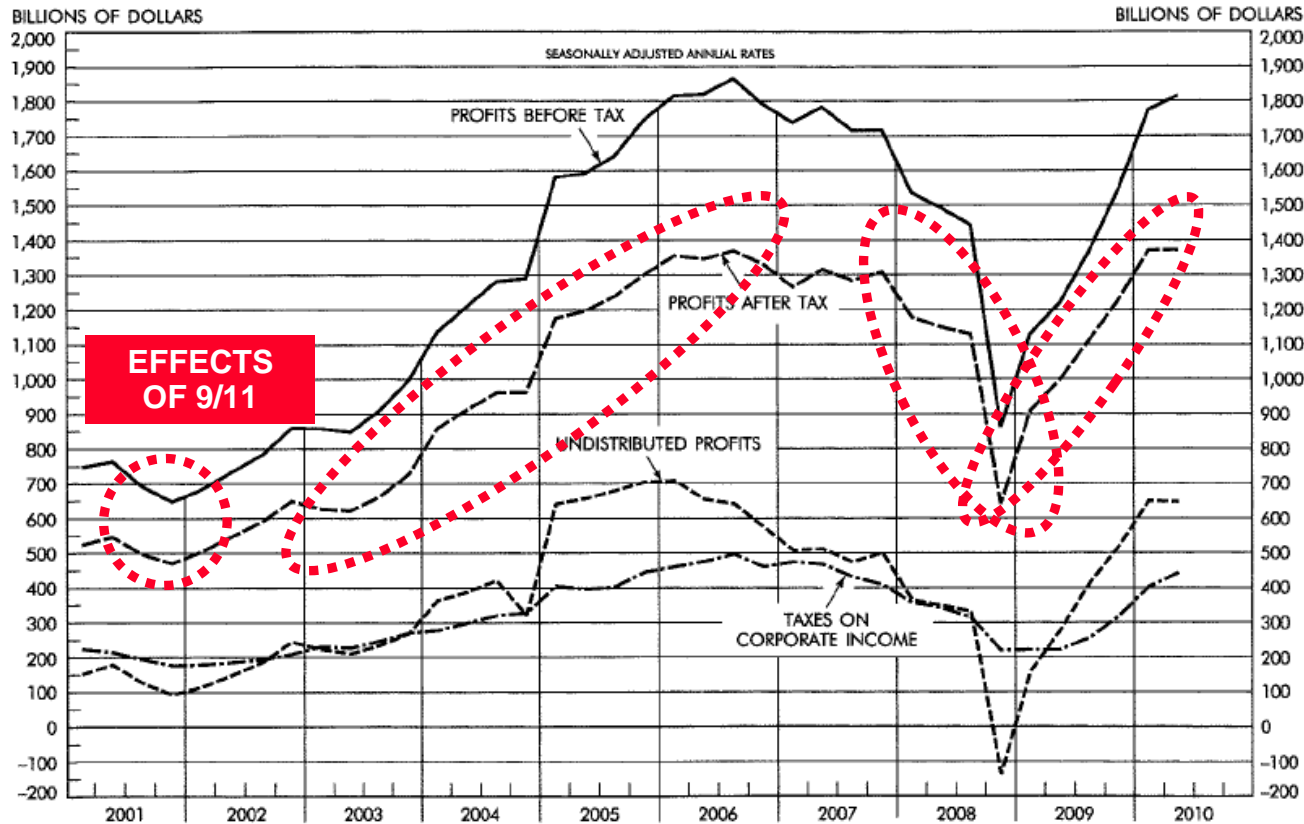
WORLD EXECUTIVE TURBOFAN / JET AIRCRAFT DELIVERIES



IT IS A GREAT CORRELATION BUT IT IS THE MARKET OUTSIDE THE U.S. THAT HAS HAD ALL THE RECENT GROWTH.

CORPORATE PROFITS

In the second quarter of 2010, according to current estimates, corporate profits before tax rose \$41.0 billion (annual rate) and profits after tax rose \$2.0 billion.

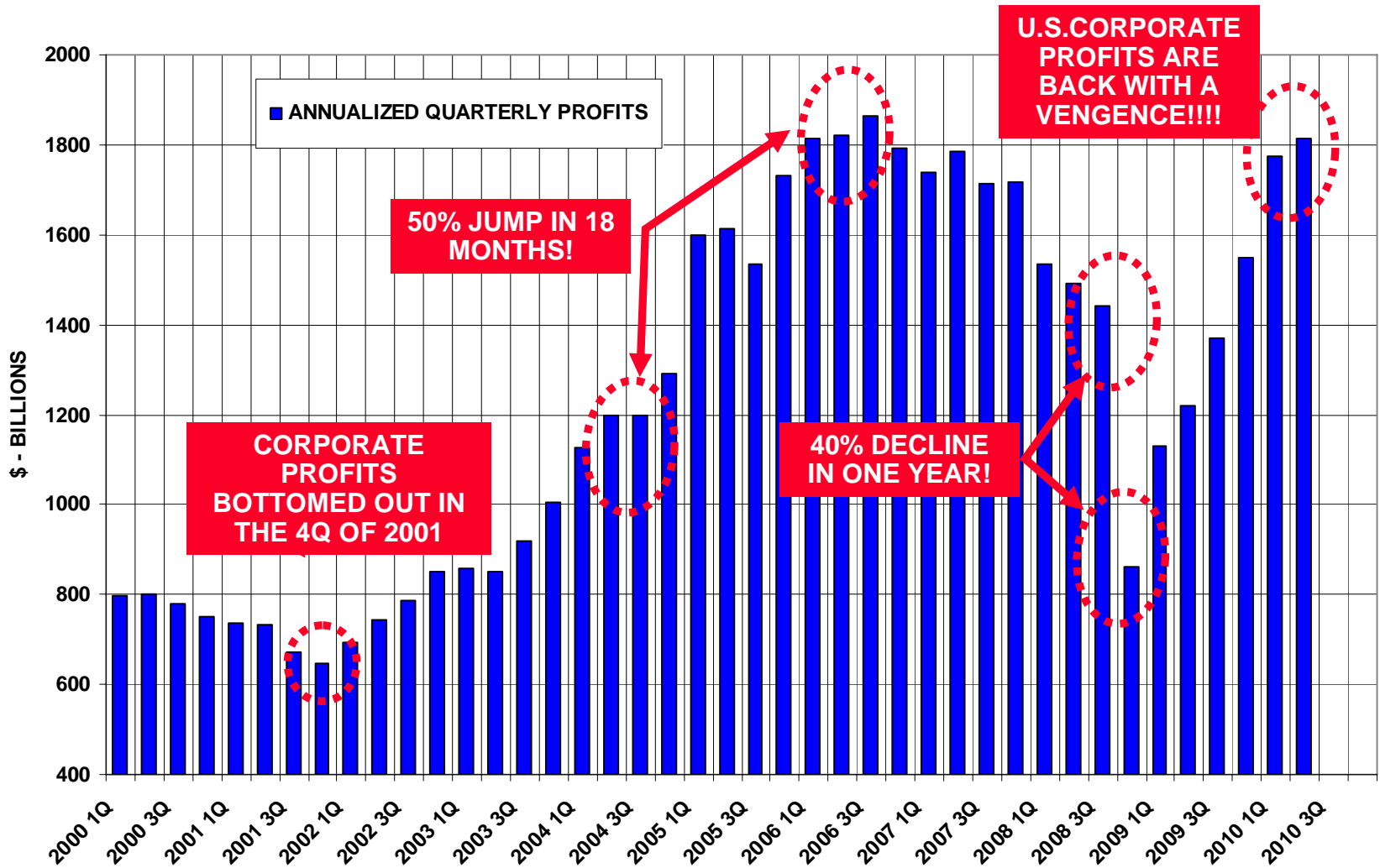


SOURCE: DEPARTMENT OF COMMERCE

COUNCIL OF ECONOMIC ADVISERS

CORPORATE PROFITS HAVE HAD A BIT OF A WILD RIDE IN THIS BUSINESS CYCLE!

