

The Effect of E-rriaval Announcements on Eclipse 500 Aircraft Values

By Ben Marcus, CEO of jetAVIVA

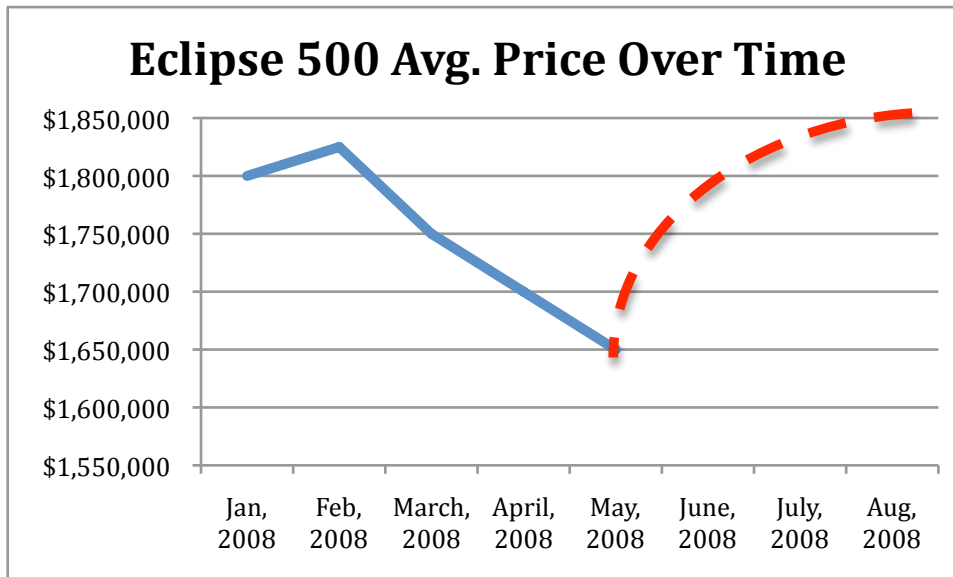
Background

On Friday, May 30, 2008, Eclipse Aviation announced that the price of the Eclipse 500 would be going up by \$450,000.

Due to delays in ramping up production the cost to build the Eclipse 500 is higher than Eclipse had planned. The company is determined to become profitable quickly and therefore the price for the Eclipse 500 had to be increased. The price for all new orders of the Eclipse 500 is now \$2,150,000 in June 2008 economics. With the inflation escalator to anticipated delivery date and typical options, we estimate the average delivered price for new orders to be about \$2,450,000. Customers who have not paid the 60% total deposits by June 15th, 2008 will also be subject to the price increase of \$450,000.

Eclipse 500 Secondary Pricing History

In our experience buying and selling over 100 VLJs in the last few years, we have seen pricing fluctuate grossly over the last few months. In the 1st quarter of 2008, prices on the secondary market for Avio NG equipped Eclipse 500s ready for immediate delivery or that were recently delivered ranged from \$1,750,000 to \$1,875,000. During the months of April and May, we saw prices drop to the \$1,600,000 to \$1,750,000 range for the same airplanes. The question is: What will the announced price increase do to the secondary market?



The Analysis

Since the announcement, we have been inundated with phone calls from Clients asking, "what should I do?"

The increase in price is considered a Refund Event, as defined in the Eclipse 500 deposit agreements. This provides people with Eclipse 500s on order and who have not yet paid the total 60% in deposits due six months prior to delivery the opportunity to cancel their orders and get their deposits back or stay in the program to take delivery of their jets when they are ready.

A lot of depositors don't want to get a refund and for good reason. Even with an increase of \$450,000 to their price, the Eclipse 500 represents the lowest priced jet on the market. There were many deposit programs over the years. Depending on which deposit program you signed up for, you may still realize a significant savings over a new Eclipse 500 order.

Alternatives

Clients have asked us to help them think through alternatives. There are many alternatives from which to choose.

Some are happy with their current aircraft. These people may continue to fly these aircraft and might take their deposit money and invest in avionics, engine, or cosmetic upgrades.

Some people are considering the purchase of another type of aircraft. Under consideration are aircraft that range from single engine piston technically advanced aircraft to mid-size corporate jets. With the recent dramatic increase in fuel cost, a lot of folks are looking at particularly efficient airplanes, like single engine turboprops.

