



Keeping a Regional Airline Aloft: A Risk Management and BCM Case Study

DRJ Fall World
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Discussion Points

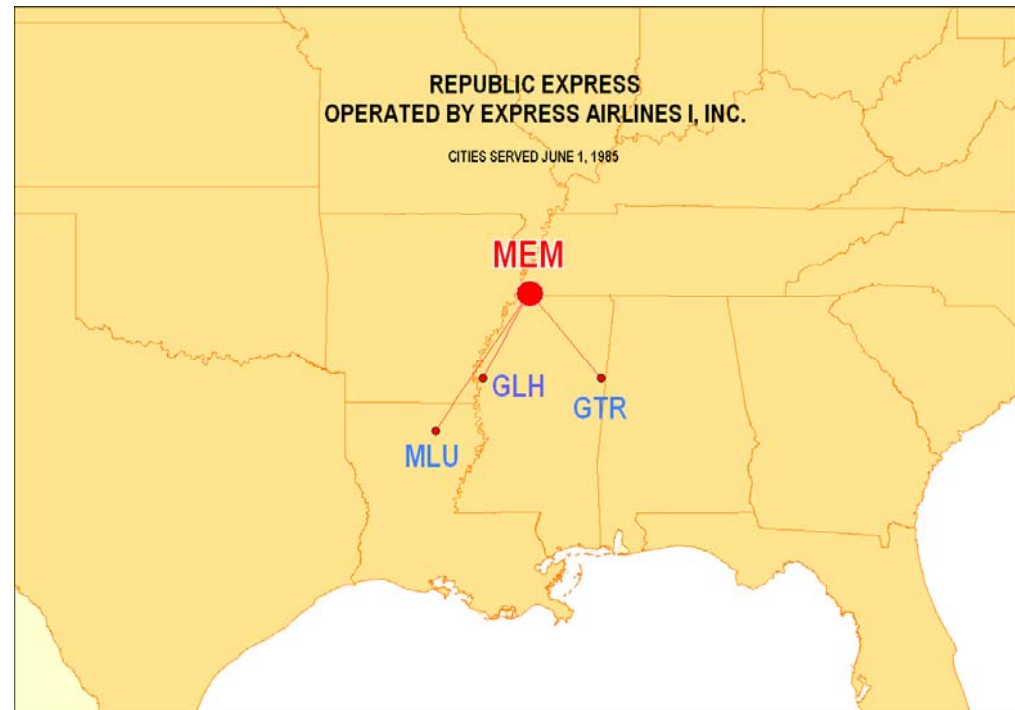


- ▶ Company Profile – Pinnacle Airlines Corp.
- ▶ Overview of Risk Management at Pinnacle
- ▶ Risk Management and Aviation Crossroads
- ▶ How Risk Management Keeps the Airline Aloft
- ▶ Question and Answer