U.S. CORPORATE PROFITS - BEFORE TAX - CURRENT \$



A CLOSER LOOK AT THE CORPORATE PROFIT NUMBERS.....

Big Three CEOs Flew Private Jets to Plead for Public Funds

Auto Industry Close to Bankruptcy But They Get Pricey Perk

By BRIAN ROSS and JOSEPH RHEE

November 19, 2008

GOOD MORNING AMERICA

853 comments

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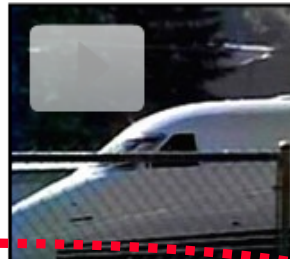
More

The CEOs of the big three automakers flew to the nation's capital yesterday in private luxurious jets to make their case to Washington that the auto industry is running out of cash and needs \$25 billion in taxpayer money to avoid bankruptcy.

The CEOs of GM, Ford and Chrysler may have told Congress that they will likely go out of business without a bailout yet that has not stopped them from traveling in style, not even First Class is good enough.

All three CEOs - Rick Wagoner of GM, Alan Mulally of Ford, and Robert Nardelli of Chrysler - exercised their perks Tuesday by flying in corporate jets to DC. Wagoner flew in GM's \$36 million luxury aircraft to tell members of Congress that the company is burning through cash, asking for \$10-12 billion for GM alone.

THE "ROYAL BARGE" IMAGE CAN LAST FOR A LONG TIME IN THE MEDIA.



Even as their companies fail, Ford and GM CEOs continue lavish lifestyles.

IT MIGHT BE AWHILE BEFORE CORPORATE PROFITS GET SPENT ON NEW BUSINESS JETS.



Public Percent

Rule Enforcement



BBC Low graphics Help Search

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Page last updated at 10:46 GMT, Wednesday, 28 January 2009

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Citigroup cancels corporate jet

Troubled US bank Citigroup has cancelled an order for a new corporate jet after President Barack Obama questioned the wisdom of the purchase.

The White House asked whether buying the jet was the "best use of money at this point" for a bank that took \$45bn (£31.6bn) of

Citigroup Center

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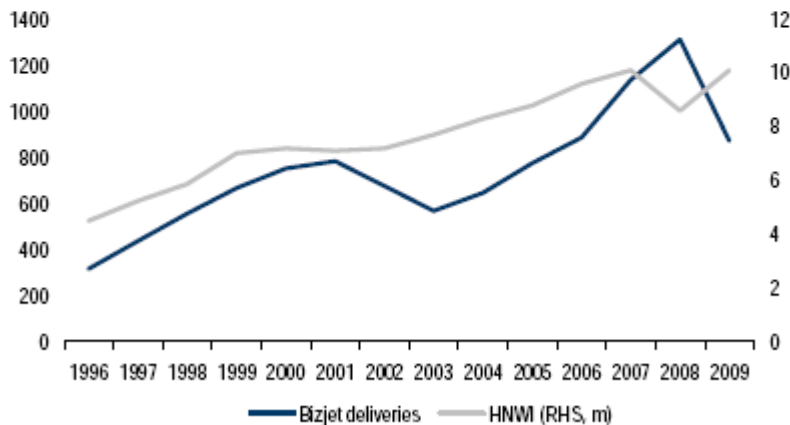


FORTUNATELY, THERE HAVE NOT BEEN A LOT OF CANCELLATIONS

High Net Worth Individuals Add to Growth, but are not a Key Driver

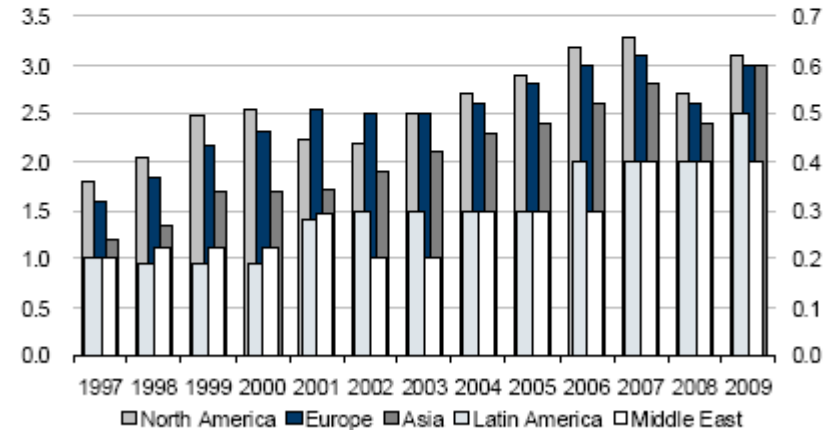
There is a high correlation (~78%) with jet deliveries and the number of High Net Worth Individuals, though we note that private owners of jets represent less than 10% of the active fleet. As with our comments earlier on regional growth rates, emerging market developments for business jets tend to be characterized by international flight requirements rather than intra-regional travel. This means an opportunity for the large cabins, and penetration by the smaller and medium aircraft is likely to take longer.

Exhibit 51: Business Jet Deliveries vs. HNWI



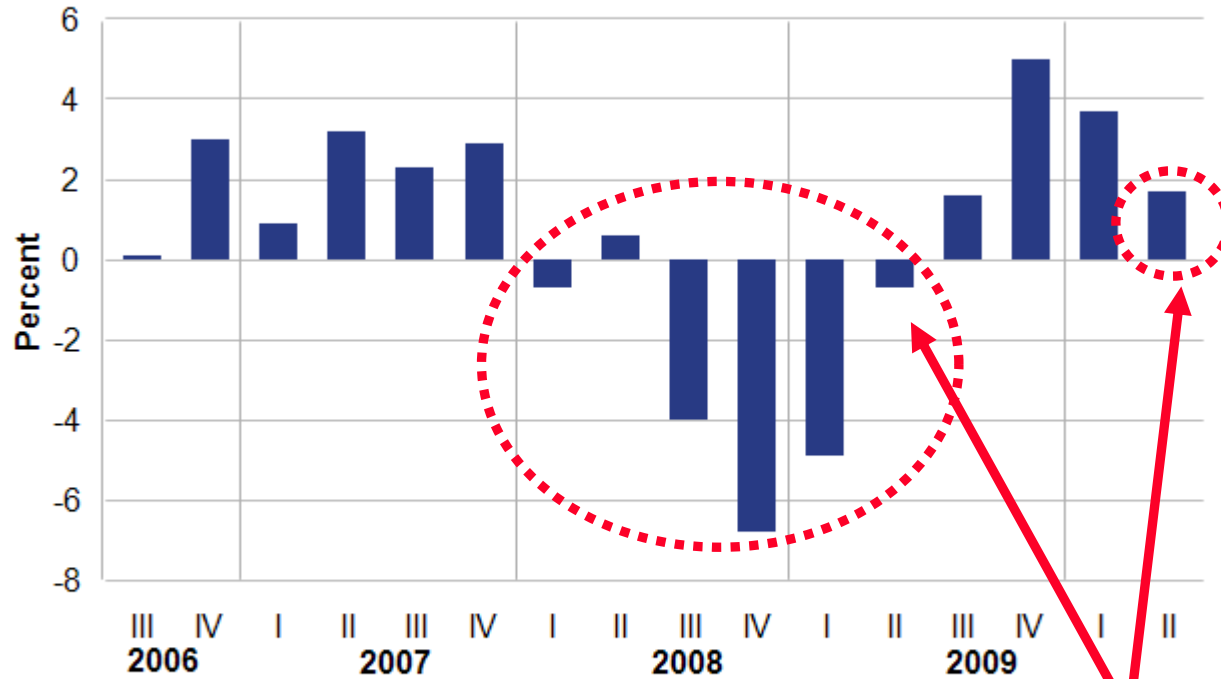
Source: WWR, Ascend

Exhibit 52: HNWI Individuals by Region (m)



Source: WWR, Ascend

Quarter-to-Quarter Growth in Real GDP



Real GDP growth is measured at seasonally adjusted annual rates.
Note. Real GDP growth is measured at seasonally adjusted annual rates.

