



White Paper

Opportunities to Reduce Risk in the Payment for Aircraft Services

Knowing the participants in the aviation ecosystem as well as your options for payment can reduce complications in the long run.

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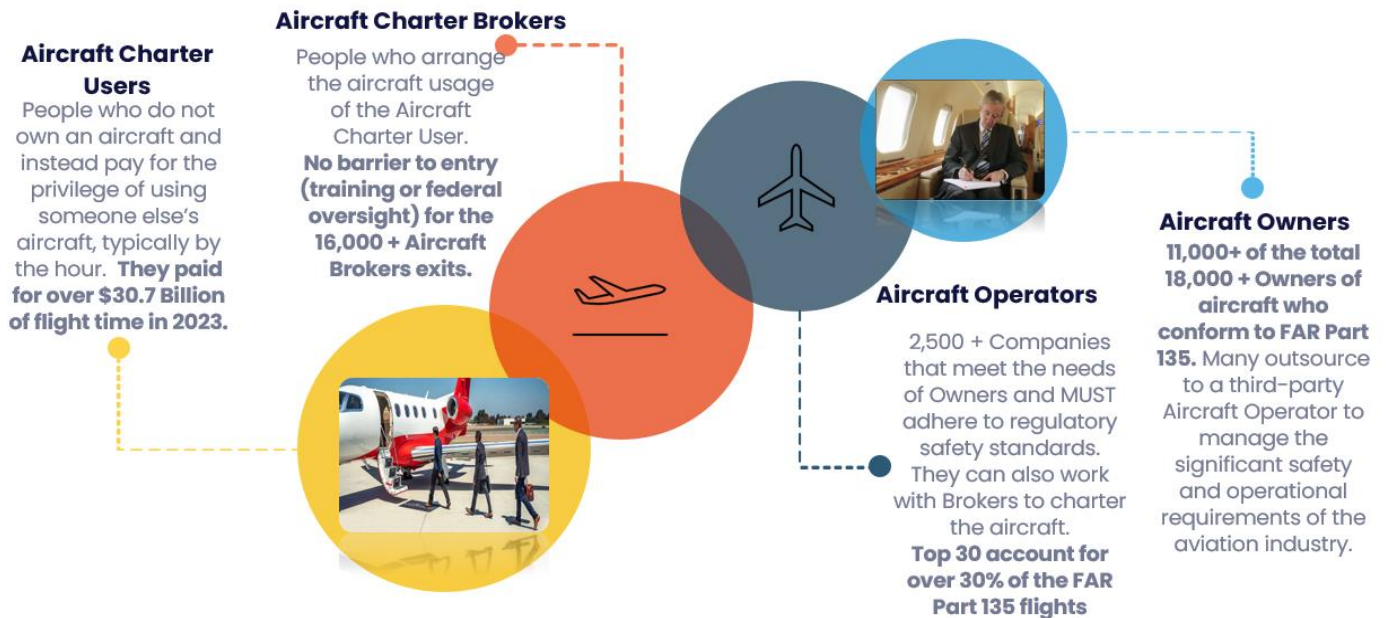
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The Business Aviation Ecosystem

The \$30 Billion+ world of business aviation is comprised of many parties who may not directly impact one another simultaneously; however, they interact and offer solutions to business aircraft needs. It is important to understand who each party is; their respective role in business aviation; and how they intersect in the global business aviation ecosystem:

2.8 Million flight hours (Argus TrakPaq) that accounted for over \$30.7 Billion in revenues (IBIS World) in 2023



This ecosystem continues to grow and the COVID 19 Pandemic expanded the number of users of business aviation, which grew by over 700,000 annual flight that translated to \$4Bn annual increase in revenue since 2021. The growth is not surprise as a webcast conducted prior to the pandemic by McKinsey & Co shared that approximately 10% of the 1.5 Million people who could fly business aircraft did. With airline viability in flux due to the financial hardship created by the pandemic, the only way to reach a place efficiently and effectively was through business aviation.