Company Profile



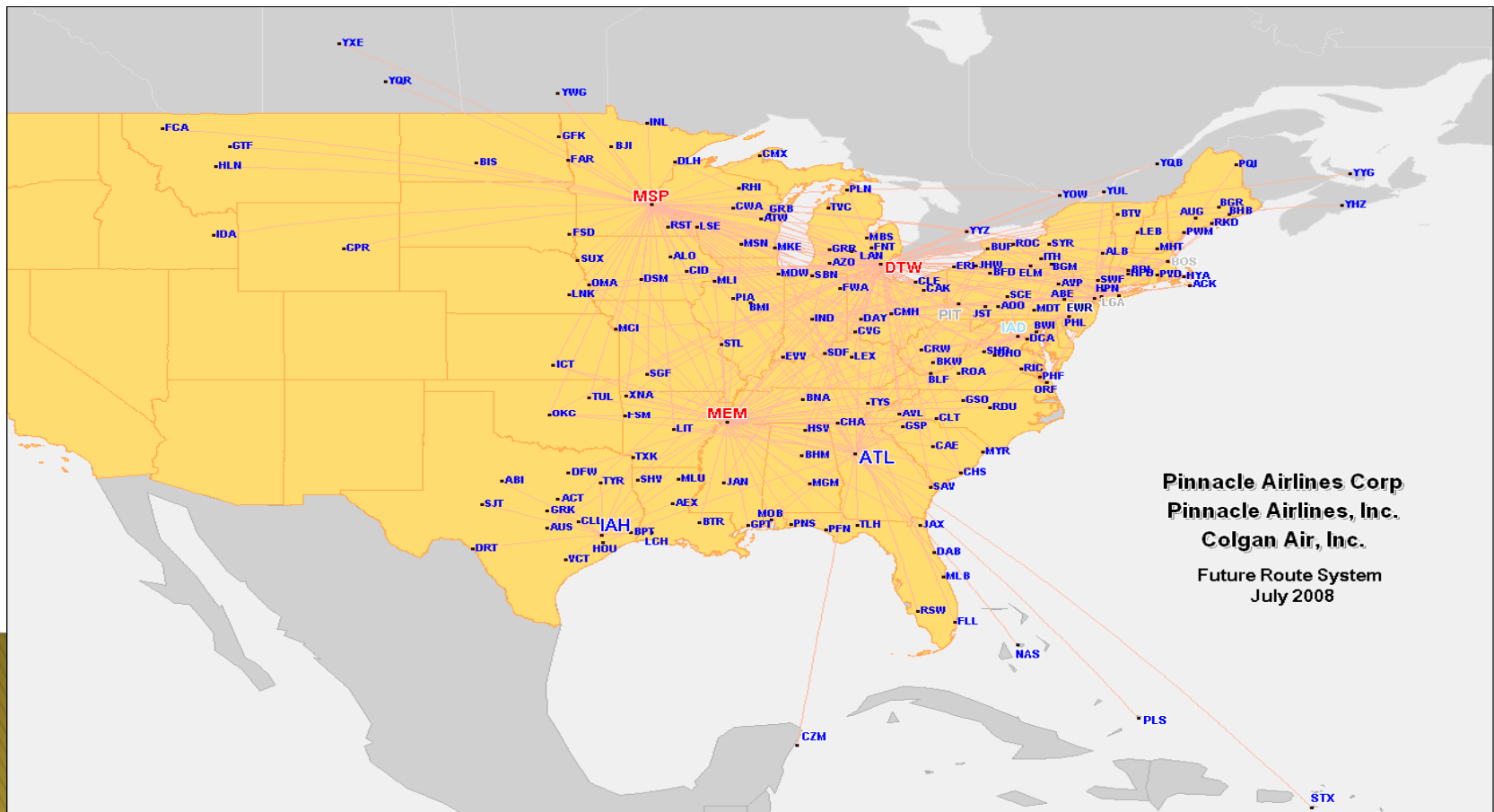
- ▶ In the beginning...1985
- ▶ Express Airlines 1 operating turboprops between Memphis (MEM) and
 - Monroe LA (MLU)
 - Greenville MS (GLH)
 - Columbus MS (GTR)



Company Profile



- ▶ Fast forward to today...2008
- ▶ 195 aircraft serving 140 cities
- ▶ 1,000+ flights carrying 28,000+ passengers daily



Company Profile



- ▶ Pinnacle Airlines Corp. (www.pncl.com) is the holding company for two operating subsidiaries
 - Pinnacle Airlines, Inc. (9E)
 - Colgan Air, Inc. (9L)
- ▶ Regional Airline Partnerships



- ▶ 4,900+ employees
- ▶ Based in Memphis, TN
- ▶ Traded on NASDAQ (ticker symbol PNCL)