U.S. Bureau of Economic Analysis

THE U.S. RECESSION HAS OFFICIALLY BEEN OVER FOR A YEAR.

WORLD GDP GROWTH RATES
PERCENTAGE CHANGES FROM PREVIOUS YEAR

MORGAN STANLEY - 9/30/10

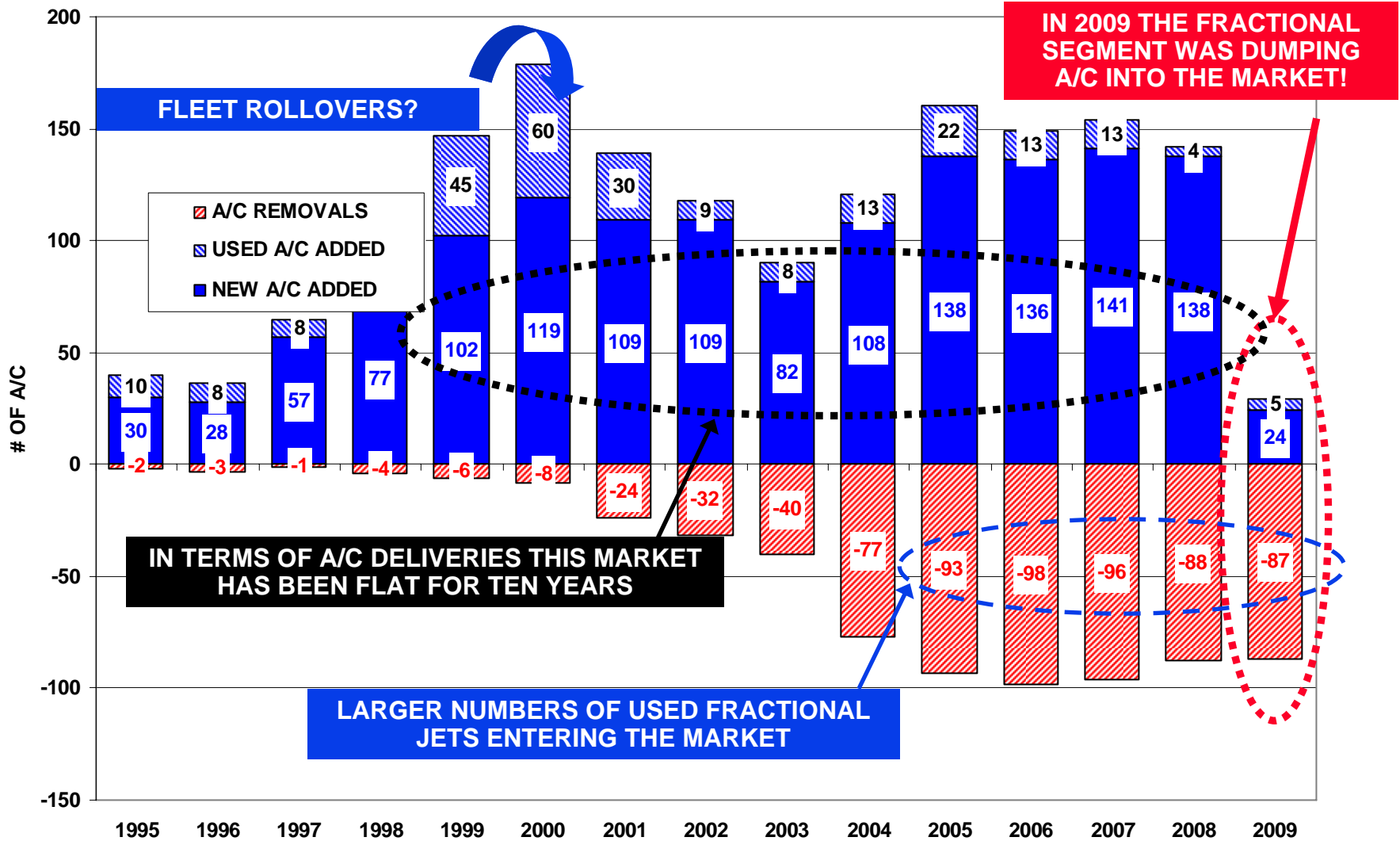
	1992	1993	1994	1995	1996	1997	1998	1999	2000
CHINA	14.2	13.5	12.6	10.5	9.6	8.8	7.8	7.1	8.0
INDIA	4.2	5.0	6.8	7.6	7.5	5.0	5.8	6.7	5.4
KOREA	5.4	5.5	8.3	8.9	6.8	5.0	-6.7	10.9	9.3
CANADA	0.9	2.4	4.8	2.8	1.6	4.2	4.1	5.5	5.3
USA	3.1	2.7	4.0	2.7	3.6	4.4	4.3	4.1	3.8
FRANCE	1.5	-0.9	1.9	1.8	1.1	1.9	3.6	3.2	4.2
SPAIN	0.7	-1.2	2.4	2.8	2.4	4.0	4.3	4.2	4.3
UNITED KINGDOM	0.1	2.5	4.7	2.9	2.6	3.4	2.9	2.4	3.8
SWEDEN	-1.4	-2.2	4.1	4.0	1.3	2.4	3.6	1.8	3.6
JAPAN	1.0	0.5	0.9	1.8	3.5	1.8	-1.1	0.2	2.8
GERMANY	2.2	-1.1	2.3	1.7	0.8	1.4	2.0	2.9	2.9
WORLD	2.0	2.0	3.4	3.3	3.7	4.0	2.5	3.8	4.8
EUROPEAN UNION	1.2	-0.3	2.8	2.4	1.7	2.6	2.9	2.9	3.5
ASIA EX-JAPAN	8.4	8.8	8.4	8.3	7.6	6.3	2.1	6.5	7.4
LATIN AMERICA	3.0	3.6	4.5	-0.3	3.8	5.6	2.1	0.1	4.1

THE GLOBAL RECESSION OF 2009 WAS BOTH WIDESPREAD AND DEEP.

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
CHINA	7.5	8.3	10.0	10.1	10.4	11.6	13.0	9.6	9.0	10.9	8.5
INDIA	4.1	4.7	7.4	7.0	9.1	9.9	9.2	7.3	5.5	7.8	7.5
KOREA	3.8	7.0	3.1	4.7	4.2	5.1	5.0	2.2	-0.5	5.0	4.3
FRANCE	2.1	1.3	1.1	2.3	1.9	2.4	2.1	0.3	-2.2	0.9	1.3
CANADA	1.8	3.4	1.8	3.1	2.9	3.1	2.7	0.4	-2.4	2.7	3.7
USA	0.3	1.6	2.5	3.6	2.9	2.8	2.0	0.4	-2.5	1.7	2.8
SPAIN	2.8	2.7	3.0	3.2	3.6	3.9	3.7	0.9	-3.6	0.7	0.8
UNITED KINGDOM	2.3	2.0	2.7	3.3	1.8	2.8	3.0	0.5	-4.2	1.5	1.6
SWEDEN	1.3	2.0	1.8	3.7	3.3	4.3	2.7	-0.2	-4.8	1.8	2.4
GERMANY	0.8	0.2	0.0	1.2	0.8	3.0	2.5	1.2	-5.0	1.5	1.4
JAPAN	0.4	-0.3	1.8	2.7	1.9	2.0	2.4	-1.2	-5.9	0.8	1.0
WORLD	2.5	3.1	4.0	5.3	4.4	5.1	5.1	3.0	-1.2	3.7	3.7
EUROPEAN UNION	1.6	0.9	0.8	1.8	1.8	3.0	2.6	0.6	-4.0	0.8	1.2
ASIA EX-JAPAN	4.2	6.2	7.0	7.9	8.4	9.4	10.1	6.9	5.4	8.0	7.3
LATIN AMERICA	0.5	-0.2	2.1	6.1	4.6	5.4	5.8	4.1	-2.6	3.3	3.1

FRACTIONAL A/C OWNERSHIP AS A MARKET DRIVER?

