

# The Update Report

The Aviation Suppliers Association

Volume 12, Issue 12

December 31, 2004

## REGULATORY UPDATE

### Part 145 Training AC for Comment

The FAA has released a draft Advisory Circular with a working title of Advisory Circular 145-RSTP. This draft lays out the details of the training program that the FAA expects to be established to comply with the new repair station training program rule promulgated at 14 C.F.R. 145.163.

The draft is important for both the ASA members who have repair station certificates, and also for all other distributors as well. Whenever a program is established in the aviation industry it tends to affect similar programs in other sectors of the industry. Even if your company does not have a repair station certificate, your company probably already engages in some training. The rigor of repair station training programs is bound to creep into the distribution industry, either through enhanced desires for quality, customer requirements, or simply because greater rigor becomes an 'industry standard.' ASA-100 compliant repair stations are already required to engage in some training — repair station training programs are likely to raise the bar for all training as they are demonstrated to be effective. For these reasons, all distributors should pay attention to the repair station training policies.

The rule requires each repair station to develop an employee training program that will be approved by the FAA. The program must include initial and recurrent training.

The rule establishes a 'phased' compliance program, under which each existing repair station must submit its draft training program to the FAA for approval by the last day of the month in which its repair station certificate was issued (so look at your repair station certificate for that month!).

The training program is supposed to ensure that each employee is capable of performing his or her assigned tasks. The training should be documented in a format acceptable to the FAA and training records must be retained for at least 2 years.

#### AC Adds Categories

While the rule only requires initial and recurrent training, the AC proposes that each repair station establish five types of training:

- a. Indoctrination, for all new employees to introduce them to the repair station's operations;
- b. Initial technical training, to introduce new employees, and existing employees who take on new job responsibilities, to the technical skills necessary;
- c. Recurrent training, to assure that old skills remain current and that employees remain on the cutting-edge of new technologies and procedures;
- d. Specialized training, which is advanced training for specific jobs

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### Congratulations to the following companies:

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### For their accreditation, and

#### AAXICO

Miami, FL

#### Global Airtech

Van Nuys, CA

#### Global Filtration

Houston, TX

#### Transocean International, Inc.

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For their re-accreditation to the ASA-100 standard in accordance with the FAA's AC 00-56A

### Voluntary Industry

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## A Message from ASA's President

We are very excited about the coming year, 2005.

The aviation parts industry is radically different from what it was just a few short years ago. Many opportunities that our members enjoyed in the past simply no longer exist. But for the companies that have been flexible, new opportunities have risen to take their place.

In recent years, ASA has tried to bring you information about the new markets and the new business opportunities that exist for our members. In the last few years we have addressed new market opportunities like regional airlines, the cargo market, and the defense market. We have addressed emerging geographic markets all over the world.

The Board of Directors has been working in recent meetings to identify new opportunities for the members, and to identify ways that the Association can assist the members in taking advantage of these opportunities.

We intend to make 2005 a year for pursuing new opportunities and new marketplaces for our members.

### **8130-3 Update**

For those of you who continue to have problems getting export 8130-3 tags for class III parts, and who continue to have problems

exporting these parts without such tags, please call the Association to discuss your problems as we are continuing to work on developing solutions. We would especially appreciate specific examples of transactions that have failed, or not quoted, because of an inability to obtain appropriate export 8130-3 tags.

Happy New Year!

Best Regards

Michele Dickstein

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The Update Report provides timely information to help Association members and readers keep abreast of the changes within the aviation supply industry.

The Update Report is just one of the many benefits that the Aviation Suppliers Association offers members. For information on ASA-100, the ASA Accreditation Program, Conferences, Workshops, FAA guidance like Advisory Circulars, Industry Memos, or services and benefits, contact the Association.

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The Update Report For information on special package rates for advertising, contact the Association at (202) 347-6899.

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## Upcoming Avionics Deadlines

If you sell avionics, then you should make sure your customers are aware of the impending avionics-related deadlines for RVSM, TAWS and TCAS. You may also want to consider upgrading the software on your inventory to reflect the new standards.

### RVSM

On January 20, 2005, the FAA's new rules for Reduced Vertical Separation Minimum (RVSM) will become effective. The effective time is 9:01 a.m. UTC, which is 4:01 a.m. EST and 1:01 a.m. PST.

