VanAllen

EXECUTIVE ACCESS SUMMIT
April 12, 2018

WELCOME!

Housekeeping

- Confidentiality

- This is a dialog – not a download. We will be using an interactive format. Jump in with questions

- Introductions
  - Role
  - Why Aviation reports to you
  - Experience … so far
  - What issues do you deal with that are unique to aviation

Agenda

- Welcome

- Human Resources – Where are the Aviation Speed Bumps?

- Cashflow Management – Developing Predictability

- Lunch Break

- Safety Standards – Where to Place the Bar

- Capital Planning – Developing a Flexible Plan with Options

- Closing Remarks

HUMAN RESOURCES

WHERE ARE THE AVIATION SPEED BUMPS?

Risk Management

Discuss 12 HR Policies that may create additional risk.

- Review with your Aviation and HR Leader
- Ask your Aviation Leader to identify any other policies where they may be divergent
- Review current Aviation Manuals to verify alignment with corporate policy
- Review with Aviation Counsel (Recommend an attorney that is a SME in HR and Aviation)

Risk Management

There are Aviation "Best Practices" that are often in direct conflict with traditional HR policies.

- Identify and Quantify the risk of the Deviation
- Strong alignment of HR Partner and Aviation Leader
- Align with Corporate Risk Appetite
- Develop Mitigations
- Review risks annually

Issue #1 - PTO/Sick Policies

Key Aviation Safety Roles require strong cognitive performance. Cognitive performance can be impacted by:

- "Everyday Cold"
- Sleep Issues (Insomnia)
- Plugged Ear/Sinuses
- Orthopedic Injury
- ?

Issue #1 - PTO/Sick Policies

- Aviation Professional's natural DNA is to work – "put me in coach" mentality.

  - Poor Self-Assessment assessments
  - Natural "take on for the team" approach – not impact coworkers.
  - No backup – Cancel trip ($20K – $100K or greater impact)

- Policy should not encourage the "wrong" decision – zero impact from calling in sick. (unlimited)

- Avoid having time accounting records differ from actual worked. May violate Federal and State laws

Issue #1 - PTO/Sick Policies

What about individuals in non-safety related roles (Schedulers, aircraft cleaners, etc.)

- Close office environment with contagious infection could result in a significant operational impact
- Consider policies that limit exposures during epidemic outbreaks

Issue #1 - PTO/Sick Policies

Corporate Policy	Aviation Policy
Example #1 Each employee is allocated 3 additional PTO days that can be used for any work absence.	**Example #1** Aviation Team members are not issued days, but are offered unlimited sick days. Sick days are tracked.
Example #2 Employees are allocated 5 sick days per year.	**Example #2** Aviation Team members are allocated 5 sick days per year. After these days are used, Aviation Team members may take additional sick days, but they are reported as "X" and will not affect compensation.

Issue #2 - Disability Eligibility

Short and Long Term Disability

- Will your STD/LTD cover issues that are not usually qualifiers?
- Pilots have a strict medical standard (FAA), Technicians and Flight Attendants do not.
- HIPAA does not apply to Pilots.
- When is someone required to go on STD? Twisted Ankle?

Issue #2 - Disability Eligibility

Common Disqualifiers

|	
Kidney Stones	**Diabetes**
Cardiac Event	**Loss of Consciousness**
Atrial Fibrillation	**Asthma**
Glaucoma	**Prozac/Zoloft/Celexa (SSRI)**
Gastric Reflux*	**Cancer***
Diagnosis of Sleep Apnea	**BMI****

* Medication used to treat the medical condition may be disqualifying
** Proposed

Issue #3 – FSLA Pilot Classification

Case Law has interpreted that Pilots are Overtime Eligible Positions (hourly). Industry practices are not aligned.

2017 Aviation Compensation Survey

General Policy Data

Exempt/Nonexempt Classification by Position:

	# Orgs	# Inc	# of Exempt	% of Incumbents	# of Nonexempt	% of Incumbents
Director/Manager of Aviation (Flying)	62	62	62	100.0%	0	0.0%
Director/Manager of Aviation (Non-Flying)	15	16	16	100.0%	0	0.0%
Chief Pilot	67	83	83	100.0%	0	0.0%
Captain	57	253	253	100.0%	0	0.0%
Captain - Senior	61	247	247	100.0%	0	0.0%
Captain - ALL INCUMBENTS	95	626	626	100.0%	0	0.0%
Co-Pilot	29	60	60	100.0%	0	0.0%
Director/Manager of Maintenance	80	89	83	93.3%	6	6.7%
Chief Aircraft Inspector	15	18	14	77.8%	4	22.2%
Aircraft Inspector	7	8	2	25.0%	6	75.0%
Senior Mechanic II	40	96	21	21.9%	75	78.1%
Senior Mechanic	33	87	28	32.2%	59	67.8%
Mechanic	17	30	12	40.0%	18	60.0%
Mechanic - ALL INCUMBENTS	79	246	69	28.0%	177	72.0%
Maintenance Assistant	20	29	2	6.9%	27	93.1%
Flight Mechanic	6	19	6	31.6%	13	68.4%
Flight Attendant	10	41	12	29.3%	29	70.7%
Flight Attendant - Senior	10	15	8	53.3%	7	46.7%
Flight Attendant - ALL INCUMBENTS	23	74	31	41.9%	43	58.1%
Flight Coordinator/Office Manager	26	30	22	73.3%	8	26.7%
Flight Coordinator/Scheduler	66	111	39	35.1%	72	64.9%
Materials Coordinator	8	12	0	0.0%	12	100.0%
Aviation Safety Officer	9	9	7	77.8%	2	22.2%

100%

NBAA

DEDICATED TO HELPING BUSINESS ACHIEVE ITS HIGHEST GOALS.

FAIR LABOR STANDARDS ACT RESOURCE

Gallagher Surveys
a Division of Gallagher Benefit Insurance Services

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Issue #3 – FSLA Pilot Classification

- Pilots do not meet any of the exemptions:

Professional	Administrative	Executive
Computer	Outside Sales	Highly Compensated

- Do not recommend classifying as "hourly non-exempt"

- Consider "Salary non-exempt" classification
  - ➢ Clear understanding of work rules
  - ➢ Clear documentation

Issue #4 – Independent Contractors

Independent Contractors are a normal part of the Aviation Workforce.

- Pilots, Technicians, and Schedulers
  - Up to 50% of the Pilot labor in some operations
  - Up to 100% of the Technician labor in some operations

- Assignments do not meet the DOL requirements for Independent Contractor
  - Workers Compensation risk
  - FICA and Income Tax risk
  - Unemployment Tax risk

Issue #4 – Independent Contractors

- Why don't Aviation Professionals meet the IC Test?

- What would have to change for them to qualify?

Issue #4 – Independent Contractors

Mitigations

- All Aviation Team are FTE – no elastic capacity ($$$)
- Use of Occasional Worker Status
- Employer of Record

Recommendations

- Evaluate current exposure
- Evaluate need for elastic capacity
- Evaluate current IC Providers (Workers Comp., Unemployment, etc.)

Issue #5 – Mandatory Retirement Age

Is it appropriate to have a mandatory retirement age?

- Aligned with FAR 121 (?)
- Cognitive Impairment with age
- Unusual practice
- ExxonMobil has successfully defended in 2 appellate court judgements

Issue #5 – Mandatory Retirement Age

Mean Score +/- 2 Standard Deviations of 24 Neurocognitive Abilities as a Function of Age
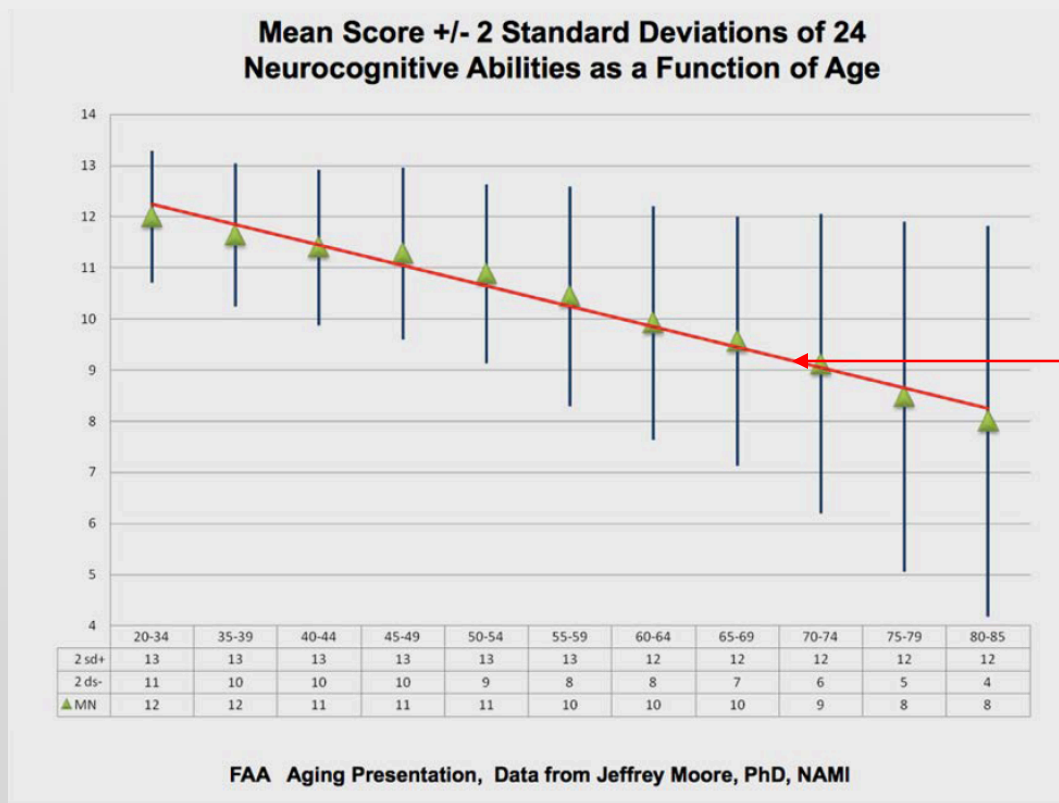
Minimum Acceptable Performance