FRACTIONAL PROGRAMS - ANNUAL AIRCRAFT ADDITIONS / REMOVALS



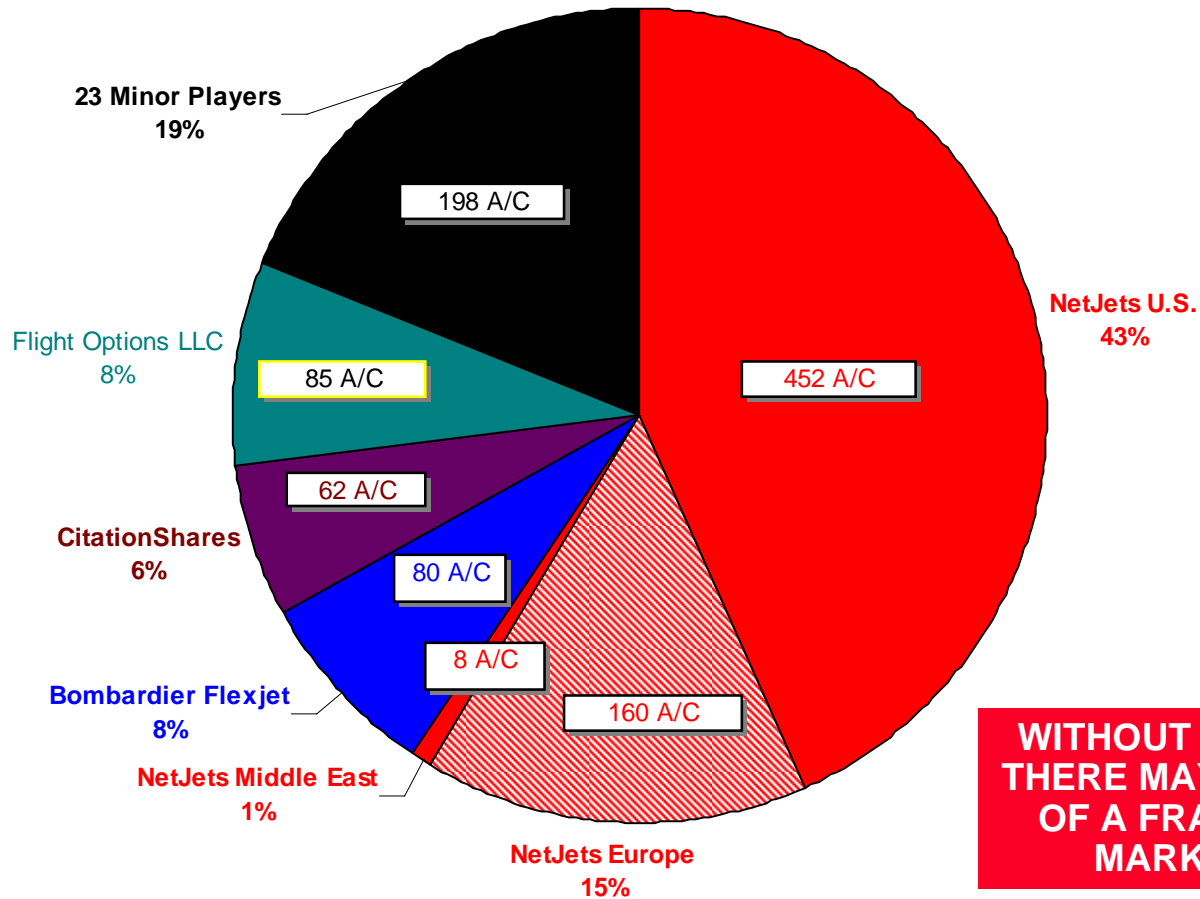
IN TERMS OF A/C DELIVERIES THIS MARKET HAS BEEN FLAT FOR TEN YEARS

LARGER NUMBERS OF USED FRACTIONAL JETS ENTERING THE MARKET

IN 2009 THE FRACTIONAL SEGMENT WAS DUMPING A/C INTO THE MARKET!

NEW FRACTIONAL JET A/C DELIVERIES COLLAPSED IN 2009!

**WORLD FRACTIONAL AIRCRAFT FLEET - YEAR ENDING 2009
(NUMBER OF AIRCRAFT)**



**WITHOUT NETJETS (59%)
THERE MAY NOT BE MUCH
OF A FRACTIONAL JET
MARKETPLACE?**

TOTAL 2009 FLEET - 1045 AIRCRAFT

The Fractional Jet Market – Time for Reflection

- Fractional business jet ownership seemed like a great idea. An expensive capital asset, an expensive corporate flight department and low utilization rates (400 to 500 hours) for the aircraft makes individual ownership expensive. More hours should lower the cost per hour.
- By “sharing” the ownership the cost would drop to allow for a larger customer base, more aircraft sales, easier access than the charter market, ownership tax benefits ,etc.
- NetJets was very well financed (with Buffet \$\$\$), well managed, well marketed reached a critical mass (800 plus a/c) early on and were reaching 1100 hours per year on their a/c.
- I think the problem was/is that, in the end, it is still too expensive. The plan was to start customers at a ¼ share (200 hrs) and work their way up. It went the other way with smaller shares and down into 25 hour and 50 hour jetcards reflecting limited perceived value in “ownership”.
- The fractional model may have created some “Sub-Prime Flying”? People were flying business jets that they really could not afford to fly in a business jet (because it was too expensive). There is a lot of anecdotal evidence that indicates the true costs did not emerge until after you were in the program (just like a sub-prime home loan).
- If current fractional owners could “default and walk” they would. If NetJets cannot make this work who can (it won't be Obama)?

BJT Bulletins

Flexjet Offers Limited-Edition Jet Card

October 15, 2010



Flexjet has announced a Napa Valley Edition jet card aimed at food and wine lovers that will be available only through Jan. 15, 2011. The card provides 25 flight hours on jets operated by Jet Solutions under FAR Part 135 at the same prices as Flexjet's regular cards, which start at \$124,900 for flights on a Learjet 40XR. The limited-edition card

comes with several bonuses, all of which will be provided from June 2 to 5, 2011, in northern California's Napa Valley:

Dinner for two prepared by chef Masaharu Morimoto, who is known for his appearances on the Food Network's Iron Chef America and for his innovative combination of Western and Japanese culinary styles.

The opportunity to attend a private cooking class and sake tasting with Morimoto at Morimoto Napa, his newest restaurant.

Two four-day passes to Auction Napa Valley, an annual fundraiser that has generated nearly \$100 million since 1981 for charities that help provide health care, youth services and affordable housing. (Flexjet's purchase of tickets to this event on behalf of its customers will aid the charities.) The event will feature the wines of more than 100 vintners, vintner-hosted dinner parties and an auction of getaway packages, rare wines and one-of-a-kind items.

Three nights' accommodations at the Meadowood Napa Valley resort and use of a car and driver during the stay.

GOTTA HAVE ONE OF THESE IN MY WALLET

THIS WORKS OUT TO BE CLOSE TO \$5K PER HOUR

MEETS YOUR EDUCATIONAL NEEDS AND THE NEED TO BE SEEN

DO YOU NEED A PASS TO GO TO TO A 4 DAY FUNDRAISER?

A SHORTAGE OF SUPPLY OF A/C AS A MARKET DRIVER?



Federal Aviation Administration - Business Jet Report

1. Total Business Jet Operations



Source: ETMSC
 Note: Operations refer to arrivals and departures.

2. Year Over Year Change in Business Jet Operations

Feb 08 - Jan 09 vs Feb 07 - Jan 08



THE DECLINE IN EXISTING BUSINESS JET OPERATIONS BEGAN IN EARLY 2008.

