

THE AIRCRAFT ACQUISITION PROCESS

When a client engages Aircraft Associates to assist them in acquiring a suitable aircraft, typically they already have an aircraft type in mind, sometimes even a specific aircraft, and just need our expertise to help guide them through the acquisition process.

Sometimes however, when we take the time to find out how the client came upon the airplane they want to buy, we learn that some critical questions about the aircraft and how it is to be used were overlooked. Often times many buyers look for an airplane that will meet their needs 100% of the time when, in fact, a different and less expensive airplane will not only meet their mission profile 90% of the time at a lesser cost, it is actually a better airplane for the mission.

For the first-time aircraft buyer, most are unfamiliar with the acquisition process and don't realize that buying an airplane is far more complicated than buying a house, with a seemingly infinite amount of variables that affect both cost and value.

For these reasons, we've taken the time to put together a list of questions that should be answered when you are considering the purchase of an airplane. We've also outlined the acquisition process so that a potential buyer understands *exactly* how the process works and can gauge if they are qualified to undertake the task on their own.

To potential buyers that might consider "going it alone," we would offer two things. First, unless you completely understand the market, and know the actual selling prices of the aircraft you are looking to purchase, you will pay more than you should. Our acquisition clients report that they typically see a return on our fees of 200% or greater, due almost exclusively to our in-depth market knowledge and our extensive negotiating experience.

Second, unless requested by the client, we provide acquisition services *only for aircraft we have both owned and operated* and can provide a breadth of real world knowledge and experience to our clients.

Finally, we are the only aviation service company that will analyze your *value proposition* and attempt to provide you with an *exit strategy* on any aircraft you are looking to acquire. We do this in the course of our business in order to mitigate your potential financial loss on the aircraft and to reduce your ownership costs as much as possible.

THE AIRCRAFT ACQUISITION PROCESS

I. Engage Aircraft Associates

- a. *Discuss Buyer's goals, the acquisition process, timeline, fees, expenses, etc.*
- b. *Buyer and representative execute aircraft acquisition agreement*
- c. *Buyer provides a retainer fee to Aircraft Associates*

II. Determine the mission requirements

- a. *IFR or VFR, day or night, over water or mountains operation, business or pleasure, average stage length, average number of passengers, average payload requirements, planned destinations, airport specifications required*

III. Determine which aircraft meet the mission requirements

- a. *Single or multi-engine*
- b. *Piston, turbine or jet*
- c. *Makes and models that meet mission requirements*
- d. *Buyer's experience in aircraft that meet mission requirements*
- e. *Insurance limits, costs & additional training requirement*

IV. Assess the Buyer's qualifications

- a. *Pilot qualifications - Certificate, ratings, endorsements, flight experience, make & model experience, etc.*
- b. *Ownership experience - First time aircraft owner, previous aircraft owner, ownership experience with make & model*
- c. *Maintenance experience - Aircraft maintenance knowledge, estimated maintenance costs, operating budget, shop requirements, etc.*
- d. *Aircraft insurance - Types of coverage, estimated costs, Smooth & sub-limit, coverages, estimated premiums, etc.*

V. Establish a target budget

- a. *Review current market prices*
- b. *Minimum / Maximum*

VI. Determine Most Advantageous Ownership Structure

- a. *Individual, Co-ownership, Partnership, Corporate or LLC, Other*
- b. *Tax considerations*

VII. Discuss an Operating Budget

- a. *Fixed Costs - Hangar, insurance, training, periodic maintenance, modernization, software update services*
- b. *Variable Costs - Fuel and lubrication, engine reserves, aircraft parts, crew expenses, RON and landing fees*

VIII. Identify potential aircraft

- a. *On market, off market*
- b. *Direct mail, email blast, online industry publications, online industry websites*

IX. Evaluate potential aircraft

- a. *Actively flown, airframe & engine(s) time, logbooks complete and original, known damage history, annual inspection status, transponder/static check status, hangared, corrosion, modifications, “must haves” equipment upgrades & costs, 5-year exit strategy*
- b. *Estimate & compare aircraft values*
- c. *Determine an offer price*
- d. *Sign Letter of Intent to Purchase*

X. Negotiate & Execute Aircraft Purchase Agreement (APA)

- a. *Obtain signatures from Buyer, Seller, Buyer’s Rep & Seller’s Rep*
- b. *Open a transaction file with an aircraft escrow company*
- c. *Provide copy of the executed APA to the Escrow Agent*
- d. *Provide escrow agency with a refundable deposit noted in APA*
- e. *Provide escrow company with required Buyer & Seller banking information*
- f. *Buyer provides escrow company with financing commitment if applicable*

XI. Conduct a Pre-Purchase Inspection

- a. *Records review - Aircraft spec sheet, digital logbooks, digital pictures, modifications, equipment list, 337 forms, weight & balance, FAA/NTSB & aircraft records, title & ownership history, etc.*
- b. *Aircraft flight check – Evaluate systems, autopilot, equipment, controls, parameters, etc. for proper operation and readouts*
- c. *Airframe inspection – By qualified individual or shop per manufacturer or type club recommended inspection checklist, develop list of maintenance items, cost to rectify and completion time required, classify items as airworthy (Seller’s) or non-airworthy (Buyer’s)*

XII. Aircraft Inspection Report (AIR) Execution

- a. *Aircraft is not acceptable, deposit is refunded to Buyer, transaction is terminated*
- b. *Aircraft is acceptable and in the condition required for delivery, deposit becomes non-refundable*
- c. *Aircraft is acceptable contingent upon rectification of airworthy items, inspection discrepancies list provided to the Seller, shop remediates all airworthy items at Seller’s expense*
- d. *Aircraft Inspection Report is executed by all parties and provided to the escrow company*

XIII. Pre-Closing Items

- a. Closing date is scheduled with the escrow company*
- b. Buyer fully funds escrow account*
- c. Seller executes the Warranty Bill of Sale*
- d. Buyer obtains aircraft insurance and proof of insurance naming delivery pilot, if applicable as "Named Insured"*
- e. Agent provides insurance company with pilot history for delivery pilot*
- f. Escrow company obtains Bill of Sale from the Seller*

XIV. Closing

- a. Escrow agency requests Authorization to Disburse from the Buyer via email*
- b. Buyer confirms Authorization to Disburse via email to the escrow agency*
- c. Escrow agency wire transfers funds held in escrow to the Seller*
- d. Escrow agency wire transfers commission and fees to the Buyer's/Seller's agent(s)*
- e. Seller confirms receipt of funds with his or her bank*
- f. Escrow agency notifies all parties that the transaction is closed*
- g. Liability for the aircraft transfers to the Buyer*
- h. Escrow agency provides Buyer with a Bill of Sale from the Seller*
- i. Escrow agency provides Buyer with FAA Aircraft Registration*
- j. Escrow agency records the transaction with the FAA*
- k. Escrow agency provides all closing records to Buyer and Seller*
- l. Buyer's agent provides Warranty Bill of Sale to Buyer*
- m. Buyer executes the Delivery & Acceptance form for the Seller*