But most are hungry for a change. Individuals placed orders for the Eclipse 500 because they were excited about the prospect of owning a jet. Technology, vision, hard work, and capital had finally come together to produce a jet that was within reach of so many more people than ever before. Most are eager to get a jet very soon as opposed to waiting much longer. If this is you, you're probably considering a nearly delivery Eclipse 500 position or a Cessna Citation Mustang. Those with a longer time horizon might consider the Diamond D-Jet or Embraer Phenom 100.

Early Delivery Eclipse 500 Positions

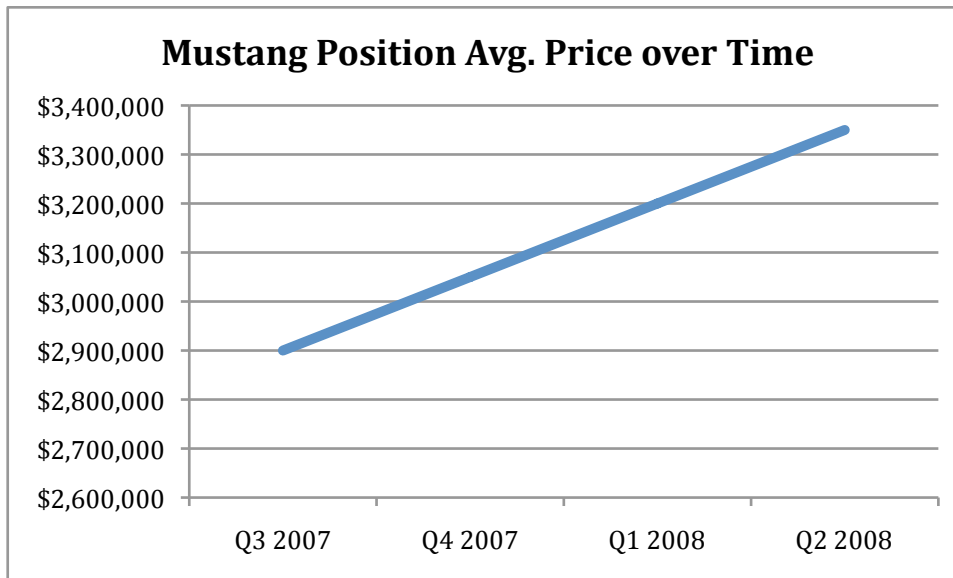
The Eclipse 500 remains the most competitively priced very light jet on the market. Once certification for Flight Into Known Icing is achieved and Garmin 400Ws are installed, the Eclipse 500 will be a very capable airplane. It is estimated that there will be approximately 450 Eclipse 500s not affected by the price increase. The purchase of an early Eclipse 500 position on the secondary market means getting the airplane for a lower price than would be paid the factory if the depositor maintained their order AND getting it sooner.

Cessna Citation Mustang

The Mustang was announced in 2002 shortly after first flight of the prototype Eclipse 500. The Mustang has a larger cabin, standard lavatory, cruises at 340 knots, has direct operating costs of about 30% more than the Eclipse, and is supported by a well established company. The price for new orders from Cessna is fixed at just under \$3,000,000 and is not tied to CPI. Next available delivery is in late 2010 or early 2011. However, just like with the Eclipse, early Mustang positions and slightly used aircraft are available on the secondary market. Expect to pay around \$3,300,000 for a 2008 delivery and a little less for 2009 deliveries.

The price on the Mustang has been steadily rising since August 2007 when you could get a near term delivery position for less than \$2,900,000. In Q4 of 2007, near term deliveries were trading at between \$3,000,000 and \$3,100,000. In Q1 of 2008, the average selling price went to \$3,200,000 and in Q2 of 2008 we've seen four transactions north of \$3,300,000.

For a used plane with few hours on it, you should expect to pay a \$100,000 to \$150,000 less.



Diamond D-Jet

As compared with the other single engine jets in development, the D-Jet is the furthest along with three flight test aircraft flying today and certification nearing.

While the development schedule is behind and certification date is a moving target, it is likely that the D-Jet will find its way into the hangars of VLJ aficionados eventually. The aircraft is slated to have a cruise speed of 315 knots, ceiling of 25,000 feet, and seat up to five. Price is \$1,380,000 in July 2006 economics. In today's dollars, that's a bit more than \$1,500,000.

Embraer Phenom 100

Knocking on the door to certification, the Phenom 100 is nearly ready. Slightly larger, faster, and thirstier for fuel than the Citation Mustang, the Phenom might be one step too far removed from the Eclipse 500 market. However, it has its advantages. Coming from a company that builds airliners, the Phenom will have an initial design life of 35,000 cycles, compared with 15,000 on the Mustang. Prices on the secondary market for 2009 Phenom 100 deliveries hover in the \$3,750,000 range including inflation and typical options.