Source: ETMSC



4. Overall Trends (Calendar Year)

Year	Total		Domestic		International	
	Operations	Change	Operations	Change	Operations	Change
2001	3,826,564		3,432,176		394,388	
2002	4,198,012	9.71%	3,769,630	9.83%	428,382	8.62%
2003	4,285,420	2.08%	3,804,224	0.92%	481,196	12.33%
2004	4,606,122	7.48%	4,092,010	7.56%	514,112	6.84%
2005	4,727,826	2.64%	4,191,692	2.44%	536,134	4.28%
2006	4,745,746	0.38%	4,166,506	-0.60%	579,240	8.04%
2007	4,824,960	1.67%	4,180,510	0.34%	644,450	11.26%
2008	4,291,104	-11.08%	3,681,606	-11.93%	609,498	-5.42%
2009	3,449,204	-19.62%	2,929,476	-20.43%	519,728	-14.73%
2010*	2,512,212		2,105,668		406,544	

* - Year to date

Source: ETMSC

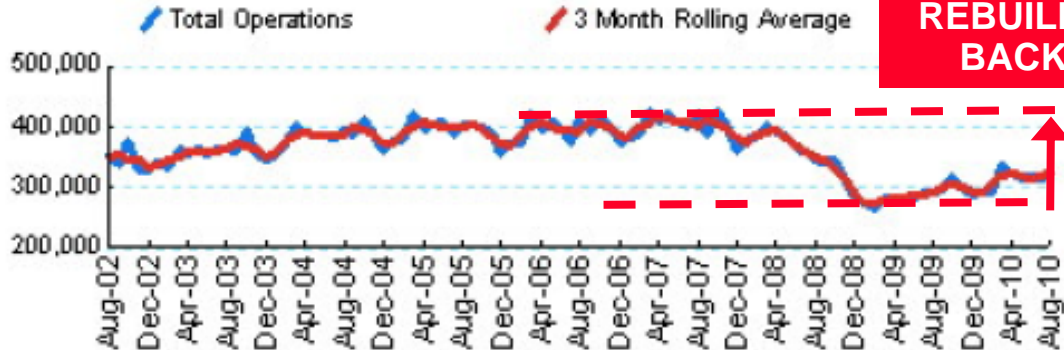
Note: International flights include US to Foreign, Foreign to US and all foreign operations.

U.S. BUSINESS JET OPERATIONS DECLINED BY A CUMMULATIVE 30% IN 2008 / 2009.



Federal Aviation Administration - Business Jet Report

1. Total Business Jet Operations



THERE IS STILL A LOT OF REBUILDING TO DO TO GET BACK TO THE "NORM".

THE DECLINE IN EXISTING BUSINESS JET OPERATIONS STOPPED IN EARLY 2010 (A 2 YEAR DECLINE).

2. Year Over Year Change in Business Jet Operations Sep 09 - Aug 10 vs. Sep 08 - Aug 09



RECOVERING NICELY NOW

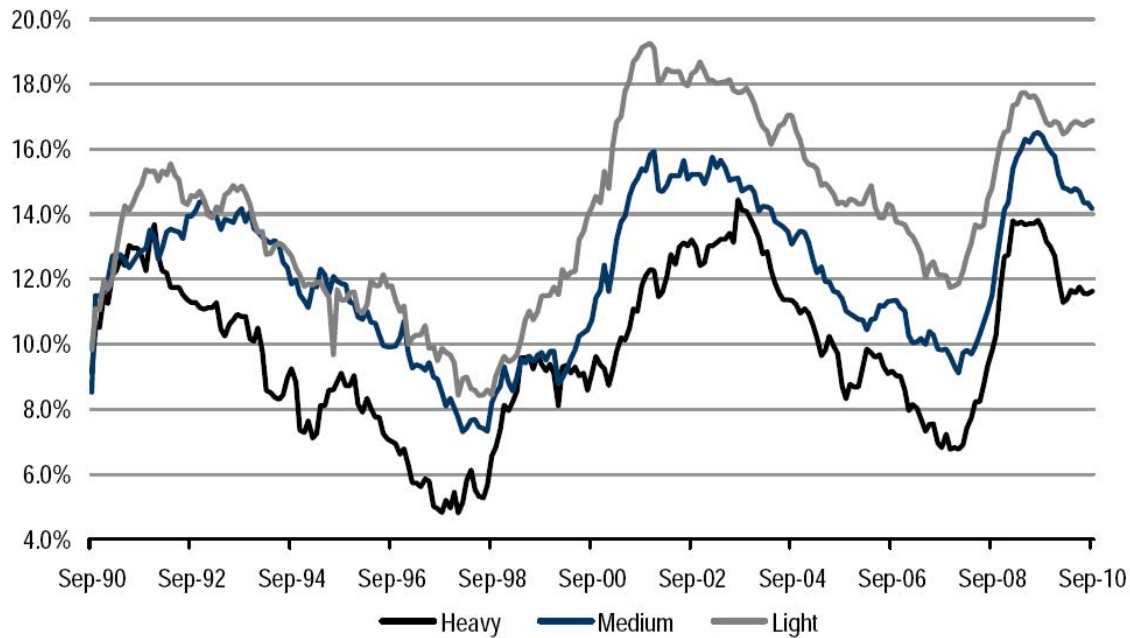
Source: ETMSC

I AM NOT SURE OF THE VALUE OF # OF OPERATIONS. IT IS NOT LIKE AN AIRLINE OPERATION. MAYBE FLYING LESS IS THE RIGHT THING TO DO? MAYBE BUSINESS JETS WERE BEING USED TOO MUCH?

USED BUSINESS JETS AVAILABLE FOR SALE
ARE UP MARKEDLY

Exhibit 21: % of Fleet For Sale by Aircraft Size (Sep 2010)

%, unless otherwise stated



Source: AMSTAT

LOOKING AT THE MARKET OUTSIDE THE U.S. AND EUROPE

TFC Commodity Charts
U.S. Dollar Index (DX, ICE [NYBOT])
Monthly Price Chart



**THE \$ DECLINED 33%
IN THIS PERIOD!**

BUSINESS JETS LOOK ATTRACTIVE AS AIRCRAFT ARE PRICED IN U.S. DOLLARS.

FROM THE BOMBARDIER 2009 FORECAST

Business Jet 10 Year Outlook

Units & %, calendar years, 2009-2018

THE BULK OF THE MARKET IS STILL IN THE U.S. AND EUROPE

	Fleet (2008)	Fleet (2018)	Fleet CAGR (2009-2018)	Orders (2009-2018)	Deliveries (2009-2018)
North America	9,400	14,100	4.1%	5,900	5,400
Europe	1,700	4,500	10.2%	3,200	3,040
Latin America	1,160	1,780	4.3%	770	710
Middle East & Africa	530	1,190	8.4%	750	720
Russia & CIS	270	820	11.7%	670	600
China	90	370	15.6%	360	300
India	90	320	13.8%	320	250
Asia & Australasia (excl. China & India)	270	720	10.2%	580	480

Source: Bombardier Forecasting Model. Excludes Very Light Jet, ACJ & BBJ. Fleet from CASE.

VERY SMALL NUMBERS
TO BEGIN WITH

PLUS AGGRESSIVE GROWTH
RATES FOR 10 YEARS

EQUALS SMALL
NUMBERS

WALSH AVIATION FORECAST

NEW PROGRAM STARTS
AS A MARKET DRIVER?

