BEFORE THE
U.S. DEPARTMENT OF TRANSPORTATION
WASHINGTON, D.C.

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QA

Application of CHARTER WAY INC. For a Certificate of Public Convenience and Necessity under Section 401(d)(3) of the Federal Aviation Act to engage in passenger charter foreign air transportation.	Docket No. 48427 OST-96-1452-4

FIRST SUPPLEMENT TO APPLICATION OF CHARTER WAY INC.
FOR A CERTIFICATE OF PUBLIC CONVENIENCE AND NECESSITY

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Application of CHARTER WAY INC. For a Certificate of Public Convenience and Necessity under Section 401(d)(3) of the Federal Aviation Act to engage in passenger charter foreign air transportation.	Docket No. 48427

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Charter Way Inc. (the "Company" or "Charter Way") respectfully submits the enclosed information in response to the Department's request for additional information regarding its application for a Certificate of Public Convenience and Necessity.

In November 1992, the Company re-evaluated its business plan in order to allow the Company additional time to develop its charter operations and because the Company identified an appropriate market to conduct scheduled passenger operations. Revised financial projections are attached as Exhibit A. The Company refined its business plan due to the long lead time to package and market its charter program with tour operators and wholesalers. In addition, Charter Way plans to initiate scheduled service in the Southeastern United States. The Company intends to provide scheduled service in markets which will complement its market focus on leisure travel.

Accordingly, Charter Way respectfully requests to amend this application to also request authority to conduct domestic scheduled passenger air transportation under Section 401(d)(l) of the Federal Aviation Act.

In response to the Department's request for additional information regarding its initial application, Charter Way presents the following information:

Management

1. **The application states that all three principals of Charter Way are expected to be actively involved in the management of the Company. Will Mr. Priddy continue to be President of FloridaGulf? If so, how will he divide his time between the business of FloridaGulf and Charter Way? Will Messrs. Flynn, Gallagher, and Priddy continue to be Directors of Mesa Airlines, Inc.?**

Mr. Priddy has resigned as President of Florida Gulf Airlines, and Messrs. Flynn, Gallagher and Priddy have also resigned as directors of Mesa Airlines. Additionally, the current number of shares of Mesa Airline's stock owned by Messrs. Flynn and Gallagher is 195,833 and 316,824, respectively.

In addition, Mr. Priddy will now serve as the Chief Executive Officer of Charter Way. Messrs. Flynn, Gallagher and Priddy will continue to serve as directors of Charter Way.

2. **Provide the employment history of Messrs. Flynn and Gallagher prior to 1982. Provide Mr. Priddy's employment history prior to 1979.**

Resumes containing the requested information regarding Messrs. Flynn, Gallagher and Priddy are attached in Exhibit B.

3. **Mr. Gallagher's resume indicates that he was President, Vice President-Finance, and Chief Financial Officer at WestAir from 1982 until its sale earlier this year. Did he hold all three of these positions during this entire time? If not, indicate the date he held each position. Will Mr. Gallagher be the Chief Financial Officer for Charter Way?**

Mr. Gallagher was Vice President Finance for WestAir from 1982 to 1987, and Chief Financial Officer from 1982 to 1990. Mr. Gallagher served as President from 1987 to 1992.

Mr. Gallagher will not be the Chief Financial Officer for Charter Way. The Company intends to hire a qualified financial person to oversee its accounting and administration. The Company will forward this person's resume as soon as he is identified.

4. **We remind you that resume and compliance information remains outstanding for the individuals who will hold the positions of Vice President/Operations, Vice President/Maintenance, and Chief Pilot. You should be aware that the Department will not be able to complete processing of Charter Way's applications until it has received that required background information on these employees. (NOTE: If the Vice President/Operations and Vice President/Maintenance will not also be the company's Directors of Operations and Maintenance, respectively, with the FAA, it will be necessary for Charter Way to identify the individuals who will hold these positions and provide resume and compliance information for each.)**

The Company is actively seeking candidates for Vice-President/ Operations, Vice-President/ Maintenance, and Chief Pilot. The Company will supply the Department with the names and resumes of these persons as soon as those persons are identified.