Modification Status

Eclipse Aviation has promised a homogeneous fleet of Eclipse 500s. There are several modifications that must be performed on aircraft delivered prior to serial number 266. Beginning with serial number 266, Eclipse 500s will be delivered from the factory meeting the new "full hardware specification", including the equipment necessary for certification for Flight Into Known Icing (FIKI) and dual Garmin 400Ws. The remainder of the fleet will be retrofit with new equipment. Eclipse expects this process to extend well into 2009.

Bonus Depreciation

Another factor affecting the value of 2008 Eclipse 500 delivery positions is the "Bonus Depreciation" provision of the Economic Stimulus Act of 2008. The Act provides for 50% bonus depreciation of aircraft contracted for and placed into service in 2008. Those who use their aircraft for business could benefit greatly from acquiring an aircraft in 2008. Consult with your tax advisor or attorney for more information.

International Market

Eclipse anticipates certification of the Eclipse 500 by the European Aviation Safety Agency (EASA) this summer. With the low value of the Dollar compared with the Euro, and with a real need for regional travel between small and medium sized cities otherwise difficult to reach throughout Europe, the market for the Eclipse 500 and other VLJs is anticipated to be robust. Through ETIRC Aviation, investors from Europe have made large bets on Eclipse Aviation in anticipation of the large demand from that continent.

Eclipse also recently received type certification from India and Australia. Other countries will surely follow suit soon.

Where are prices headed?

We anticipate that the prices for Eclipse 500s on the secondary market will see a significant uptick. There is currently some supply of secondary market positions and used aircraft on the market. It will take some time for the market to reach equilibrium, which we expect will happen over the next three months. When it does reach equilibrium, we expect prices to settle approximately according to the following schedule as a guideline. All estimates are based upon typically optioned

aircraft. For pre-owned aircraft, estimates are based upon low utilization, no damage history, complete logbooks, all Airworthiness Directives and Service Bulletins complied with, cosmetics in good condition, and aircraft enrolled in JetComplete.

Pre-owned aircraft serial numbers 1-38 without ETT or Avio NG mods: \$1,600,000

Pre-owned aircraft serial numbers 39-104 and other non-Avio NG airplanes without Avio NG mod: \$1,650,000

Pre-owned Avio NG airplanes serial numbers 105 to 266 without Garmin 400Ws installed: \$1,750,000

Undelivered aircraft serial numbers 200-265: \$1,850,000

Undelivered aircraft serial numbers 266 and up: \$1,950,000, with slight reductions in the higher serial numbers with later delivery dates

Pre-owned aircraft serial numbers 1-104 converted to ETT and Avio NG but without Garmin 400Ws installed: \$1,750,000

Pre-owned aircraft fully converted with ETT, Avio NG and Garmin 400Ws installed: \$1,800,000

Conclusion

The secondary market for Eclipse 500s is turbulent in the wake of the price change announcement by Eclipse on May 30, 2008. Prices are likely to increase quickly in the short term. Price levels in the long term are unclear.

What does seem clear is that with nearly 800 Eclipse 500 orders affected by a price increase amounting to 50% of the original price of the jet, the VLJ market is about to get very active. All this activity will clearly reach beyond Eclipse and affect sellers and interested buyers of Cessna Citation Mustangs, Phenom 100s and the fleet of future single engine jets.

About the author

Ben Marcus is CEO of jetAVIVA and was formerly an aircraft salesman and flight test engineer for Eclipse Aviation. In early 2006 Ben co-founded jetAVIVA, the world authority on Very Light Jets, offering jet acquisition consultation and sales services. Backed by experience with over 100 Very Light Jet transactions, as well as providing acceptance and training services in all production Very Light Jets, jetAVIVA provides customers with comprehensive services to choose the right jet and operate it with maximum efficiency and safety.

Ben is a graduate of Purdue University's distinguished School of Aviation Technology and holds Airline Transport Pilot and Flight Instructor certificates. In his career, Ben has held positions with Fortune 100 corporate flight departments,

the leading Cessna dealer in the world, and the National Transportation Safety Board. Ben started flying at age 10 and has type ratings in the Cessna Citation and Eclipse 500. He has accrued about 350 hours in the Eclipse 500.

For more information, visit jetAVIVA.com or call 877.538.2848.