FROM THE BOMBARDIER 2009 FORECAST

Business Jet Market Segmentation

	Very Light Jet	LIGHT JETS			MEDIUM JETS		LARGE JETS	
		Light Jet	Super Light Jet	Midsize Jet	Super Midsize Jet	Large Jet	Super Large Jet	Ultra Long-Range Jet
Bombardier		L40XR	L45XR	L60XR L85	CL-300	CL-605 CL-850	G5000	GEX-XRS
Cessna	Mustang CJ1+ CJ2+	CJ3 CJ4 Encore+	XLS+	Sovereign	CX			
Dassault						F2000DX F2000EX/LX	F900DX F900EX/LX	F7X
Gulfstream			G150		G200 G250	G350	G450	G500 G550 G650
Hawker Beechcraft	Premier 1A/II	H400XP/450XP	H750	H850XP H900XP	H4000			
Embraer	Phenom 100	Phenom 300	Legacy 450	Legacy 500	Legacy 600		Lineage 1000	
Others	HondaJet	SJ30-2						

**WITH 7 PLUS
MFGS. AND 40
PLUS PROGRAMS
THIS WILL BE A
VERY CROWDED
MARKET**

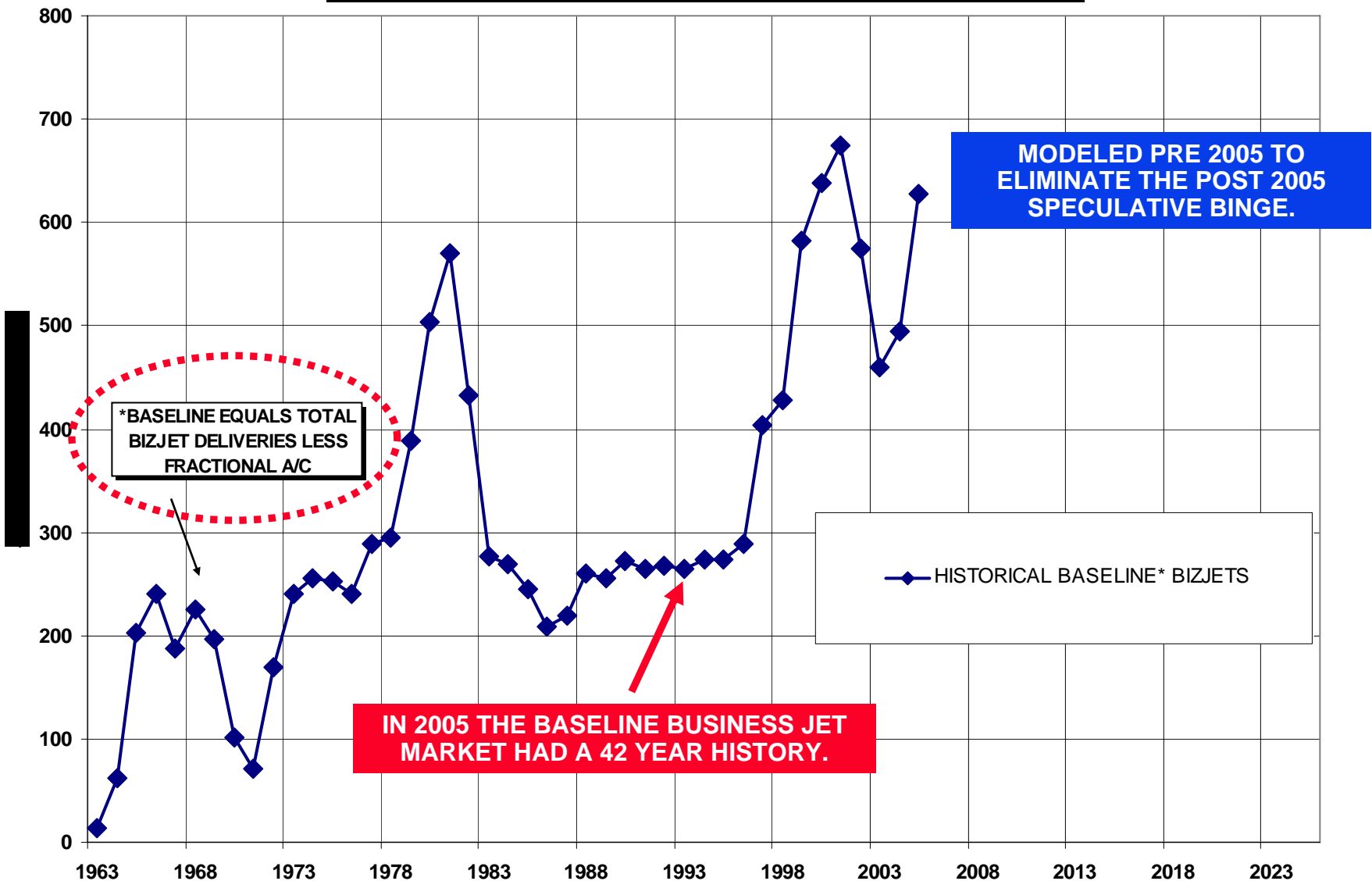
**NEW PRODUCT
INTRODUCTION IS
STILL VERY
AGGRESSIVE.**

36 In production 13 In development

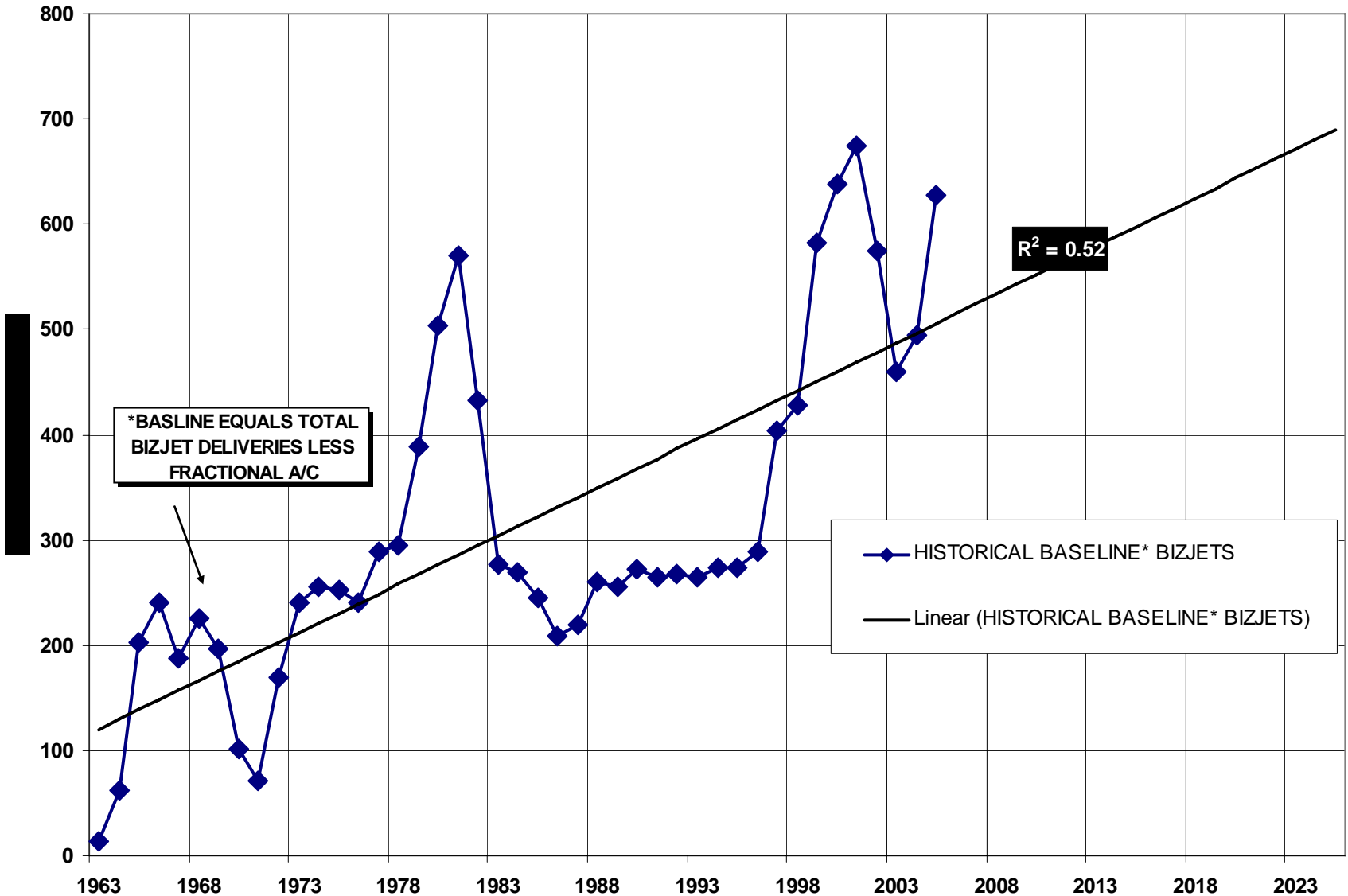
**MAYBE THE REAL MARKET DRIVER FOR
THE CORE OF THE BUSINESS A/C MARKET
IS A 40 YEAR OLD MARKET THAT HAS NO
REPLACEMENT FOR THE DEMANDS
OF THE TIME SENSITIVE TRAVELER?**

SO.....WHERE DOES THE MARKET GO
FROM HERE?

