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## Not All Flight Card Programs are Created Equal

-By Keith G. Swirsky-

Business aviation is not immune from the financial trauma affecting so many sectors of the U.S. economy. Over the last several months, the pages of aviation industry periodicals have been reporting about financial troubles at many companies in the business aviation industry, including perhaps the largest worldwide provider of aircraft charter and management services, and (historically) a flight card program. In light of such financial concerns, the question presents itself whether all flight card programs are on solid financial footing. Despite lofty agendas of mergers, roll-up strategies, divestitures and other seemingly proactive corporate planning ostensibly intended to ensure the survival of aviation businesses, including flight card programs, can you be sure that your investment in your flight card is secure and that your flight card program provider will have the financial resources to provide flight services to you when you are ready to fly? Perhaps yes and perhaps no.

It is particularly noteworthy that most flight card programs ask for substantial deposits up front. Money placed on deposit is then debited by travel taken on the flight card. Prior to handing over a deposit for any flight card program, it is worthwhile to question the program provider as to whether deposited funds are commingled with the general operating funds of the company that operates the card program, or are segregated from the company's general operating funds? Further, if the deposited funds are segregated, are such funds held by in the card program provider's account, in some kind of trust or escrow account?

The most undesirable scenario is when deposited funds are commingled with general operating funds of the company that operates the card program. In this situation, a card program provider with cash flow problems might use money deposited by Peter to pay the aircraft operating costs to provide flight services to Paul, so to speak, and may have insufficient reserves to operate the aircraft when the time comes to provide flight services to Peter.

A better situation would be for funds deposited by Peter to be segregated internally from general operating funds, and only drawn upon (and commingled with operating funds) when Peter's flight activity occurs. Rigid accounting procedures of this nature help to ensure that the program provider always has sufficient money in the segregated account to cover the cost of providing flights to the card program members. However, even under circumstances where deposited funds are segregated, all assets of the card program are available to pay the claims of the card program's creditors. In the event a card program advises you that deposited funds are indeed segregated from general operating funds, it is worth inquiring as to whether operating procedures and protocols are in place at the card program to ensure that the deposited funds may not be discretionarily utilized for other purposes. Certainly, a well run fiscally conservative company can offer significant financial "comfort" to the cardholder and should be forthcoming with information.



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Better still, to achieve maximum “comfort” that your funds will be there when you are ready to fly, deposit your funds with a card program provider who not only segregates deposited funds from general operating funds, but also places the segregated funds into a separate trust or escrow account in the name of the cardholder. Specifically, in this case, the card program coordinates with a [solvent] financial institution, to set up of a trust or escrow account, in the cardholder’s name and with the cardholder’s federal I.D. number on the account. Generally, in these situations interest earned on the account would belong to the cardholder, and no withdrawals from the account may be made without the consent of the cardholder. That consent may be in the form of either an explicit approval, or the lack of a disapproval within a designated period after the card program requests payment from the financial institution. In these circumstances, a properly set up trust or escrow account will not be exposed to the claims of creditors of the company that operates the flight card program (other than for amounts legitimately owed to the card program), nor may it be drawn upon by the card program except and unless air travel has occurred and the agreed upon charge has been levied.

What about bricks and mortar? There is also a great divide between flight card programs on the issue of whether or not the card program provider is an FAA certificated operator with a fleet of aircraft, or is simply a broker. Certainly, there is substantial confusion among the traveling public as to the “product” that they have purchased. A glance at any executive traveler magazine or advertisements placed in the Wall Street Journal and other similar newspapers, shows numerous ads for prepaid air travel services, or essentially card programs. Many of these advertisers do not operate aircraft themselves, and instead broker air charter services. The broker acts as a consolidator of air charter operators who operate aircraft in “on-demand” charter operations.

In many circumstances price drives the ultimate equation, meaning, that the card program that is acting as a broker strives to locate the lowest cost aircraft available. While card programs that operate their own aircraft may not necessarily source the lowest cost aircraft, one should ask whether or not they, as certificated operators, ascribe to a set of safety and quality standards and are held accountable to the card program member for the provision of aircraft services at a higher level than a broker. For example, a handful of companies conduct independent safety audits of business aircraft operators, and many air charter operators are certified to certain minimum quality standards (such as, ARG/US Platinum) established by such independent safety auditors. Regardless of whether your flight card program operates its own fleet of aircraft, or operates as a broker/consolidator of charter services, you may want to ask your program provider if he or she requires that all aircraft be operated by an operator with a minimum quality rating, and if so, which one?

The simple theme of this article is that a jet card customer should be asking questions about what protections are in place and available that are designed to protect the customer’s deposited funds, and to provide the highest quality service possible. It should come as no surprise to discover that significant variations exist in the industry.

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