The new RVSM rules reduce the verti-

cal separation between aircraft that fly between 29,000 feet (flight level (FL) 290) and 41,000 feet (flight level (FL) 410). The current rules require vertical separation of 2,000 feet. This creates seven flights paths at the altitudes between FL 290 and FL 410. The new rules will permit a tighter separation minimum of 1,000 feet. This expands the number of flights paths at the altitudes between FL 290 and FL 410 to 13.

The flights paths at the altitudes between FL 290 and FL 410 are considered to be 'preferable' because they permit the operators to fly the most fuel efficient profiles, and this is why in-

creasing the number of flight paths at these latitudes is desired.

In order to safely fly at the reduced separation minimum, certain improvements were needed in the equipment used to confirm and transmit the aircraft's positioning. A 1988 ICAO study determined that this was technically feasible and avionics manufacturers soon after produced software upgrades that permitted avionics to support RVSM operations.

Software upgrades to permit operation in RVSM airspace are generally required for autopilots, air data com-

*(Continued on page 134)*

## IF YOUR INSURANCE AGENT DOESN'T UNDERSTAND YOUR BUSINESS It's time to consider someone who does.

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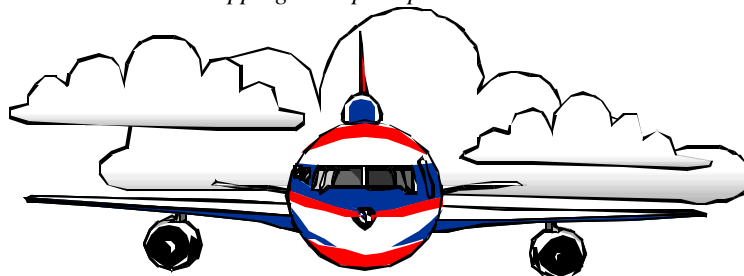
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## Parts Positioning – Jet Avion Corp. a div. of Heico Aerospace Products

PMA part manufacturing is an integral aspect of aviation parts distribution. Although HEICO Corp. has been serving niche segments of the aerospace, defense, communications, and computer industries for over 40 years, one area of expertise has evolved from producing a few FAA-PMA approved parts. ASA recently had an opportunity to speak with Jet Avion Corp. a div. of Heico who is a leading PMA parts manufacturer.

Jet Avion is one of the FAA-PMA units of HEICO Aerospace Products. Jet Avion originally developed subcontract manufacturer for several OEMs, first producing FAA-approved parts in 1964. JT8D combustors are included in this product line. In 1985, a British airline's hull loss led to an AD to inspect and/or replace JT8D Pratt & Whitney combustors. Jet Avion was able to step up production to support the airlines in dire need of product. In those days, HEICO-Jet Avion was known for a few high-technology JT3 and JT8 parts. But, the challenge of today is no longer urgent demand for products.

Most airlines are in the vise of declining yields and increasing costs. Fuel costs are out of control. Some labor costs have been painfully reduced, yielding some reduction of maintenance costs. Replacement parts are the largest component of most overhaul and OEM prices increase year after year. The Airlines need top quality and reduced prices. As a result, our challenge is to provide a consistent and expanding array of FAA-PMA parts that reduce MRO costs. This requires expertise in more specialized and complex materials and designs.

HEICO-Jet Avion has developed a state-of-art materials and test laboratory in Hollywood, Florida that supports over 60 engineers who develop an array of products. These engineers, located at Jet Avion and other HEICO business units, develop parts for most engines and airframes. Parts range from nuts and bolts to combustors, rotating airfoils, fuel pump gears, bronze bearings and thrust reverser cascades.

HEICO has strategic relationships with Air Canada, American Airlines, Delta

Air Lines, Japan Airlines, Lufthansa and United Airlines. HEICO Aerospace is one of the industry's leading providers of cost saving alternatives to aircraft operators, airmotives, and repair stations. HEICO-Jet Avion is a member of ASA, is one of the HEICO Aerospace Part Group units focused on producing FAA-PMA parts serving commercial airlines. With over 3,000 parts, HEICO is the world's largest independent supplier of FAA- Approved engine and component parts. HEICO adds more than 300 new, highly engineered, parts each year, largely selected by our customers. HEICO-Jet Avion provides materials laboratory and scientists for all of HEICO's FAA-PMA development units.