Company Profile



- ▶ Fleet of 139 regional jets and 56 turboprops



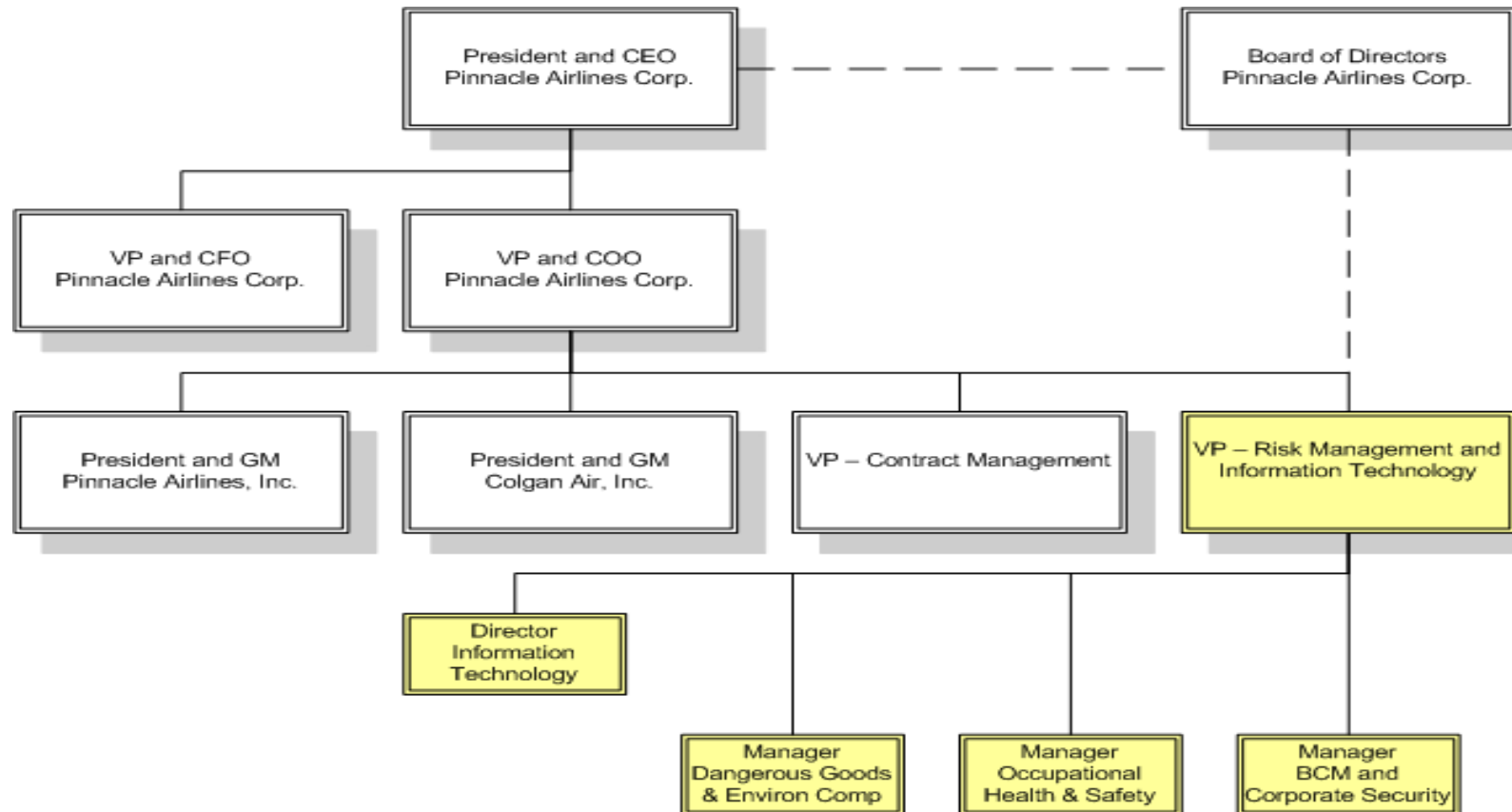
Pinnacle Airlines Inc.
Regional Jet Platform



Colgan Air Inc.
Turboprop Platform



Risk Management @ PNCL



Risk Management @ PNCL



- ▶ Business Continuity Management (BCM)
 - Business Resumption
 - Crisis Management
 - Emergency Response
- ▶ Corporate Security
- ▶ Dangerous Goods
- ▶ Enterprise Risk Management (ERM)
- ▶ Environmental Compliance
- ▶ Insurance
- ▶ Occupational Health and Safety

Risk Management @ PNCL



▶ Business Continuity Management

- 2005 – Risk Assessment & Business Impact Analysis
- 2006 – Risk Mitigation & IT Disaster Recovery Phase I
- 2007 – IT Disaster Recovery Phase II
- 2008
 - Emergency Response program formalization
 - Tool selection
 - Business Resumption Planning for Tier I
 - Crisis Management automation
 - Q4 FY08 Emergency Response Exercise with NW/DL
 - Recovery strategy implementation for Tier I processes
 - Risk Management website

Risk Management @ PNCL



▶ Business Continuity Management

◦ 2009

- Risk Assessment and Business Impact Analysis refresh
- Business Resumption Plan documentation
- Crisis Management program development
- Recovery strategy implementation expansion
 - MEM “Dark Site” for Tier I processes
 - Mobile Recovery
 - Work from Home
- Exercise augmentation
- BCM website enhancement

