

THE MIDDLE SEAT  
By SCOTT MCCARTNEY

## New Airline to Link Small, Midsize Cities

*As Big Carriers Consolidate Flights at Hubs, ExpressJet Will Fly Nonstop Between 24 Destinations; K.C. to Raleigh Direct*

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A new airline will try to solve a frustrating conundrum for thousands of travelers: how to fly nonstop between two small or medium-size cities.

Within the next week, ExpressJet Holdings Inc., a regional airline once wholly owned by Continental Airlines Inc., is expected to launch a new carrier under its own name that will focus on point-to-point service -- direct flights without herding planes and passengers through hub airports -- using 50-seat jets. ExpressJet will go to 24 cities and fly only where there isn't currently any nonstop service -- routes like San Diego to Omaha, Austin to Albuquerque, Sacramento to Tucson, Kansas City to Raleigh and New Orleans to Jacksonville.

Ontario, Calif., near Los Angeles, will be the new airline's busiest city, with nonstop flights to 14 cities. Officials say exact schedules will be loaded in computer-reservation systems later this week. Flights will actually begin in April, with the full route network rolled out roughly west to east by May before the start of the summer travel season.

ExpressJet is pursuing a Goldilocks strategy -- it wants markets that are not too small to leave planes empty, not too big to attract nonstop competition, but just right for a couple of flights a day with its small jets.

It hopes to connect dots that Southwest Airlines Co. and other major airlines can't afford to serve directly, thus making it easier for business travelers and leisure passengers to reach second-tier cities without the hassle and time of a connection at a hub. "Seat availability has become harder and harder for many communities," says James B. Ream, chief executive of ExpressJet.

Large airlines have increasingly focused on flying only into and out of their hub airports, forcing many travelers into inconvenient connecting flights and reducing capacity for small and medium-size cities. In addition, Southwest, long king of point-to-point airline service from medium-size cities, has increasingly put its new airplanes into big hubs like Philadelphia and Denver.

## SNUBBING THE HUBS

A new airline, ExpressJet, is trying to fill an underserved niche: passengers who want to fly directly between small and medium-size cities. Some details:

- The carrier will fly between 24 cities, including San Diego to Omaha and New Orleans to Jacksonville, Fla.
- It will use 50-seat Embraer jets.
- Snacks, sandwiches and cold pasta dishes will be free.
- The cabin will have new leather seats and satellite radio.

ExpressJet will launch with 44 jets, all 50-passenger Embraer aircraft repainted and refurbished with new gray leather seats and satellite-radio service. Fares will run roughly \$150 to \$300 one-way, about the same as the price structure today. It is trying to be a bit upscale to attract business travelers: ExpressJet plans to serve free snacks, sandwiches and cold pasta dishes, have its own segment-based frequent-flier program and sell tickets online, over the phone without added fees and through travel agents. The new airline begins with solid financial backing since ExpressJet has another 205 airplanes currently flying profitably feeding passengers to Continental, which spun off ExpressJet in 2002.

Still, the risks are huge. For every successful JetBlue Airways Corp., there are dozens of other carriers that tried and failed. The Department of Transportation says it authorized 66 new airlines flying scheduled service from 1994 to 2004, and by the end of 2004, 43 had already shut down.

What's more, another regional carrier with its own independent strategy failed a year ago. Atlantic Coast Airlines renamed itself FlyI Inc. and started flying its 50-passenger jets under the name Independence Air in June of 2004. FlyI flew on the East Coast from a hub at Washington's Dulles Airport, trying to be a discount airline with some tickets as low as \$29. It attacked United Airlines, which has a hub at Dulles, on busy routes to cities like Chicago and Boston. United responded sharply by adding flights, cutting fares and battling fiercely, and FlyI lasted only about 18 months before huge losses pushed it to liquidation.

ExpressJet says it can avoid FlyI's fate by staying away from hubs, direct competition with bigger airlines and price wars. The company has been studying the independent airline idea for several years, and was pressured into this gamble this year when Continental put some of its flying out for competitive bids and ExpressJet lost contracts for 69 airplanes. ExpressJet had the option of turning those planes back to Continental, but didn't want to shrink. It studied whether it could create a business for the planes in Mexico, but decided the market was changing too quickly there. It bid on putting the planes to work feeding passengers to other airlines, but didn't land any business.

One market it did decide to go after is chartering flights. Historically, chartering planes has meant corporate jets that carry six to 15 people or so, or old 727s and other airline jets that carry 100 people or more. The 50-seat plane turns out to be a good size and far more economical for sports teams, corporate shuttles and package tours for casinos and cruise ships. So ExpressJet is taking 15 of the planes Continental gave up and using them to launch a charter fleet.

For the scheduled airline idea, the rise in ticket prices over the past year and the cuts airlines made in capacity created new opportunity and made ExpressJet's projections start to work. "This is the first time the fare mix is where it needed to be," said Chris Warren, senior director of strategic planning for ExpressJet. "Back in 2003, the fares just weren't where they needed to be."

In a way, the new airline fulfills the original mission of the 50-seat regional jet, designed in the 1980s and 1990s to bring jet service to small towns. Instead, over the past few years airlines have used regional jets on mainline routes, drawn to lower labor costs at regional airlines or the benefits of replacing old, gas-guzzling aircraft.

"There are 1,900 50-seat airplanes in this country and every one of them ended up flying into and out of a hub," says Mr. Ream. "No one has ever tried point-to-point with the regional jet."

### Connecting Dots

ExpressJet Holdings Inc. will launch a new airline under its own name with non-stop flights to 24 cities, selecting only routes that don't currently have non-stop service. Here's a list of the cities the airline will serve.

Albuquerque, N.M.	:	Fresno, Calif.	:	Ontario, Calif.
Austin, Texas	:	Jacksonville, Fla.	:	Raleigh-Durham, N.C.
Bakersfield, Calif.	:	Kansas City, Mo.	:	Sacramento, Calif.
Birmingham, Ala.	:	Louisville, Ky.	:	San Antonio
Boise, Idaho	:	Monterey, Calif.	:	San Diego
Colorado Springs, Colo.	:	New Orleans	:	Spokane, Wash.
Corpus Christi, Texas	:	Oklahoma City	:	Tucson, Ariz.
El Paso, Texas	:	Omaha, Neb.	:	Tulsa, Okla.

Will ExpressJet's plan work? Share your thoughts on the strategy and read additional comments from Scott in his new online discussion board. Or email him at [middleseat@wsj.com](mailto:middleseat@wsj.com). Plus, read past Middle Seat Mailbox columns.