

Fractional Jet Primer: Navigating the Contracts

BY JAMES D. BUTLER | SEPTEMBER 2008

Once you've decided to purchase a fractional share, you'll receive a set of contract documents from your provider. Your salesperson will do his best to convince you that everyone signs the same simple contract. The contracts are short and are made to look like standard "boilerplate." Don't be fooled. These documents govern your rights and obligations with respect to what most likely will be a multi-million dollar investment, and they are negotiable. Here's a brief primer that describes the critically important documents and what they mean to you:

Binder/Deposit Agreement

If your provider is awaiting delivery of your aircraft, it'll want you to put up a deposit to hold your share. This document should identify the specific aircraft in which you're buying the share, guarantee that the pricing won't change and include a firm delivery date. Most importantly, make sure you understand how and when your deposit becomes nonrefundable.

Purchase Agreement

This is the document through which you purchase your share from the provider. Just as important, the Purchase Agreement provides the terms under which the provider will repurchase your share at the end of your contract term. All too often, buyers don't consider the likely decline in value of their aircraft, and thus their share, when projecting the all-in cost of their investment.

Master Dry Lease Exchange Agreement

This document governs the relationship among all fractional owners in the program. Essentially, each owner agrees to share his plane with

every other owner, thus enabling the provider to utilize the entire fleet to service all the owners. This arrangement is a common feature of all fractional programs; so much so that you may rarely, if ever, actually fly on the aircraft in which you own a share.

Management Agreement

This document governs the core issues of your investment. Nominally, it reflects your appointment of the provider as the manager of your aircraft and as the administrator of the program. But more importantly, the Management Agreement tells you when you can fly, how many hours you can fly and what costs you'll incur when you fly. It describes how your flight time will be calculated, what you'll pay if fuel prices go up and how far in advance you must reserve your flight. It spells out your right to interchange, i.e., use other models of aircraft in the fleet, and how you'll be charged if you do. It specifies peak travel days, when greater restrictions on your use of the aircraft apply, and it maps out the service area within which you can fly.

These documents, and not that beautiful brochure, will govern your rights and obligations. The contracts may look simple, but if you don't read and negotiate them carefully, you may make a million dollar mistake.

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