Demand for business aviation fueled expansion of existing business aviation operators while new operators entered the market fueled by liquidity from investors who were new to aviation (in the form of SPAC and private funding) and low interest rates. Demand for aircraft jet cards, aircraft charter activity, and whole aircraft ownership (many of whom offered their aircraft to charter operators) spiked to new heights, which caused not only the cost of aircraft to increase, but also the operating cost, due to tight supply and significant demand.

This unprecedented demand caused the costs of operations to increase due to scarcity and impacted every part of the ecosystem in significant ways for all parties. From an aircraft owner's perspective, much changed over the course of the past four (4) years. Many aircraft management companies as well as owners share that the growth in operating costs continues to be significant. Additionally, many aircraft owners no longer permit third-party charter use of their aircraft as it leads to an increase in maintenance

events as well as a possible acceleration of the devaluation of a large asset. Both issues contributed to the growth in the cost of charter, which is why those who use charter are apt to lock in rates through the use of a jet card.



Trust in Business Aviation

At present, [Private Jet Card Comparison's website](#) reports over 80 companies are currently offer jet cards with many differentiating based upon added experiences. ***With so many options, where does one begin to select a service provider of charter, jet card, or aircraft management?***

Meriam Webster defines “trust” as an assured reliance of character, ability, strength, or truth and as a dependence on something future or contingent.

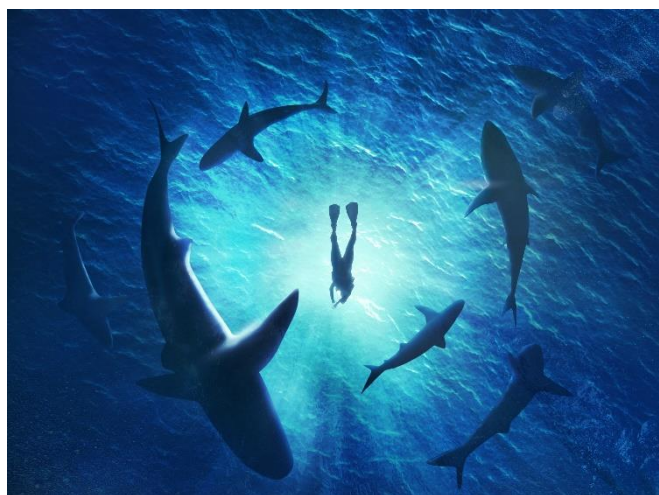
Transparency, integrity, alacrity and certainty are the

key components of reliability that engender trust. And when trust is abused, it can result in distrust, litigation, and even activism.

Trust is earned over time through interactions that arrive at the same result. Finding the right team of aviation professionals who can assist users of business aviation in navigating remains critical.

Due diligence should be conducted on the aviation services provider given the news in business aviation over the past 12 months so that one's trust in a business aviation partner is built upon a solid foundation:

- **Publicly traded Wheels Up (UP) ongoing viability** Although restructuring its offering due to the change in management last year, the UP has yet to report profits. This is a concern for all of business aviation given the many who provide services to UP and particularly for the company's large membership base that prepaid over \$700 Million in flights for whom maintain no recourse to the return of the funds.
- **[Potential Defalcation of Funds by a trusted aviation management company](#)** - Fly Alliance, a top 20 aircraft management and charter broker, is being sued by a client for nearly \$1 Million due to overpromising and underdelivering on the operations and guaranteed charter of a business aircraft. At the core of the dispute is the \$1.2 Million prepayment of maintenance costs for which the plaintiff found the documentation to be lacking information.
- **[Vitriol in Charter Provider's Billing](#)** - Private Jet Services Group and Twitter are locked in a public dispute over what Twitter perceives as being overcharged while Private Jet Services Group states Twitter refused to pay for the market priced business aviation services that it provided.





- **Sudden and Unexpected Closures of Aircraft Charter/Fractional Operators** - Both fractional share and charter companies, [Jet It](#) and [AeroVanti](#), suddenly closed. Furthermore, less than a year after concluding its SPAC, [Volato](#) transitioned its fleet to flyExclusive and is [no longer supporting its jet cards](#). Jet It and Volato's closure of business activity is attributed to business operational concerns while AeroVanti is due to accusations of fraud with over four lawsuits pending.
- **Rumors, rumors, and more rumors** - The continued news of the current state of VistaJet through the [Financial Times](#) and [WirtschaftsWoche](#)'s multiple articles specifically [one regarding a large pending](#)

[€58 Million lawsuit](#) further the concerns about the viability of not just VistaJet, but all membership, fractional share, aircraft charter, and general business aviation providers.