HEICO Corporation is a New York Stock Exchange listed company (NYSE:HEI and HEI.A), was ranked as one of the 200 "Best Small Companies" and 200 "Hot Shot Stocks" by Forbes, and has been recently highlighted on CNNfn. For more information about HEICO, you can visit their web site at <http://www.heico.com>



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## Tax Changes Affecting Distributors

There are a number of important tax changes of which ASA members need to be aware. The President signed into law the American Jobs Creation Act on October 22. This bill attempts to encourage trade between the U.S. and Europe while at the same time providing significant tax cuts – some of which are applicable to ASA members and to their business partners.

A major catalyst for the passage of this bill was the need to repeal the current extraterritorial tax income (ETI) system of taxation, which allows the exclusion of extraterritorial income from gross income. The World Trade Organization viewed these ETI stipulations as violating international trade agreements established in January 2002. In reaction to this violation, the European Union issued sanctions against U.S. exporters in March 2004. These sanctions included a tariff on a list of about 1,600 U.S. exports such as iron, steel, and electrical equipment, machinery, and parts. After initial reports that the aviation industry would be targeted, the Europeans chose to exempt the aviation industry from the actual tariffs. The tariff on other products was set at five percent in March with a one percent increase per month. The repeal of the ETI provided for in this bill will end these heavy export sanctions.

This Tax Law was also created to provide tax cuts to compensate exporters for the repeal of the ETI. These tax breaks for exporters expanded into a \$145 billion election year tax cut package.

### *Manufacturer Tax Relief*

The most significant of these tax cuts is one that lowers the domestic manufacturer income tax rate by up to 3 percentage points. This means that a 35% tax rate can go as low as 32% in 2005.

ASA members who are manufacturers, software developers or engineering firms qualify for this tax cut. This means companies that manufacture PMA or TSOA products – not just companies like Boeing. The definition of “manufacturer” in this act includes engineering, among other fields so it could include some consulting firms in the industry as well. The deduction applies to corporations, S corporations, individuals, estates, trusts, partnerships, and cooperatives. The tax cut will remain at 3% in 2006, rise to 6% for 2007 through 2009, and increase to 9% in 2010. The deduction is limited to 50% of the W-2 wages paid during the tax year and is also limited to the lesser of the taxable income for the year or the qualified production activities income for the year. The deduction is also offered for alternative minimum tax (AMT) purposes.

### *Increased Expensing Extended*

The Act will also extend through 2007 provisions that allow a small business taxpayer to deduct immediately \$100,000 of new expenses, with a stipulation for inflation indexing. The inflation indexing, in fact, increased the actual expensing limits to \$102,000 in 2004 and \$105,000 in 2005. This deduction will revert back to \$25,000 in 2008 (unless extended again).

This provision is known as the section 179 deduction (because that is where it is found in the Internal Revenue Code). It acts as an incentive for small businesses to make large investments in equipment in the coming years so that companies can expense the assets in one year as opposed to depreciating them over a period of years – thus increasing cash flow. Distributors may take advantage of this section 179 deduction by investing in warehouse equipment, like racking and forklifts, before 2007. ASA members should

also continue to remind their customers that an investment in aircraft parts inventory that might otherwise be depreciated over a period of years can be expensed (up to 100,000) under this provision.

### *Corporate Aircraft Purchase*

An important part of this recent law for those in the aviation industry is the provision that extends an incentive to purchase corporate aircraft. General aviation aircraft, except for those used for agricultural or firefighting purposes, can qualify for a bonus depreciation as a part of this provision. This provision is similar to an existing provision for transport category aircraft. The 50 percent bonus depreciation allows the business purchaser to deduct 50 percent of the price of the aircraft in the same year it was purchased. This 50 percent depreciation will be given in addition to the normal depreciation on the remaining price of the aircraft. There are several additional requirements for aircraft purchases to qualify for this depreciation. The use of the aircraft must have begun after September 10, 2001 and either have been acquired by purchase or be subject to a written contract after September 10, 2001 and before January 1, 2005. Thus, this will apply to firm orders even when the aircraft is not delivered until January 1, 2005. At the time of purchase, the purchaser must have made a deposit of either 10 percent of the value of the aircraft or \$100,000. The aircraft must also have a cost exceeding \$200,000 and a production period exceeding four months.

### *Bonus Depreciation Expires*

Although there is a special provision for bonus depreciation on certain aircraft, the general 50% bonus depreciation provisions expired as expected.

