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DEPT. OF TRANSPORTATION
BOOKETS

02 JUL 26 PM 2:30

P. O. Box 125
Kodiak, Alaska

OST-00-6945-10

July 18, 2002

Mr. Kevin Adams
Department of Transportation

Via Fax: 202-366-3694

Re: Essential Service Contract – Kodiak Island

Dear Kevin:

Our bid for the Essential Service contract covering Kodiak Island consists of the following:

Flights By Destination

Peak	Flag	Off Peak	Flag	Destination	Inter Stops
2		1		Moser Bay – KMY	2
3		1		Olga Bay – KOY	2
6		1	3	Alitak/Lazy Bay – ALZ	2
3	6	1		San Juan/Uganik – UGI	2
2		1		West Point – KWP	1
2		1		Port Bailey – KPY	1
2		1		Zachar Bay – KZB	1
2		1		Amook Bay – AOS	1
2		1		Port Williams – KPR	2
2		1		Seal Bay – SYB	2
2		1		Kitoi Bay - KKB	2

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Aircraft proposed for continuation of service in the Kodiak Island area, is to be a Cessna 206 on straight floats. This aircraft has proved adequate in the service market over the last two years. During the summer season of 2001, Island Air operated a leased Otter on floats to bolster expected summer peak traffic. Although this aircraft flew 126 hours in scheduled service, it no way economically justified its acquisition. These hours would be added back into the Cessna 206 service volume at about two for one. The reduction of rider-ship with the continuing of poor economic fishing seasons makes this aircraft entirely adequate for this market.

Operation out of the Kodiak Trident Basin Float Plane Facility on Near Island proved to be a good choice. I estimate less than 1% of our customers were immediately connecting to an off Island flight. All customers are transported with company van service to desired destinations most of which are in town.

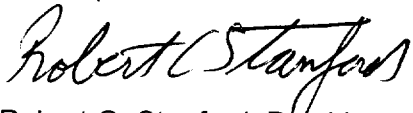
Our bid encompasses the latest on full year of traffic, cargo and mail data ending in June of 2002. We expect the next full year of scheduled service to mirror this season and is reflected in our proposal.

Our annual subsidy needs for 11 Kodiak Bush Points are as follows:

Aircraft type	Cessna 206	
Flight hours	448	
Passenger Revenue	\$ 46,829	
Cargo Revenue	11,781	
Mail Revenue	32,268	
	TOTAL REVENUE	\$ 92,878
Flight Crew @ \$100/hr.	\$ 44,800	
Fuel and oil @\$2.89/gal., 16 gph and oil	22,442	
Maintenance @ \$40/hr.	17,920	
Hull and liability insurance @\$50/hr. (\$25,000/500 hrs.)	22,400	
Aircraft lease (\$34,260/500 hrs.)	30,697	
	TOTAL DIRECT EXPENSES	\$ 138,259
Traffic related @28.21% of revenue	\$ 26,201	
Departure related @34.29% wtd. dep.	31,848	
Capacity related @18.77% of revenue	17,433	
	TOTAL INDIRECT EXPENSES	\$ 75,482
	OPERATING EXPENSE	\$ 213,741
Return @5%	10,687	
	ECONOMIC COST	\$ 224,428
	ANNUAL SUBSIDY NEEDED	\$ 131,550

Sincerely,

Redemption Inc. dba Island Air Service



Robert G. Stanford, President
800-478-6196
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