Due Diligence – Trust *after* Verify

Regardless of whether you are seeking to charter, purchase a jet card, or acquire a business aircraft, one should follow the African Proverb: If you want to go fast, go alone. If you want to go far, go together.

In terms of the aviation industry, much is nuanced and at times opaque. It is far too easy to make a financially detrimental mistake through making unsubstantiated assumptions and it is best to obtain the advice of knowledgeable aviation industry insiders with integrity to navigate these issues.

OPTIONS ARE PLENTIFUL AND ONE MUST CONDUCT DUE DILIGENCE ON ONE'S PARTNERS.

Keep in mind that MANY businesses within business aviation maintain high standards of financial AND operational excellence. The combination of the aforementioned unflattering news highlights what is NOT working and solidifies the need to conduct thorough due diligence on those with whom you work both from a financial viability AND [integrity](#) perspective to find the right partners for you. Both require a healthy dose of curiosity and the ability to overlook the glossy marketing material that is meant to be aspirational and exclusive.

Options are plentiful and one must conduct due diligence on one's partners. An example is the aircraft charter market where Doug Gollan, the Editor in Chief and Founder of Private Jet Card Comparisons shared at the June 6, 2023 [Corporate Jet Investor Town Hall](#): If you have a great charter broker, there is no need to buy a membership card or a fractional share in an aircraft.

It is a wonderful sentiment, but in the aircraft charter and membership segment, it is estimated that anywhere between 10,000 to 16,000 aircraft charter brokers are operating and with so many options, how do you know what qualities make a "good" charter broker? How they approach you and what they ask during your initial consultation is telling. For those that strictly want to haggle on price you should ask yourself, what am I missing? If they take the time to ask what you fly, how you like to fly, how often you fly, are further able to walk you through the safety history of the aircraft and its operator, and share comparable aircraft charter market rates, you may have found a "good" aircraft broker.

But are your funds truly safe if you buy a jet card and lock in your hourly rate? The locked in hourly rate does not coincide with the rising operating costs that occurred over the past four years that are causing many operators to change and even cease operations.

One could argue that the cash obtained upfront by jet card providers allowed the organizations to continue funding marketing activities to gain more followers, rather than investing in the sustainability of the company's long-term operations.

Operations continue to be significantly impacted by inflation across every aspect on an aircraft operator's business. Over the past four (4) years, the cost of staff, such as the pilots the directors of maintenance, increased by over two (2) times from pre-pandemic levels. Exacerbating this is the limited supply of pilots who are being pulled in many different directions, which includes some receiving a better offer upon completion of type ratings who walk from their original commitment. Fuel prices also spiked and as they represent 25% of the operating costs of an aircraft, the growth in this key expense is material. Even cost of aircraft hangars, which were traditionally a rounding error in relation to the total operating costs of an aircraft, saw an increase most notably due to professional real estate investors entering the business aviation real estate market where leasing rates were increased to obtain returns.

The locked in hourly rate does not coincide with the rising operating costs that occurred over the past four years that are causing many operators to change and even cease operations.

One must look at the financial statement as part of conducting INITIAL and CONTINUAL due diligence. GAAP (Generally Accepted Accounting Principals) requires that cash collected for services that have not yet occurred **MUST** be placed on the balance sheet as a liability (“deferred revenues.”)

Generally, funds paid for services in advance within the aviation industry are NOT segregated and placed into a separate account and are often times comingled with the aviation service provider’s operating accounts. Without the segregation and delineation, the funds paid for future services could be claimed to settle documented obligations (such as bank loans) of the aviation service provider.

CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited, in thousands, except share data)

	June 30, 2024	December 31, 2023
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 141,493	\$ 263,909
Accounts receivable, net	34,005	38,237
Parts and supplies inventories, net	21,242	20,400
Aircraft held for sale	36,900	30,496
Prepaid expenses	33,608	55,715
Other current assets	21,558	25,277
Total current assets	288,806	434,034
Property and equipment, net	287,395	337,714
Operating lease right-of-use assets	60,059	68,910
Goodwill	217,656	218,208
Intangible assets, net	107,269	117,766
Other non-current assets	125,104	139,428
Total assets	\$ 1,086,289	\$ 1,316,060
LIABILITIES AND EQUITY		
Current liabilities:		
Current maturities of long-term debt	\$ 21,152	\$ 23,998
Accounts payable	41,934	32,973
Accrued expenses	88,124	102,475
Deferred revenue, current	702,174	723,246
Other current liabilities	20,722	24,810
Total current liabilities	874,106	907,502
Long-term debt, net	218,612	235,074
Operating lease liabilities, non-current	49,887	54,956
Other non-current liabilities	14,743	18,655
Total liabilities	1,157,348	1,216,187
Commitments and contingencies (Note 13)		
Mezzanine equity:		
Contingent performance awards	1,093	2,476
Total mezzanine equity	1,093	2,476
Equity:		

If cash is significantly less than the balance collected, one should ask questions as to where the funds went (Salaries? Marketing? Acquisitions of aircraft? etc.), particularly if the company continues to report increasing losses. **And buyers of jet cards/prepaid charter should understand that they are generally considered an unsecured creditor should the jet card provider file for bankruptcy.**

And what occurs in bankruptcy is final – for jet cards, charter providers, and aircraft management companies. What this means for any one using the services of these aviation providers (as highlighted in a recent article by Doug Gollan that highlighted the outcomes of JetSuite, Zella JetIt, Volato, and Avantair’s unexpected shuttering of operations), is that unsecured creditors are subject to renegotiation and potential for partial or complete loss of funds paid in advance. Additionally for those aircraft owners who use an aircraft management company, one should ensure that no liens are filed on their aircraft due to financial hardship of a management company.

How users of aircraft services can protect themselves financially



Credit Cards do NOT Equate to Trust in Aircraft Services

While it seems counterintuitive, credit cards pose a serious risk for aircraft charter users and aircraft management companies. Credit card abuse is hindering trust and creating unnecessary friction for the industry.

The use of credit cards to facilitate aircraft charter transactions by aircraft charter users creates a false sense of trust. If a credit card is required to be maintained on account with an aircraft charter broker, a consumer would believe that their account would not be charged until after the contracted services were provided. However, several examples exist where credit cards were fraudulently charged, with the most egregious being an [aircraft charter broker who allegedly defalked \\$4 Million from three clients over time](#).

THE USE OF CREDIT CARDS TO FACILITATE AIRCRAFT CHARTER TRANSACTIONS BY AIRCRAFT CHARTER USERS CREATES A FALSE SENSE OF TRUST.

Conversely, aircraft management companies see that their trust is abused when accepting credit cards from aircraft charter brokers to hold an aircraft charter when selling wholesale charter or from aircraft charter users when selling retail charter. Many aircraft management companies inevitably learn about a credit card's cancellation or that a charge was disputed after the conclusion of the charter. This leads to unnecessary time and efforts expended that often requires a wire of cash or litigation long after the charter concluded, such as in the case of [Twitter and Private Jet Services Group](#).

Alternative payment options exist, and many operators are using these methods to solidify trust in their business operations. These options are not without challenges, and it is important to understand what the options are and how they can work for you.

Alternative Solutions

Standby Letters of Credit

What it is:

By creating a financial instrument that is backed by collateral (such as cash), a bank will issue a letter of credit to one specific party (such as an aircraft charter broker) on behalf of another party (such as an aircraft management company) to facilitate transactions. If the beneficiary (e.g., the aircraft management company) can show that the grantor of the standby letter of credit (e.g. the aircraft charter broker) failed to fulfill their commitment (such as prompt payment), the beneficiary could obtain the cash collateral from the issuing bank.