*(Continued on page 135)*

## Avionics Deadlines Affect Distributors' Inventory

(Continued from page 131)

puters and altitude alerter systems (like TCAS). If you have this sort of equipment in stock, you may want to make sure that the software is properly upgraded before selling the equipment. Software upgrades are generally available from both the OEM and from avionics repair stations.

RVSM software upgrades can be expensive. One remedy may be to simply alert the purchaser as to the current update status of the software, and/or you may want to defer software upgrades until you have a firm purchaser. Often, the software update status can be gleaned from both the documentation and from information on the data-plate attached to the unit.

The RVSM rules preclude those without appropriate avionics from operating in RVSM airspace, but non-RVSM aircraft are still permitted above and below RVSM airspace. Air traffic controllers have said that they will permit aircraft to travel *through* RVSM airspace in order to reach altitudes above FL 410 (starting at FL 430), but this permission is at the discretion of the controller and may depend on how busy traffic is at the time of the request. Thus, there may still be a market for non-RVSM-capable equipment after January 20, but customers will expect it to be sold at a reduced price relative to

equipment with appropriate RVSM upgrades.

### TAWS

The Terrain Awareness Warning System (TAWS) rules require that certain aircraft operated under the Part 135 and Part 121 rules be equipped with TAWS equipment meeting the appropriate class requirements under TSO-C151.

Turbine-powered aircraft manufactured after March 29, 2002 were required to have TAWS equipment installed. Small turbine-powered aircraft (6-9 passenger seats) operated under Part 135 were required to have class B equipment. Larger turbine-powered aircraft (10 + passenger seats) under Part 135 and all aircraft under Part 121 are required to have class A TAWS equipment (this includes cargo operations under Part 121).

The deadline for installing appropriate TAWS equipment in older aircraft (manufactured on or before March 29, 2002) is March 29, 2005. After this date, turbine-powered aircraft without appropriate TAWS equipment may not operate under Part 135 or Part 121.

### TCAS

For those of you interested in Traffic Collision Avoidance Systems (TCAS),

there is currently a brisk business going on in TCAS software upgrades. The most current update (version 7.0 software) is being sought for two reasons. First, it permits operation in RVSM space so anyone planning on flying between FL 290 and FL 410 (inclusive) has been seeking this upgrade. Also, new rules applicable to certain commercial operators require installation of the version 7.0 software by January 1, 2005.

As of January 1, 2005, nearly all turbine-powered aircraft operated under Part 121 or Part 125 (certain charter operations) must have TCAS II equipment with version 7.0 software installed. There are certain exceptions that permit the use of version 6.04 A Enhanced software.

Also as of January 1, 2005, large piston-powered aircraft (more than 33,000 lbs maximum certificated takeoff weight) operated under Part 121 or Part 125 must have TCAS I (or equivalent) or TCAS II equipment installed.

Distributors selling equipment that will be used as part of a TCAS II system should make sure that they have either obtained appropriate software upgrades or that their customers are aware of the appropriate TCAS II requirements for their own equipment.

## New Tax Provisions Help ASA Some Members

(Continued from page 133)

The new tax bill did not renew them.

One complaint that private aircraft owners may raise is that tax deductions designed to promote spending by businesses often do not apply to individuals purchasing for their own benefit. There is an interesting benefit for ASA members and their customers for their individual tax returns. Although federal tax law permits a deduction for state income taxes, this provides little benefit for individuals in states without state income taxes. In those states, there are usually other taxes that take the place of income taxes for revenue purposes, like property taxes and sales taxes. Under the new law, an individ-

ual taxpayer may elect to deduct state sales taxes that he or she paid *instead of* deducting state income taxes. Although at first glance this provision appears to only help residents of states that have no state income tax, it can also prove beneficial to those people who make significant purchases during the year and find that their sales tax expenditures exceed their state and local income tax payments. This state sales tax deduction can also be a useful bonus for individual customers (including anyone in a sole proprietorship) who make a significant parts purchase for a privately held aircraft and would like to deduct the sales tax associated with the purchase.

Overall, this new act provides several items of interest to ASA members and their clients. The repeal of the ETI will help non-aviation manufacturers increase their exports to Europe because it permits the termination of the punitive tariffs. The decrease in income tax rates for 'manufacturers' will provide far-reaching benefits for many manufacturers and engineering firms, who will be able to retain a great deal of money in the coming years. The increased expensing deduction could encourage the clients of ASA members to make investments in large aviation upgrades and provide immediate deduction for members looking to make large business investments.