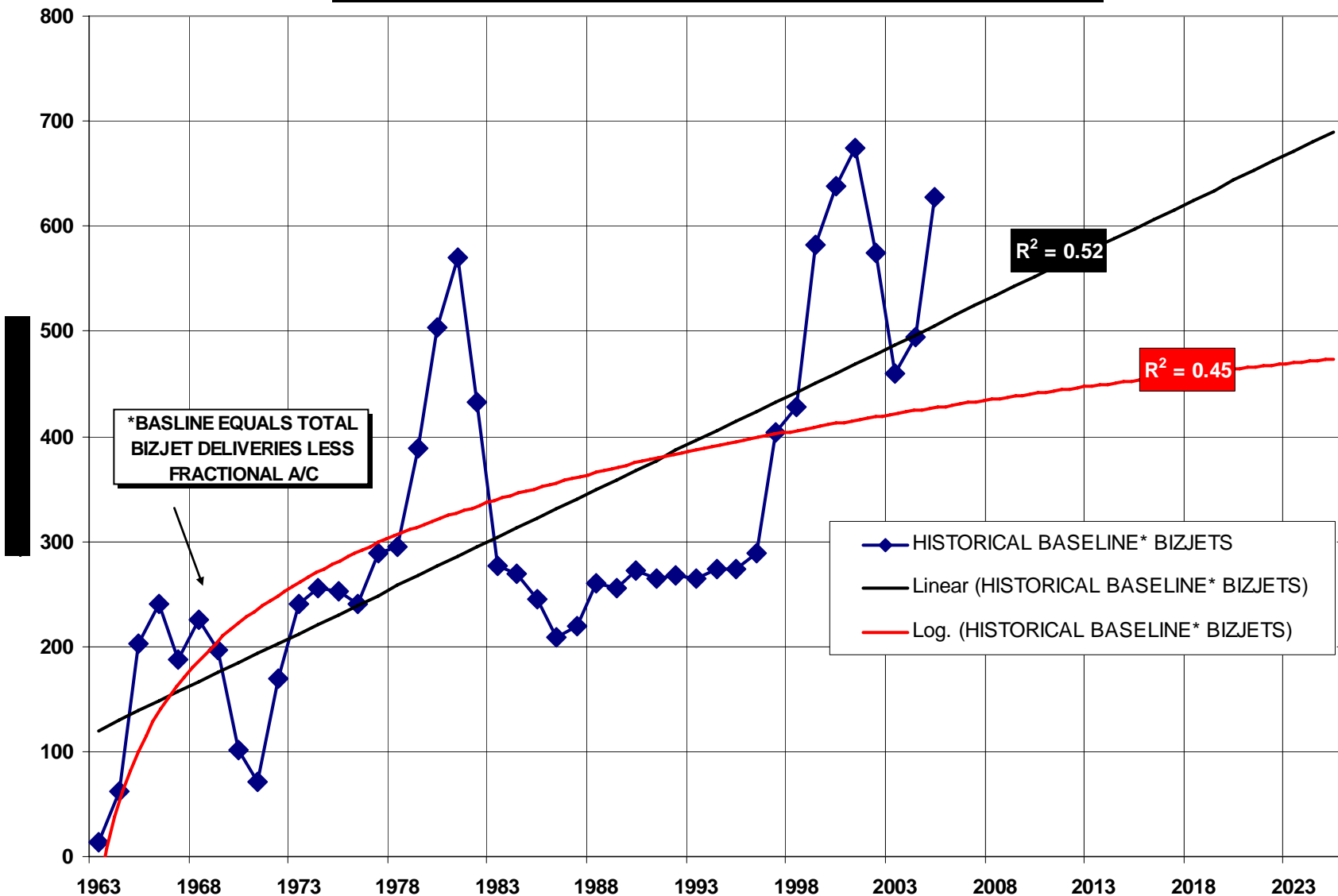
WALSH AVIATION BIZJET STATISTICAL MODELING



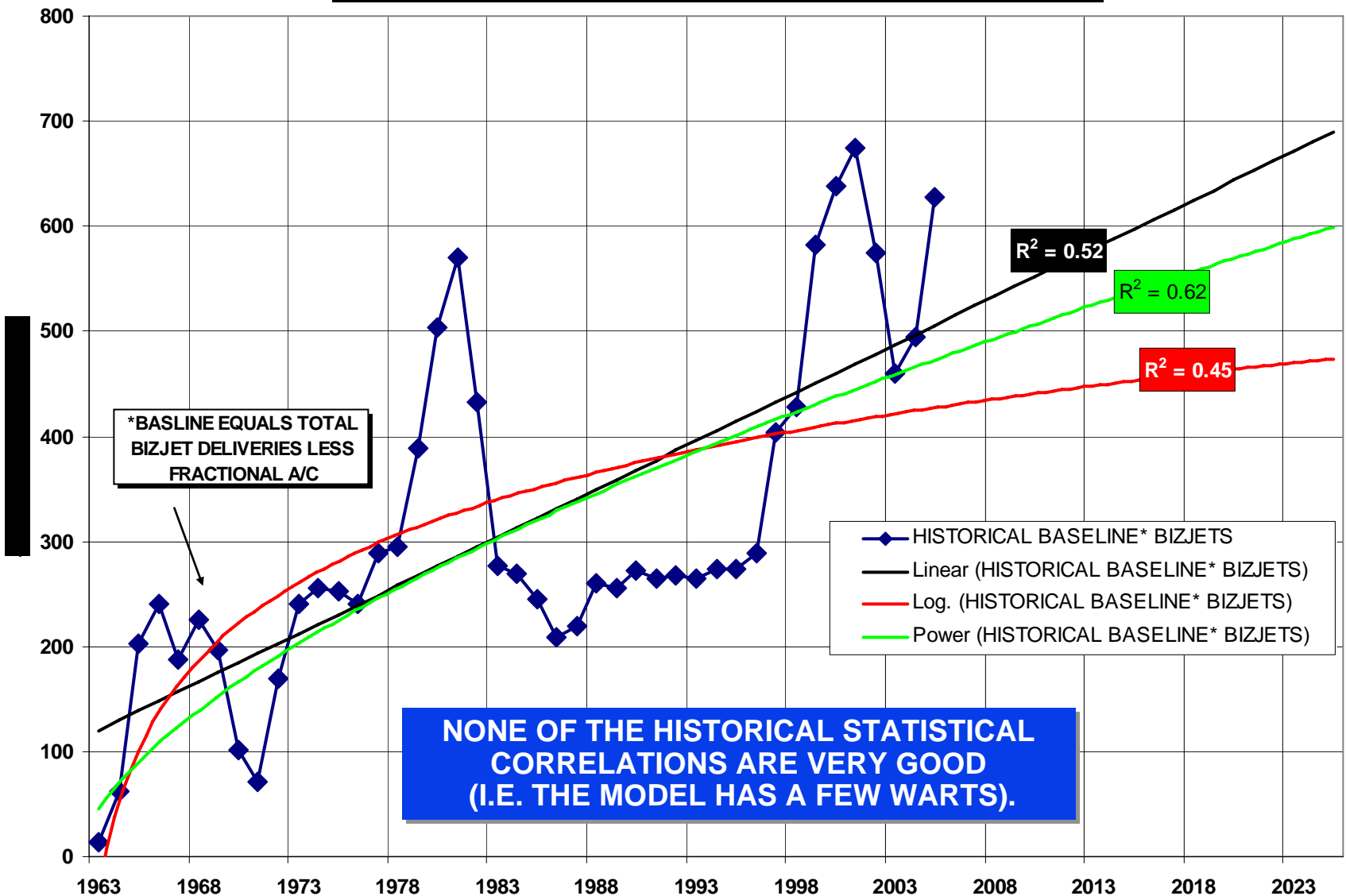
WALSH AVIATION BIZJET STATISTICAL MODELING