The challenges:

The obvious challenges are that not only does this tie up an aircraft charter broker's cash, but it also requires negotiation of terms of the standby letter of credit by each party (the aircraft charter broker, aircraft management company, and financial institution) for clarity and intent. Moreover, the cost of issuing a standby letter of credit is typically 1-2% of the face value.

Escrow Account

What it is:

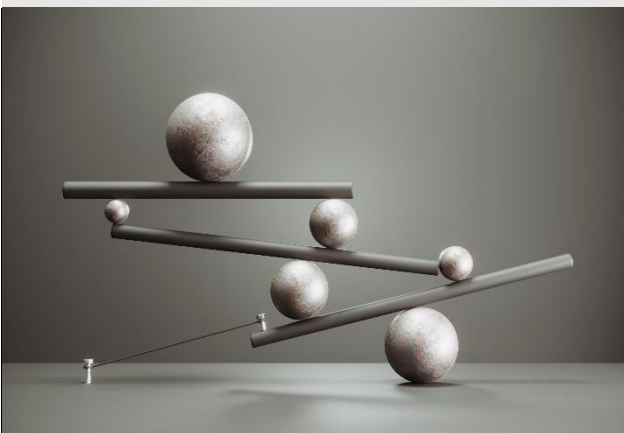
Instead of two parties facilitating a transaction, a third-party fiduciary will act as the intermediary to collect and move funds. This requires the establishment of a binding, tri-party agreement that details the quantity of funds to be moved and the mechanisms to move those funds.

The challenges:

The obvious challenges are that escrow adds an additional cost to administer the oversight of the funds and often, one is waiting up the escrow agent to confirm and transact the funds promptly.

Additional Risks:

An additional risk is that many times escrow accounts are not segregated accounts and funds placed into escrow are co-mingled with the funds of other relationships. This creates opacity rather than transparency as those who place funds into escrow accounts (namely the aircraft charter user) are unable to verify that their funds are where they are supposed to be.





Segregated Account

What it is:

Two parties enter into a master agreement, where one party (the aircraft charter user or aircraft owner) funds an account where the other party (the aircraft charter broker or aircraft management company) maintains control and oversight. The agreement details the specifics of the amount of funds to be maintained and the mechanisms by which funds can leave the account. Both parties can view the balance of the account 24/365 days per year. The balance, which can be confirmed by a representative of the financial institution where the funds are maintained, offers an alternative to standby letters of credit and can facilitate transactions. Furthermore, control by the aircraft charter broker addresses the challenges associated with an escrow account.

In some states, an aircraft charter user or aircraft owner may file a UCC-1 on their segregated account, thereby perfecting their interest in the balances that are held on deposit. This would enable the aircraft charter user or aircraft owner to prove that the account is not an asset that can be used by the charter provider or management company to pay for operating costs or resolve its legal obligations.

The challenges:

The obvious challenge is ownership of the deposit account. If it is in the name of the aircraft charter user, the aircraft charter broker will contend with the banking representative that supports their mutual client and the funds could be pulled without providing the aircraft charter broker any notice. If it is in the name of the aircraft charter broker, the funds are viewed as an asset of the aircraft charter broker unless the client services agreement incorporates language that permits the aircraft charter user to file a claim upon the funds in that specific segregated account.

Additional Risks:

An additional risk for either scenario is the breach of the maximum FDIC insurance coverage on accounts in excess of \$250,000. Creative solutions, such as sweep accounts to other financial institutions, address this banking industry risk and further increase interest income for the owner of the deposit account.



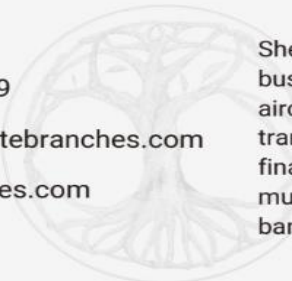
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Shelley A. Svoren is the CEO + Founder of Infinite Branches, a project-based business that supports the initial and ongoing needs of those who view their aircraft as an investment in their brand. She previously financed over 200 aircraft transactions worth over \$1Bn USD during the course of her tenure at a \$100Bn+ financial institutions with no repossession or losses and credits transparency and mutual respect with her clients for the results. She previously worked as a federal banking regulator and in corporate finance for multinational corporations.