	20-34	35-39	40-44	45-49	50-54	55-59	60-64	65-69	70-74	75-79	80-85
2 sd+	13	13	13	13	13	13	12	12	12	12	12
2 ds-	11	10	10	10	9	8	8	7	6	5	4
MN	12	12	11	11	11	10	10	10	9	8	8

FAA   Aging Presentation, Data from Jeffrey Moore, PhD, NAMI

Issue #5 – Mandatory Retirement Age

General Policy Data

Retirement - continued

Organizations with a mandatory age at which pilots are required to stop flying:

# of Orgs Responding	# of Orgs	% of Orgs
48	13	27.1%

Mandatory age pilots are required to stop flying:

Age	# of Orgs	% of Orgs
65	7	53.8%
62	1	7.7%
60	3	23.1%
Other	3	23.1%

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Issue #5 – Mandatory Retirement Age

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Issue #5 – Mandatory Retirement Age

Mitigations

- Increased Monitoring?
- Incentives?
- Ignore (Watchful waiting)?

Issue #6 – Background Checks

- The Law is changing very fast and varies from State to State. In some states it is now illegal to ask about criminal history OR to do a CRC.

- Felony = Pilot or Mechanic Certificate (no Drug Convictions)

- Part 91 = No Background Check

- Part 135/121 (Commercial) = Required (PRIA)

Issue #6 – Background Checks

- Are you willing to allow an individual this close to your brand, senior leadership, and assets without understanding their credit, criminal and professional history?

- What is your "normal" Corporate hiring process? At least this should be followed. It is not unusual for Aviation Teams to miss this step.

Issue #6 – Background Checks

Resume Verification

Previous Employment Verification

FAA Certification Records

FAA Enforcement Action Records

Driving Records Check (National)

Criminal History Check (National)

Credit History Check (National)

Previous Performance (Checkrides)

FAA Medical History

Risk
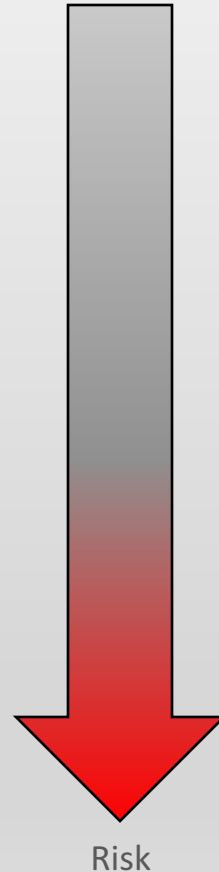
Issue #7 – Employee Sharing

The current (and decreasing) supply of aviation professionals is driving a number of companies to consider "employee sharing" as a viable option to staffing issues.

- Information Security/Intellectual Property Issues
- Co-employment liabilities
- Brand Liabilities

Issue #8 – Employee Activity While Traveling

Flight crews present a unique issue when traveling

- While "available" for trips – may engage in personal activities

  - Golfing
  - Museums
  - Skiing…

- Availability

- Work "hours"

Issue #8 – Employee Activity While Traveling

- Worker's Compensation?