WALSH AVIATION BIZJET STATISTICAL MODELING



WALSH AVIATION BIZJET STATISTICAL MODELING



BUSINESS JET DELIVERIES* AS OF JUNE 30, 2010

<u>Aircraft Type</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>2010 YTD</u>
Bombardier					
Learjet 40/45	1	8			9
Learjet 60	6	0			6
Challenger 300	9	5			14
Challenger 605	16	7			23
Global 5000/Express/XRS	<u>11</u>	<u>14</u>			<u>25</u>
Total Bombardier	43	34	0	0	77
Cessna Aircraft					
510 Citation Mustang	21	20			41
525 CJ1	1	0			1
525A/B CJ2/CJ3/CJ4	5	12			17
560 Citation Encore	2	2			4
560XL Citation XLS/XLS+	1	6			7
680 Sovereign	1	3			4
750 Citation X	<u>0</u>	<u>0</u>			<u>0</u>
Total Cessna	31	43	0	0	74
Dassault					
Falcon 2000DX/EX EASY	0	0			0
Falcon 2000LX	3	13			16
Falcon 900DX/EX EASY	5	3			8
Falcon 7X	<u>9</u>	<u>12</u>			<u>21</u>
Total Dassault	17	28	0	0	45
Emivest Aerospace Corp					
SJ30-2					0

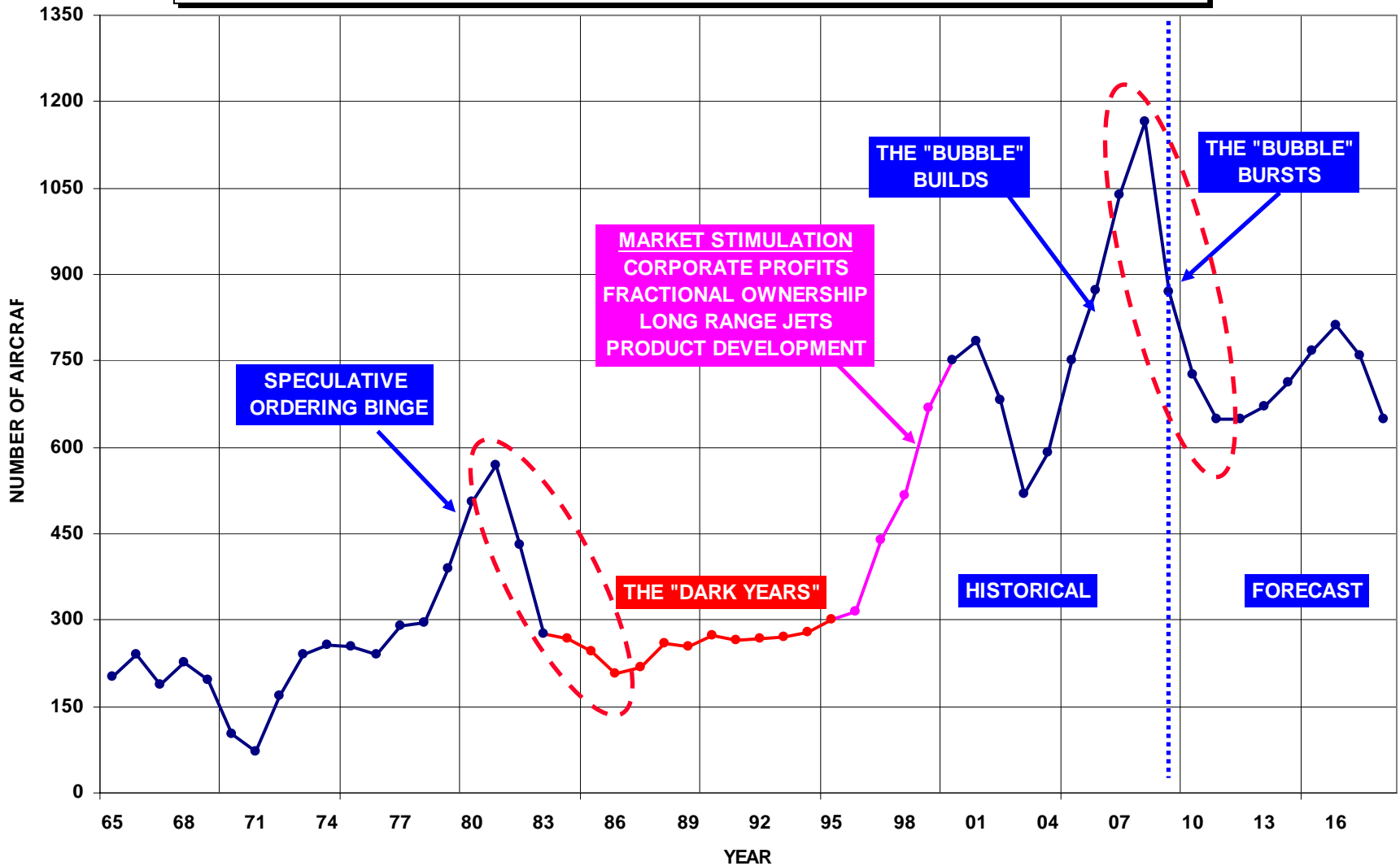
DATA SOURCE: Gama and Company reports

<u>Aircraft Type</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>2010 YTD</u>
Embraer					
Phenom 100	16	35			51
Phenom 300	<u>1</u>	<u>4</u>			<u>5</u>
Total Embraer	17	39	0	0	56
Gulfstream					
Gulfstream 150/200	8	8			16
Gulfstream 350/450/500/550	<u>20</u>	<u>20</u>			<u>40</u>
Total Gulfstream	28	28	0	0	56
Hawker Beechcraft Corp					
Premier IA	1	2			3
Hawker 400XP	1	2			3
Hawker 750	0	1			1
Hawker 850XP	0	1			1
Hawker 900XP	8	3			11
Hawker 4000	<u>4</u>	<u>4</u>			<u>8</u>
Total Hawker Beechcraft	14	13	0	0	27
VIP Aircraft					
ACJ	5	3			8
BBJ	1	0			1
BBJ 2	0	0			0
BBJ 3	1	1			2
Embraer Legacy Executive	3	0			3
Embraer Lineage 1000	0	1			1
Embraer Shuttles	0	0			0
CRJ CL 850/870/890	<u>4</u>	<u>1</u>			<u>5</u>
Total VIP	14	6	0	0	20
2010 Grand Total	164	191	180	190	725
2009 Grand Total	191	223	202	253	870
2008 Grand Total	301	372	330	324	1327
2007 Grand Total	211	265	284	377	1137
2006 Grand Total	187	222	211	253	873
2005 Grand Total	139	186	186	239	750
2004 Grand Total	114	124	153	200	591

THERE WERE 355 BIZJET DELIVERIES THROUGH 2Q 2010. ESTIMATE 725 A/C FOR THE FULL YEAR 2010.

THIS IS THE OCTOBER 2010 FORECAST

WORLD BUSINESS JET AIRCRAFT DELIVERIES - 10 YEAR FORECAST



THIS MARKET NEEDS TO COOL OFF FOR AWHILE?

Summary – The Business Jet Aircraft October 2010

- **World GDP / Corporate Profits – the recession is over, growth is modest, there is a lag (2 years) for business jet aircraft deliveries.**
- **The Air Taxi / VLJs marketplace “dreamers” had their rude awakening as did the supply chain, FAA and Albuquerque politicians.**
- **The fractional a/c market segment was hit very hard. The charter market should be able to take up the slack.**
- **The existing fleet is a near term negative in terms of the number of available used a/c at low prices and relatively low utilization rates.**
- **Manufacturing Industry forecasts – there is no rational reason to return to prior peak deliveries because there was no rational reason to have reached the 2008 peak in the first place. The market needs some time to stabilize before the next growth spurt.**
- **Core growth – bizjets around for 40 plus years but no other real choice for the time sensitive “ Being there makes a difference” traveler.**
- **High end of the market – doing better than the other segments – a/c getting larger, longer range, improved performance.**
- **New a/c starts – it is very active and still a big plus for the industry, the manufacturers and the supply chain.**