Onerations and Financial

1. **Provide illustrative service proposals for both its foreign and domestic operations. What percentage of its operations does Charter Way expect will be domestic air transportation and what percentage will be foreign air transportation?**

The Company intends to initially focus its marketing efforts on domestic service, in particular charter to leisure destinations and scheduled service in the South-Eastern United States. The Company believes that its charter operations will be primarily to Las

Vegas, Phoenix, Orlando, and destinations in Southern California and Southern Florida.

The Company plans to initially operate two scheduled round-trips per day, Thursday through Monday. With a low fare strategy, the Company believes that it can generate sufficient traffic to profitably offer this service. Charter Way plans to market its scheduled service through print and media advertising rather than through computer reservations systems.

The Company has not presently identified foreign markets for its charter operations; however, Charter Way desires to obtain the necessary authority to conduct charter operations in such foreign markets as it will identify in the future.

2. Explain the basis for the company's block hour estimates. (In this connection, we note that, for February 1993, Charter Way states that it expects to have 30 departures and 30 block hours. Yet, it also projects the average flight segment to be 1 hour and 50 minutes. If this is the case, we would expect that the number of block hours for February 1993 would be greater than 30.)

The Company anticipates that its average segment for charter activity will be One hour Fifty minutes. In its original application, the February block hours and departures were estimates for proving flights performed in connection with its application for a Part 121 FAA certificate. Charter service was not contemplated until March. In the revised financials, the proving flights are planned for June. The forecast block hours and departures include the Company's planned scheduled service.

3. Charter Way states that it will lease 100-150 seat aircraft, but also projects that it will enplane 115 passengers per flight. Please clarify the expected seating capacity of its prospective aircraft.

The Company has chosen to use 737-200 aircraft with a 115 passenger configuration. The 737-300 the Company plans to add in January 1995 will have 141 seats. The Company believes that the 737 best suits its needs, in both the short and long term, due to the inexpensive operational costs and because the Company will be able to increase its capacity in the long term with the 737-300 model.

4. Charter Way appears to provide varying estimates of its pre-operating costs. For example, on page 2 of Exhibit 1, it projects approximately $275,000 in such costs. However, page 5 of the company's business plan (Exhibit 7) appears to provide for the company to incur costs in addition to the $275,000. It is also unclear whether certain expenses (such as, FAA certification costs, personnel salaries prior to start-up, training salaries and expenses, advertising expenses, etc.) are included. Under these circumstances, Charter Way should provide a listing of all costs expected to be incurred prior to commencement of operations, as well as an explanation of how such cost estimates were derived. If these costs are grouped by expense category, indicate what costs are included in each category.

The Company's pre-operating costs in its revised Plan are detailed on Page 93-2. The Plan calls for the Company to begin operations on July 1, 1993, subject to receiving the requisite certification. Prior to July, the Company anticipates that it will spend approximately $285,000. Of this amount, $52,000 is budgeted for legal, interim overhead, purchase of manuals and assistance from another carrier in obtaining the FAA Part 121 Certificate.

Operationally, the Company has budgeted $233,000 in pre-operating costs. This includes proving flight expenses, aircraft rent and training for the crews. Vice Presidents for Operations and Maintenance are scheduled to be hired in April, along with a maintenance person. These people will be charged with preparing the operations manuals and procedures and working with the FAA. Interviewing and hiring of the flight personnel is planned for the latter half of May. Training is scheduled for the first half of June with the proving flights planned for the last 10 days of the month.

5. **a. Provide the basis for the unit cost assumptions included in its cost projections for the first year of normal operations (see page 8 of Exhibit 6).**

b. Explain, by expense category (page 11 of Exhibit 6), how the projected expenses for the first year of operations were derived.

The unit cost assumptions referred to in this question have been updated in the revised projections. Pages 93-2 and 93-3 summarize the cost extensions and assumptions, respectively. Unit cost assumptions for 1994 and 1995 have been shown on corresponding pages, i.e. 94-2 and -3, and 95-2 and -3.