- Risk Agency and Apparent Agency

- Alcohol/Availability?

Issue #9 – Standards

- The FAA has almost <u>no</u> standard for Business Aviation operations. The "assumption" by users is often not aligned with reality

  Airline Standards = Business Aviation

- Can Business Aviation Operations establish standards that exceed the FAA requirements?

  Medical?   Certification?   Work Rules?

Issue #9 – Standards

Recommendations:

- Establish a clear statement of expected risk management standards

- Assure compliance with ADA

- Communicate clearly the standards to current and future employees

Issue #10 – Limitation of Off Duty Activity

It is not usual for technicians or pilots to "moonlight" for other companies.

- Establish clear written policies (pre-employment)

- Low IP Risk

- High Brand Risk

- Fatigue Management Risk

Issue #11 – Intellectual Property Protection

Flight crews, schedulers and technicians can often peek behind your "ethical barriers (Chinese Walls)"

- Education

- Record Retention/Destruction Requirements

- Confidentiality Agreements

Issue #11 – Intellectual Property Protection

Emails, Texts, and Documents

- Misunderstood (Undervalued) importance of communication protocols

- Real Risks have impacted organizations

- The risks associated with Hazard Tracking systems

Issue #12 – #MeToo

Business Aviation Operations have a unique work environment that is unlike the land of cubicles.

- Individuals spend extended periods of time in pairs, alone, and on the road. They often share two or three meals a day together.

- Zero visibility into the behavior when flight crewmembers are away from home base.

- A natural sense of intimacy is created by the "Firehouse" effect.

Issue #12 – #MeToo

Additional Challenges

- Women are 5% (.05) of the professional aviation population

- Individuals of color are 2 tenths of a percent (.002) of the professional aviation population

- They said/They said (pronoun)

- Peer relationship with positional power

Issue #12 – #MeToo

Mitigation Strategy

- Education, Education, and Education (Discuss openly)

- Clear written work behavior policies

- Actively solicitation of comments

- Investigation every suspicion/allegation completely

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Mitigation Strategy

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CASHFLOW MANAGEMENT

DEVELOPING PREDICTABILITY

Where Does Unpredictability Occur?

- Maintenance

- Upgrades

- Usage

- Lease Return

- Others?

Solutions

- Maintenance Service Plans

- Maintenance Project Oversite

- Capital Planning

- Usage Policies & Stakeholder Interviews

- Return Inspection Planning

# Managing Maintenance Expense

Maintenance Service Plans
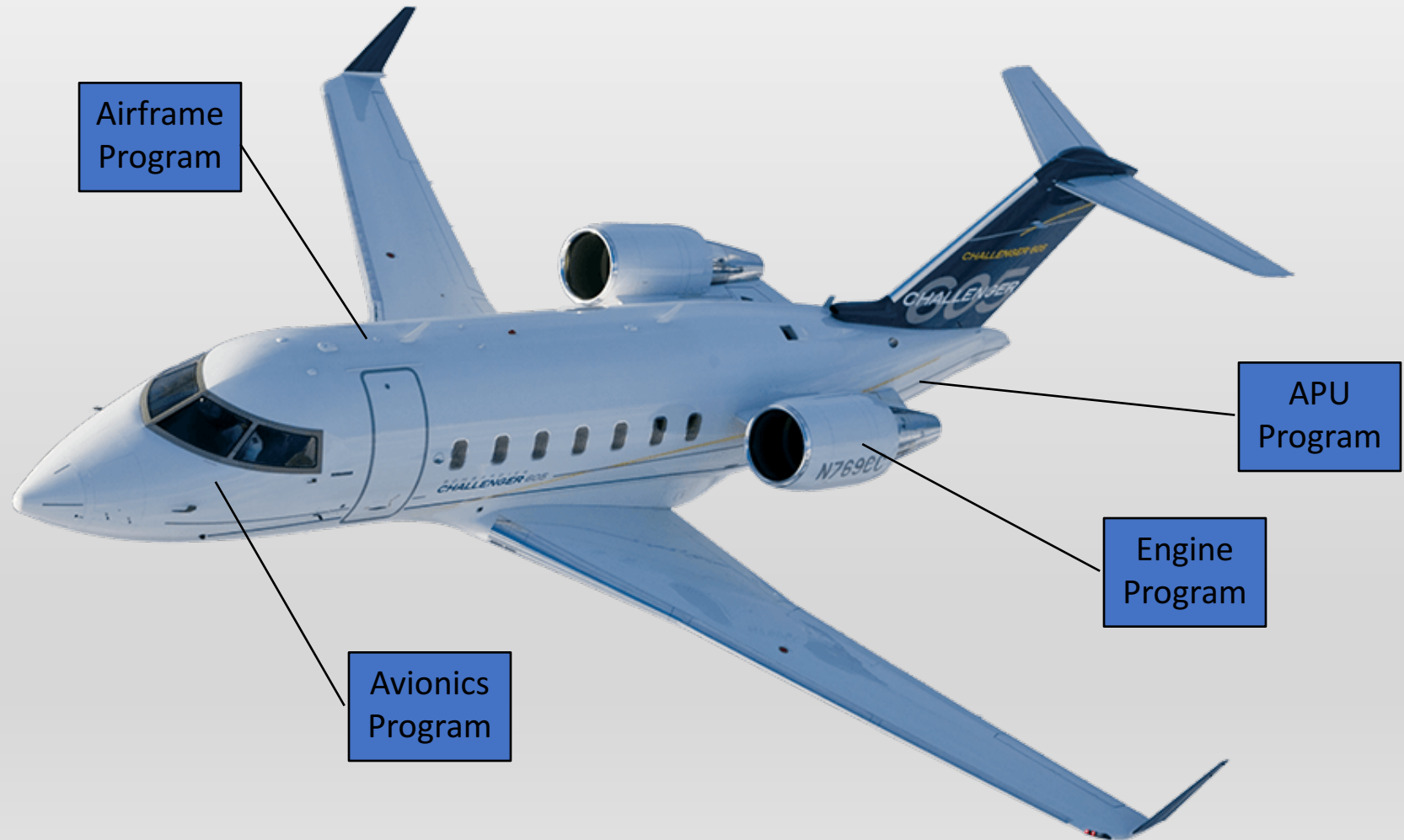
Maintenance Service Plans