Risk + Aviation @ Crossroads

- ▶ Commercial Aviation
 - Safety #1
 - Heavily regulated (over a dozen agencies)
 - Operationally driven
 - Process focused (1,400+)
- ▶ Regional Challenges
 - Airline Service Agreement (ASA) restrictions
 - Vendor dependent
 - Fixed financial margins vs. rising operational costs
 - Labor / Work force limitations
- ▶ PNCL on NASDAQ = Shareholders and SOX

Risk + Aviation @ Crossroads



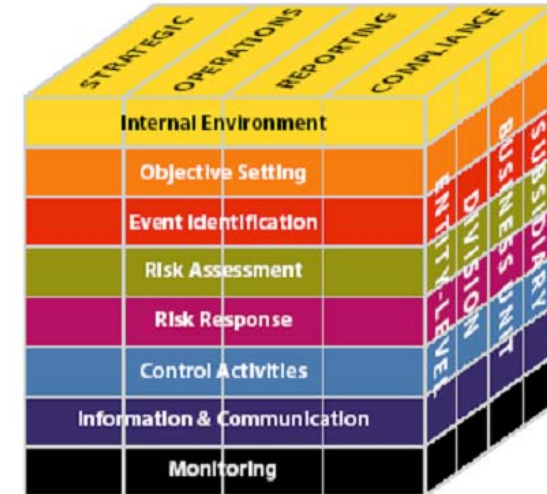
Risk + Aviation @ Crossroads

- ▶ **Conundrum**
 - Operate safely
 - Exceed ASA performance
 - Meet regulatory requirements
 - Maintain vendor relationships
 - Return adequate profit
 - Retain specialized workforce
- ▶ **Solution: Delicate balance**
 - Operational Efficiency
 - Cost Containment
 - Risk Management

Keeping PNCL Aloft



- ▶ Follow Risk Management 101
 - Mitigate (including Avoid, Eliminate and Transfer)
 - Insure
 - Plan
 - Accept
- ▶ Adhere to COSO ERM framework
 - Strategic
 - Operations
 - (Financial) Reporting
 - Compliance



Keeping PNCL Aloft



- ▶ Risk Management involvement
 - Risk Oversight Committee (ROC) and subsidiary Risk Steering Committees (RiSC)
 - Identify risks
 - Tie to *Guiding Principles*
 - Quantify or Qualify gaps
 - Apply **MIPA** filter
 - Create an Action Plan
 - Key focus areas for FY08/FY09
 - People
 - Operational Performance
 - Risk Management
 - Financial Stability

Keeping PNCL Aloft



- ▶ Business Continuity Management involvement
 - Backup site for System Operation Control (SOC)
 - “Tier I” system “high availability”
 - Incident Command Structure for IROP management
 - Emergency Response (aircraft) program oversight
 - Software tool for crisis management
 - Notification
 - Virtual EOC
 - Incident tracking
 - Plan enactment
 - Quarterly exercises

Keeping PNCL Aloft



- ▶ 1,400+ individual processes make a flight leave and arrive on time and safely
 - Scheduling (Routes to Tails)
 - Human Resources (Staffing / Crew Scheduling)
 - Training (Operations / Qualifications)
 - Regulatory Compliance (Safety, Flight, EPA, OSHA)
 - Flight Operations (Standards, InFlight, SOC)
 - Ground Operations (Hub / Stations / 3rd Party)
 - Maintenance (Aircraft and Materials)
- ▶ All supported by Accounting, Finance, IT, etc.

Keeping PNCL Aloft



- ▶ BIA confirmed critical processes and systems
 - Reservations and flight scheduling (partners)
 - Flight dispatch, tracking and rerouting
 - Crew bidding, scheduling and tracking
 - Crew flight qualification
 - MX scheduling, status, procurement, inventory
 - Weather tracking
 - Air Traffic Control (ATC) communication
 - Aircraft to Cockpit communication
 - Support functions, i.e. Payroll, A/P, etc.

Keeping PNCL Aloft



- ▶ Key impacts quantified
 - Compliance
 - Fines and possible operational cessation associated with the FAA, DOT, DHS and SEC
 - Financial
 - ASA(s) outline(s) financial penalties for sub-par and non-performance, including irregular operations (IROP)
 - Sarbanes-Oxley reporting
 - Operational
 - Contract in default if non-operational for >14 days
 - Strategic
 - Reputation is based on Safety and Performance

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Question and Answer



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