## REGULATORY UPDATE

### Draft Training Guidance is Out for Comment

(Continued from page 129)

or functions; and

**e.** Remedial training, which is applied to correct training deficiencies for specific employees when such needs are identified.

The AC also specifies general topics that should be included in each type of training. For example, indoctrination training consists of at least eight subject areas:

- (1) Title 14 CFR and other regulatory requirements,
- (2) Company manuals, policies, procedures, and practices,
- (3) General Occupational Safety and Health Administration (OSHA) and Environmental Protection Agency (EPA),
- (4) Maintenance human factors,
- (5) Computer systems and

software, as applicable to the repair station's systems,

- (6) Facility security,
- (7) Repair station maintenance functions and authority as reflected on the certificate and operations specifications, and
- (8) Quality control process.

Note that the FAA anticipates that other training regimes will be rolled into the training program, like OSHA training and hazmat training (both of which are already required under certain laws—by incorporating them in to the training program the repair station ensures that they will be obtained systematically, but the repair station also permits the FAA to enforce the training regulations of other agencies).

The basic system for devising an effective training program under this AC

involves a needs assessment, followed by identification of necessary training, and identification of sources of training. Training programs should have a way of measuring the effectiveness of the training (such as a test) and must be documented to meet the requirements of the regulations.

The AC even makes suggestions about where to obtain training—including formal classroom training, on-the-job training, original equipment manufacturer training, government training, and trade association training resources.

All ASA members should review this draft training AC and forward their comments to the FAA by January 21, 2004. ASA is requesting an extension of this unusually short comment period but until/unless the extension is granted, the 21st remains the deadline.

# UNAPPROVED PARTS NOTIFICATION

SUSPECTED UNAPPROVED PARTS PROGRAM OFFICE, AVR-20  
13873 PARK CENTER ROAD, SUITE 165  
HERNDON, VA 20171



U.S. Department  
of Transportation  
**Federal Aviation  
Administration**

UPNs are posted on the Internet at <http://www.faa.gov/avr/sups/upn.cfm>

No. 2004-00120  
December 23, 2004

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Mailed by: FAA, AIR-140, P.O. Box 26460, Oklahoma City, OK 73125

## AFFECTED PARTS

Propellers and propeller governors.

## PURPOSE

The purpose of this notification is to advise all aircraft owners, operators, maintenance organizations, manufacturers, and parts distributors regarding improper maintenance performed on aircraft propellers and propeller governors.

## BACKGROUND

Information received during a Federal Aviation Administration (FAA) suspected unapproved parts investigation revealed that between December 2003 and May 2004, Prop Center, located at 1985 North Marshall Avenue, #107, El Cajon, CA 92020, improperly maintained and approved for return to service propellers and propeller governors applicable to various types of aircraft. Prop Center previously held Air Agency Certificate No. PC7R081J, with limited propeller and accessory ratings. Discrepancies noted in Prop Center's practices included:

- Approving for return to service propellers described as having been overhauled when, in fact, the propellers had not been disassembled, cleaned, inspected, repaired as necessary, and reassembled using methods, techniques, and practices acceptable to the Administrator.
- Performing major alterations and repairs without using data approved by the Administrator.
- Approving for return to service propellers and propeller governors that had not been maintained in accordance with the current manufacturer's maintenance manual or methods otherwise acceptable to the Administrator.
- Falsifying maintenance record entries by approving for return to service propellers and propeller governors during the period that Prop Center's Air Agency Certificate was suspended.

## RECOMMENDATIONS

Regulations require that type-certificated products conform to their type design. Aircraft owners, operators, maintenance organizations, and parts suppliers and distributors should inspect their aircraft, aircraft records, and/or parts inventories for propellers or propeller governors approved for return to service by Prop Center. Suspect products and parts installed on aircraft should be inspected for conformity to type design. If any are found in existing stock, it is recommended that the products or parts be quarantined to prevent installation until a determination can be made regarding each product's or part's eligibility for installation.

## FURTHER INFORMATION

Further information concerning this investigation, and guidance regarding the above-referenced products and parts, can be obtained from the FAA Flight Standards District Offices (FSDO) given below. The FAA would appreciate any information concerning the discovery of the above-referenced parts from any source, the means used to identify the source, and the actions taken to remove the products and parts from aircraft and/or stock.