- OEM vs Third-Party Plans

- Tiered Levels

  - Parts

  - Labor

  - Shipping

- Partial Coverage

- Exclusions

- Effect on value

Maintenance Service Plan
Benchmarking Survey Report
October 2017

VanAllen

Case Study – With and Without MSP
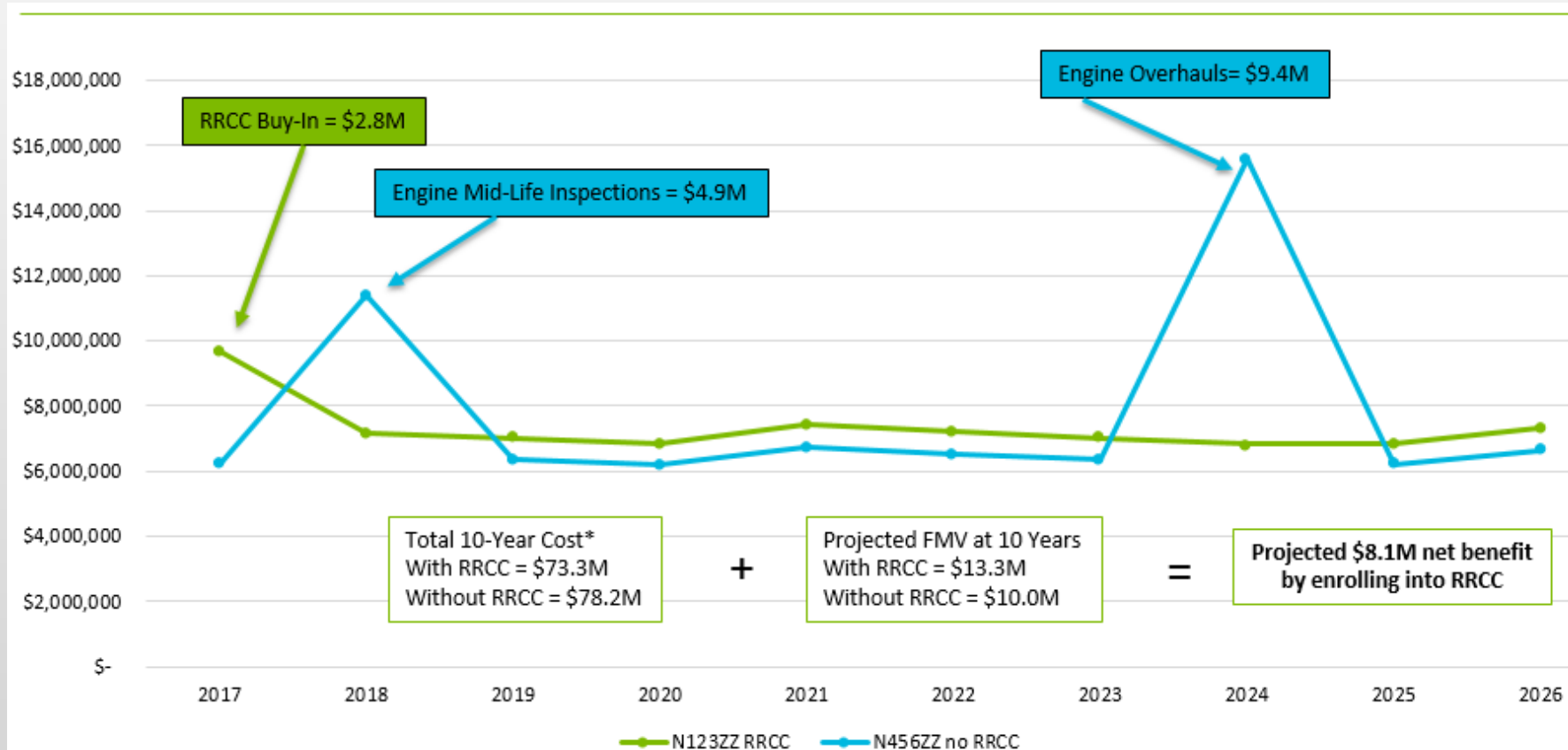
By enrolling into the Rolls Royce Corporate Care program, financial peaks are smoothed out. Also greater support for any unscheduled items. RRCC is fully transferrable at resale and equity is accounted for in value of aircraft.

