



Agenda

- Review Prior Sessions
- Financing Discussion
- Q&A



© 2008 Luce, Forward, Hamilton & Scripps LLP. All rights reserved.




Accessing Private Aviation

- Charter
 - One time transportation
- Jet Cards
 - 25 or 50 hour prepaid blocks
 - Part 135
- Fractional Ownership
 - Undivided interest
 - 5 year contract
 - Part 91 or 135
- Whole Ownership
 - You own, operate and control your aircraft
 - You control hiring crew and maintenance personnel




© 2008 Luce, Forward, Hamilton & Scripps LLP. All rights reserved.



Making Informed Decision

- Financing Considerations
 - Evaluate the cost to purchase AND operate
 - Lease vs. Buy
- Transportation Needs
 - Typical Mission
 - Desired Features
- Market Research
- Aircraft Selection
- Technical Analysis



© 2008 Luce, Forward, Hamilton & Scripps LLP. All rights reserved.



Purchasing an Aircraft

- Select Aircraft and Make Offer
- Visual Inspection/ Records Review
- Negotiate Purchase Agreement
- Confirm Aircraft Ownership and Operation and Tax Strategy
- Technical Inspection
- Correction of Discrepancies
- Delivery and Closing

© 2008 Luce, Forward, Hamilton & Scripps LLP. All rights reserved.



Ownership and Operating Plans

- Aircraft Ownership Structure will depend on:
 - Operational Factors
 - Tax Factors
 - Liability Factors
- Operating Plan Considers:
 - Tax Advantages
 - Liability Exposure
 - FAA Compliance



© 2008 Luce, Forward, Hamilton & Scripps LLP. All rights reserved.




Sales/Use Tax Exemptions

- Not Purchased for Use in CA
- Interstate Commerce
- Charter or Common Carrier




© 2008 Luce, Forward, Hamilton & Scripps LLP. All rights reserved.




Federal Tax Issues

- Entity & Structure
- Depreciation in General
- Depreciation Methods




© 2008 Luce, Forward, Hamilton & Scripps LLP. All rights reserved.



Evolution

- History of Corporate Aviation
 - 1960's – Corporate aircraft
 - 12,000 corporate aircraft are active today
 - Evolution of charter and full ownership options
 - 1986 - Fractional Ownership
 - 1999 - Charter Brokers
 - 2001 - Jet Card
 - 2006 - Very Light Jets



© 2008 Luce, Forward, Hamilton & Scripps LLP. All rights reserved.



Market Dynamics

- Industry Drivers:
 - Improved economy, stable stock market
 - Abundant supply of capital
 - Low interest rates, aggressive financing terms
 - Increased recognition of value and convenience of business aviation
 - Pent-up demand for replacement aircraft
 - Record level of new aircraft deliveries
 - 18-36 month production backlog for new aircraft
 - Aircraft values stabilized by increased demand
 - Strong sales of pre-owned aircraft
 - The inventory of pre-owned jet aircraft leveled off at year-end '05, but is showing slight increases of certain models in '08
 - Smaller pool of low time, late model pre-owned aircraft
 - Continued entrants of new generation aircraft
 - New expansion into emerging VLJ sector

© 2008 Luce, Forward, Hamilton & Scripps LLP. All rights reserved.



Market Dynamics

- Industry Factors to Watch:
 - User fees sharply increase cost of aircraft for owners/operators
 - New tax laws and IRS rules governing personal use of corporate aircraft
 - Higher fuel prices may hamper future industry growth
 - Greater FAA scrutiny of 135 operator compliance



© 2008 Luce, Forward, Hamilton & Scripps LLP. All rights reserved.



Market Outlook

2003

- OEM Backlogs Dissipate
- OEM Production Cuts
- OEM Discounting
- Deliveries Down
- Over Supply – Pre-owned
- Falling Market Values
- Record Low Interest Rates

2008

- OEM Backlogs – 18-36+ Months
- OEM Production Spooling Up
- OEM Discounting is History
- Deliveries Increasing
- Supplies Continue to Fall
- Aircraft Values Fully Recovered (Some Overpriced?)
- Interest Rates Higher, but Flat Yield Curve

© 2008 Luce, Forward, Hamilton & Scripps LLP. All rights reserved.



Select Your Lender Early

- Do not underestimate the importance of an experienced lender
 - Look for expertise in aviation
 - Both debt and lease capabilities
 - Seek flexibility and responsiveness
 - Expertise with new International registry that will assist you

© 2008 Luce, Forward, Hamilton & Scripps LLP. All rights reserved.



Equip Your Lender

- Full financial disclosure-confirmation of low risk = better terms
- Debt/lease preference
- Copy of purchase contract, serial #'s and current spec sheet
- Plans and budget for improving aircraft
- Budget for operating aircraft
- Details for 1031 Exchange
- Open account on new International Registry

© 2008 Luce, Forward, Hamilton & Scripps LLP. All rights reserved.



Prioritize Your Terms/Trade-offs

- Loan amount or lease
- Tax lease and EBO preferences
- Amortization expectations
- Maturity dates: longer term = higher risk
- Fixed or floating rate
- Interest rate swaps

© 2008 Luce, Forward, Hamilton & Scripps LLP. All rights reserved.



Loan or Lease

- Calculate the IRR of the stream of payments of a loan vs. a lease on an after-tax basis
- After-tax cost of acquisition vs. “selling” the depreciation to lessor
- What is the true value of depreciation based on new limitations for tax deductions*

*Please contact a tax advisor

© 2008 Luce, Forward, Hamilton & Scripps LLP. All rights reserved.



Structure

- What entity will own/lease the aircraft?
- Who owns that entity?
- Does the new LLC conform to FAA and International Registry requirements?
- Who should receive the tax benefits?
- Who will support the loan/lease payments (to mitigate the risk)?
- Timing and amount of EBO option

© 2008 Luce, Forward, Hamilton & Scripps LLP. All rights reserved.



Financing the Fractional Share

- Collateralized financing
 - Loan to entity that is registered owner of the share (LLC)
 - Recourse (guarantee) to individual or parent company
- Three party acknowledgement & consent agreement
- Legal opinion of title
- 80% - 90% of purchase price is financed on 5 yr. note with 15 yr. amortization to a 5 yr. balloon
- Loan can be amended or renewed



© 2008 Luce, Forward, Hamilton & Scripps LLP. All rights reserved.



Process and Closing

- Timing and location of pre-purchase technical inspection
- Appraisal and residual value forecast
- Title company, title search, lien releases, bill of sale
- Confirm account(s) with International Registry for all parties involved in the purchase
- Legal opinion of title or title insurance policy
- Closing checklist and wire instructions

© 2008 Luce, Forward, Hamilton & Scripps LLP. All rights reserved.



Summary

- Define flight mission
- Understand cost to operate
- Define percentage of personal use
- Evaluate after tax cost and ownership structure
- Loan or lease and residual value risk
- Important to work with experienced professionals with expertise related to your plan


© 2008 Luce, Forward, Hamilton & Scripps LLP. All rights reserved.



Upcoming Seminars

- 4/17/2008 - Estate Planning With Respect to Your Corporate Aircraft
- 5/22/2008 - Aircraft Safety and Risk Management

© 2008 Luce, Forward, Hamilton & Scripps LLP. All rights reserved.



Q&A

Thank you for attending!

LUCE FORWARD
ATTORNEYS AT LAW • FOUNDED 1973

U.S. TRUST
Bank of America Private Wealth Management

© 2008 Luce, Forward, Hamilton & Scripps LLP. All rights reserved.