Page 93-3 describes three major areas of assumptions, operational statistics, personnel assumptions, and line item expenses. First, key operational statistics for each of the months based on the planned operations are shown. These operational statistics are generated based on assumptions used in 93-4 and 93-5. The second area on 93-3 summarizes the personnel assumptions. Each flight crew (one captain, one first officer and three flight attendants) is assumed to fly between 70 and 80 block hours per month. Scheduling and operations personnel will provide dispatch, crew scheduling and records. Maintenance personnel include two line mechanics per aircraft, one quality control person and one clerk for parts and records. Administrative personnel include a controller, a personnel director and two clerks. Neither Mr. Priddy nor Mr. Gallagher will be compensated during 1993. Provisions have been included for compensation for a senior officer during 1994.

The third category on 93-3 summarizes all the line item expenses anticipated by the Company. The format lists the line item and the extended amount represents the unit cost for that line item. A brief description of these costs are shown to the right of the numbers.

For example, fuel burn for the 737-200 is anticipated to be 800 gallons/block hour. This amount is multiplied by the block hours for that month (shown at the top of Page 93-3) and the extended amount is summarized on 93-2, Fuel. Each of the line items on Page 93-3 have a corresponding line at the bottom of 93-2, except Flight Ops training, Maintenance Overhead and Administration costs.

93-2 is a summary of all of the extended items from 93-3 plus direct assumptions for the overhead items previously discussed. These amounts are then summarized by line item on 93-1 for the summary P & L. This same format is used in 1994 and 1995 financials.

6. Do the cost projections provided include expenses associated with aircraft reserves? If so, where and how?

Aircraft reserves have been broken out on Page 93-3. The Company is budgeting $220/block hour for engine and airframe amounts.

7. a. What payments (interest or principal) are expected to be made by Charter Way during the first year of operations on monies loaned to it by its principals? If any, are such payments included in the company's expense projections? If so, where and how? If they are not included, state why not.

b. Further, it appears that the $500,000 "bridge" loan from Charter Way's owners is to be paid back by March 1994. If the company is not expected to make payments prior to the end of 1993, how is it expected that it will be able to pay off this loan, given the expected losses of $700,000 through December 1993?

Messrs. Flyrm, Gallagher and Priddy now plan to make their entire investment in the Company in equity rather than through debt. The shareholders have increased the their investment in the Company, and their investment will be sufficient to meet the

Department's financial requirements. The Company will forward evidence of the shareholders' capital contribution. The Company further intends to distribute approximately 30% of pre-tax profits to shareholders to provide for income tax liability owed by the shareholders due to the Company's status as a Subchapter S corporation.

8. **What maintenance functions does the company plan to do "in house" and what maintenance will be contracted out? Has Charter Way made arrangements for such contract maintenance?**

Charter Way plans on performing line maintenance only. Heavy maintenance will be contracted. The Company is currently negotiating with a repair station to provide this service. The Company will notify the Department once it has selected a repair station to perform its heavy maintenance.

9. **Charter Way states that Messrs. Flynn, Priddy, and Gallagher will provide the company with approximately $1.25 million in start-up capital. Has this money been advanced to the company at this time?**

a. If so, provide third-party verification (ic, bank statements, etc.) of existing funds on deposit for Charter Way.

b. If not, provide a statement from each of the above individuals indicating how much each will contribute, and provide evidence of each person's ability to supply such funds (ie, a personal financial statement, together with footnotes indicating the liquidity of any assets other than cash, and wherever possible, third-party verification of the assets and values assigned).

Messrs. Flynn, Gallagher and Priddy will make their initial investment in the Company in equity rather than debt as previously planned. The shareholders intend to invest this amount as soon as by March 31, 1993 and will forward appropriate documentation regarding their contribution to the Department.

Miscellaneous

1. **When does Charter Way expect that it will tile an application for operating authority with the FM?**

Charter Way intends to file an application for operating authority with the FAA during April 1993.

WHEREFORE, for the foregoing reasons, Charter Way Inc. respectfully requests that the Department take expeditious action to issue it a Certificate of Public Convenience and Necessity.

Respectfully submitted,

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March 25, 1993

EXHIBITS SUBMITTED
IN DOCKET 48428