* 10-year costs include all variable and fixed costs based on 700 hours of utilization. Projected maintenance (scheduled/unscheduled) and depreciation expense also included.

Why Go on a Plan???

- Better resale value (residual value)

- Streamlines your budget - Predictability

- Mitigates risk for scheduled and unscheduled maintenance

- What is your cashflow sensitivity???

  10 Year Plan?

  20 Years?

- Capitalize buy-in costs

- Discounts on upgrades (avionics upgrades)

Maintenance Plan Concerns

Ties up cash flows

Hour/Cycle limitations, more you fly the more you pay!

DOC's increase, charge back increases

Restricts parts shopping

Minimum billing rate if you fly less than contract states

Maintenance Project Oversite

- Review during inspection benefits project flow

- Coordinating additional resources when delays are encountered

- Defending fair and efficient billing when the project is completed

Managing Upgrades

Capital Planning

- Upgrades – Connectivity, CMS, Avionics obsolescence etc.

- Refurbishment – Paint and Interior

- Regulatory Requirements

Best Practices

- Have a 3 to 5 year projection window

- Review every 6 to 12 months

- Update planning and pricing

- Amend the plan based on internal and external factors

- Consider in and out of warranty expense

Common Questions

- Should I invest prior to selling?

- What if my lease is silent on the issue?

- How do I manage connectivity cost?

- How can I determine current market value?

- Are my maintenance expenses realistic?

- Are my actuals vs projections accurate?

- When should I consider capital improvements?

Managing Usage

What's Your Company's Philosophy?

- Access – Egalitarian vs Restricted

- The Tricky Balance – Strategic Value vs Operational Value

- Asset Limited vs Pilot Limited

- Internal Chargebacks vs None

- Insourced vs. outsourced

Lease Turnback Inspections

Inspection Planning

- All return provisions are poorly written

- Lessors are trying to recover every dollar

- Budget $200k-$300k for a super-mid aircraft

- Start planning 12 months prior to termination

- Be present during the inspection

- Treat the aircraft like a sale

- Review carefully the facility you choose

SAFETY STANDARDS

WHERE TO PLACE THE BAR

What the Aviation Team Needs...

- Set clear expectations for Leadership, Culture and Operational Standards
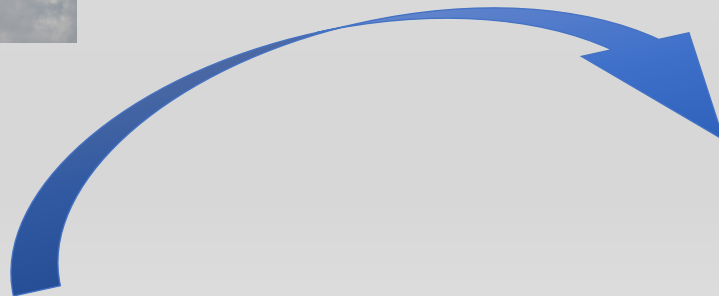
Standards

- What the law says: FAR Part 91
- What the passenger expects: FAR Part 121+

- What the Flight Department hears?
  "Do it cheaper"   "Better Service"
  "Not so fancy"   "We need to be different"
  "Peers?"   "We need to be the same"

  "I want the best flight department in the United States"

Standards

Before the Aviation Team can define the right standards, the company needs to answer this question:

"What is our Risk Appetite?"