# UNAPPROVED PARTS NOTIFICATION

SUSPECTED UNAPPROVED PARTS PROGRAM OFFICE, AVR-20  
13873 PARK CENTER ROAD, SUITE 165  
HERNDON, VA 20171



U.S. Department  
of Transportation  
**Federal Aviation  
Administration**

UPNs are posted on the Internet at <http://www.faa.gov/avr/sups/upn.cfm>

No. 2002-00146  
December 16, 2004

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Mailed by: FAA, AIR-140, P.O. Box 26460, Oklahoma City, OK 73125

## AFFECTED PARTS

Aluminum parts heat-treated by Temperform USA.

## PURPOSE

The purpose of this notification is to advise all aircraft owners or operators, maintenance organizations, manufacturers, and parts distributors and suppliers regarding aluminum parts that have been improperly heat-treated.

## BACKGROUND

Information received during a Federal Aviation Administration (FAA) suspected unapproved parts investigation indicated that Temperform USA (Temperform), formerly located at 14425 Macaw Street, La Mirada, CA 90638, had improperly heat-treated numerous aluminum parts having aviation applications. Temperform was approved to perform heat-treating for many production approval holders. The investigation disclosed that from May 1998 to September 2001, Temperform improperly heat-treated and falsified quality testing on parts that are used in various type-certificated aircraft. The listing of the affected part numbers (4,148 distinct parts) can be viewed at the following Internet URL:

<http://www.faa.gov/avr/sups/upn/temperform.xls>

## RECOMMENDATION

Regulations require that type-certificated products conform to their type design. Aircraft owners and operators, manufacturers, maintenance organizations, and parts suppliers and distributors should inspect their aircraft, aircraft records, and/or parts inventories for the referenced part numbers. If any are found in existing stock, it is recommended that the parts be quarantined to prevent installation until a determination can be made regarding their eligibility for installation. The parts in question do not display any readily identifiable external features or markings to distinguish them from properly heat-treated parts; therefore, documentation associated with the parts should be reviewed to determine the source of heat-treating. Parts heat-treated by Temperform may require hardness and/or conductivity testing.

## FURTHER INFORMATION

Further information concerning this investigation and guidance regarding the above-referenced parts can be obtained from the FAA Manufacturing Inspection District Office (MIDO) given below. The FAA would appreciate any information concerning the discovery of these parts, the means used to identify the source, and the action taken to remove any part from service.

This notice originated from the FAA Los Angeles MIDO, 3960 Paramount Blvd., Lakewood, CA 90712-4137, telephone (562) 627-5291, fax (562) 627-5319; and was published through the FAA Suspected Unapproved Parts Program Office, AVR-20, telephone (703) 668-3720, fax (703) 481-3002.

# Issues of the Update Report Are Now Online!

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Back issues of the Update Report are now on-line! Missing a prior issue? Issues of the Update Report are being added to the ASA web site shortly after they are published.

## **UPCOMING EVENTS** \* = Look for Jason or Michele on the speaking program or on the Trade Floor. (For additional information on each event, click on the appropriate link below.)

### **2005**

- Mar. 8-10** \*AS3 Show (PAMA/NATA/GSE), Las Vegas, NV. <http://www.as3.com>  
**Mar. 30-Apr. 1** \*Gorham PMA Conference, San Diego, CA. <http://www.goradv.com>  
**Apr. 19-21** \*MRO 2005, Dallas, TX. <http://www.aviationnow.com>  
**Apr. 27-30** \* Aircraft Electronics Association Annual Convention, Dallas, TX. <http://www.aea.net/Convention>  
**May 11-12** \*Airline Purchasing Expo 2005, London, UK. <http://www.aviationindustryexhibitions.com>  
**May 16-17** \*Association of Asian Pacific Airlines (AAPA) Conference, Bangkok, Thailand.  
<http://www.aapa.org.my>  
**May 16-19** \*RAA Annual Conference, Cincinnati, OH. <http://www.raa.org>  
**June 26-28** \*ASA Annual Conference, Boca Raton Resort & Club, Boca Raton, FL  
See <http://www.aviationsuppliers.org> for details.  
**Aug. 20-23** \*2005 Air Carrier Purchasing Conference, San Diego, CA. <http://www.acpc.com>  
**Oct 18-20** \*MRO Europe, Berlin, Germany. <http://www.aviationnow.com>

ASA Workshops are coming up this Fall – topics will include supporting the customers’ regulatory obligations, documentation, traceability, approved/unapproved parts and export issues. Have you reserved your seat yet by registering?

**Aviation Suppliers Association**  
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