Reputational Risk?	Financial Risk?
Operational Risk?	Service Risk?
Security Risk (IP)?	Internal Brand Risk?

Standards

What External Standards could we adopt?

FAA	Federal Aviation Administration
EASA	European Aviation Safety Agency
ICAO	International Civil Aviation Organization
IS-BAO	International Standard for Business Aircraft Operations
BASC	Business Aviation Safety Consortium
VPP	OSHA Voluntary Protection Program
ISO-9000	International Organization for Standardization
ACSF	Air Charter Safety Foundation
Third Party	Wyvern, ARGUS, and ?
Underwriter	???

Standards – Bottom Line

- Legal for US Airspace

- Audited Safety Management System for International Operations (ICAO)

- SAFA Audit (Safety Assessment of Foreign Aircraft)

Standards – Resistance

- Unaware of the Criticality of the Issue

- It is work. Aviation Teams are often staffed for function – not support

- Lack of Broad industry acceptance of "a" standard

- External Standards are often seen as self-serving

Standards – Questions

- Do you have a discipline of an external perspective/review on a periodic basis for other business units?

- In the event of trust being broken – are you prepared to "tell your story"?

- Is this an area to engage your risk management group? Should it be part of a governance report?

CAPITAL PLANNING

CREATING A FLEXIBLE PLAN WITH OPTIONS

Why We Need to Be Flexible

- Corporate Change

- Changing Needs

- Macro Factors

- Aircraft Age/Obsolescence

- Other?

Common Barriers to Flexibility

- Ownership Structure

- Book Values

- Engrained Behavior – "We've always done it this way"

- Other?

Fundamental Elements of Capital Planning

- Internal Control and Governance

- Policy and Risk Tolerance

- Forward Looking View

- Management Framework

Capital Planning Takes Many Forms

- Whole Aircraft Ownership

- Partnerships

- Timesharing

- Dry Leasing

- Fractional Ownership

- Charter

Case Studies

- Merger

- Acquisition

- Leadership Change

Case Study #1 - Merger

PCA – Pre-Merger

Global 6000

Challenger 300

STAFFING

1 Director (Flying)
6 Captains
2 Technicians
1 Scheduler
1 Admin

Part 91 – Internally Managed

PCB – Pre-Merger

Global Express

STAFFING

2 Captains
No technician
Contract F/A

Mangmt Agreement

Pilot Services Agreement
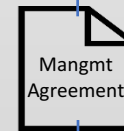
3rd-Party Mgmt. Co

Case Study #1 - Merger

- Public Company A ("PCA") and Public Company B ("PCB") are merging to create Public Company M ("PCM")

- Company headquarters are in two separate cities and being consolidated to PCA's location

- PCM's Executive team will be comprised of PCA and PCB executives

- PCA and PCB have strong international and domestic travel requirements

Case Study #1 - Merger

PCM – Post-Merger

Global 6000

Challenger 300

Global Express

STAFFING

1 Director (Flying)
8 Captains
3 Technicians
1 Scheduler
1 Admin

Part 91 – Internally Managed

Case Study #1 - Merger

Area	Comments
Structure	Intracompany operations, parent subsidiary structure
Regulatory	FAR Part 91 Operation. Costs via FAR 91.501. Personal use via SIFL.
Taxes	Need to analyze based on the jurisdiction. Sales and use tax planning. FET on managed operations?
Operational	Different models, different standards. Cross-training and managing multiple types. Aircraft aging issues. Hangar facility issues.
Organizational	Leader was defined (from PCA). Yet, new captains from PCB have strong relationship with new Chairman.
Other	In-house vs outsourcing still TBD. Culturally different approaches within the leadership ranks.

Case Study #2 - Acquisition

- ACME Corp ("ACME") acquired one of its primary suppliers ("Supplier") to streamline its supply chain

- Company headquarters are in two separate cities

- ACME's Executive team remained in tact, Supplier's Executive team released

- ACME just completed a fleet upgrade study and new aircraft have been contracted. First deliveries in 6 months.

Case Study #2 - Acquisition

ACME Corp

Lear 45XR

Lear 45XR

Lear 45XR

STAFFING

1 Director (Flying)
5 Captains
2 Technicians
1 Scheduler
1 Admin

Part 91 – Internally Managed

Supplier Corp

Challenger 300

Aircraft Lease

STAFFING

2 Captains
1 Technicians

Part 91 – Internally Managed

Case Study #2 - Acquisition

ACME Corp

Legacy 500

Legacy 500

Legacy 500

STAFFING

1 Director (Flying)
5 Captains
2 Technicians
1 Scheduler
1 Admin

Part 91 – Internally Managed
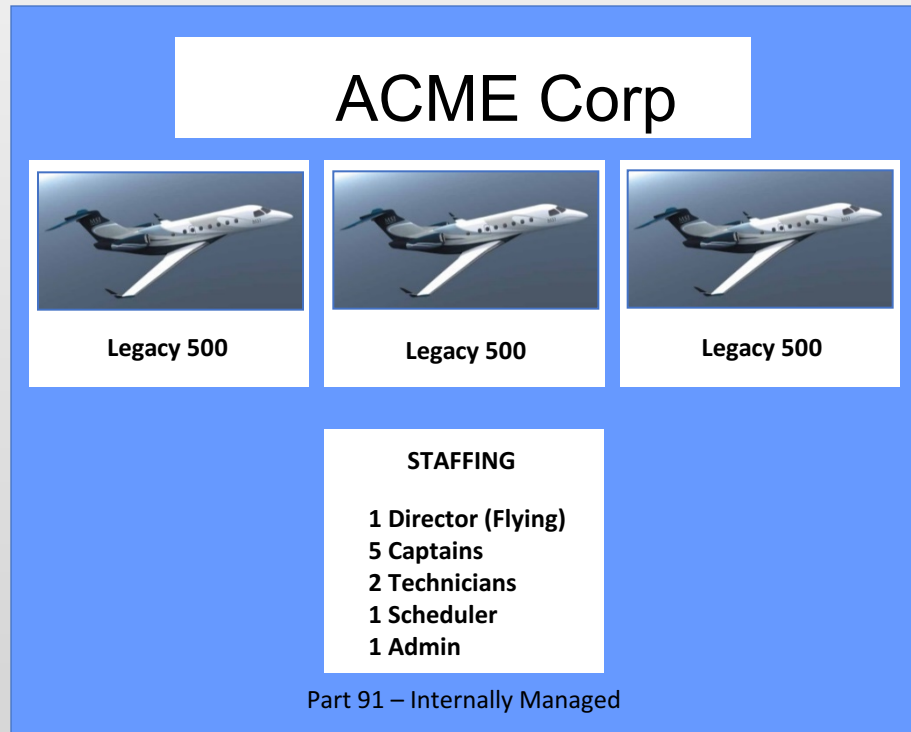
Case Study #2 - Acquisition

| Area	Comments
Regulatory	FAR Part 91
Taxes	Need to assess state tax issues
Operational	No operational changes other than fleet upgrade. No additional requirements to provide lift to Supplier location
Organizational	No changes
Other	Expense and logistics to exit the lease mid-term, financing consideration

Case Study #3 – Leadership Change

- Mid-west Public company completed a merger 12 months prior

- CEO stepped down after merger and new CEO from outside was hired

- New CEO lives and is based in New England. Part of hiring package was to support his commuting.

- New CEO has an aggressive international growth initiative and is a "face-to-face" businessman.

Case Study #3 – Leadership Change

Existing Operation

Falcon 2000EX

Citation Excel

Aircraft Lease

STAFFING

1 Director (Flying)
4 Captains
2 Technicians
1 Scheduler

Part 91 – Internally Managed – Based in Midwest

Case Study #3 – Leadership Change

Area	Comments
Regulatory	FAR Part 91 operations.
Taxes	Need to determine applicable sales/use tax exposure. Remote operation… CT? MA? NY?
Operational	No strong international experience. Undefined usage for CEO. Long-term vs short-term. Aging aircraft issues with Excel. Falcon coming off lease.
Organizational	Managing the NE operation remotely. Political influence by flying the CEO?
Other	Impact to Midwest travel. Executive retention concerns.

Summary & Best Practices

- What are the right metrics to be tracking?

- Why?

- How do we have the conversation around corporate change?

- When is that appropriate?

- Why does the aircraft/flight department exist?

- Is that an honest conversation?

THANK YOU!