

The UPDATE Report



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FAA'S AC 00-56A
VOLUNTARY INDUSTRY
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REGULATORY UPDATE

Proposed AC on Life Limits for Aircraft: Out for Comment

The FAA has published a proposed Advisory Circular related to fatigue damage. As you recall from last issue, the FAA has also proposed rules that would require type certificate and supplemental type certificate holders to establish operational limits for large aircraft. The stated purpose of these operational limits is to enable the FAA to remove certain aging aircraft from the active fleet, in order to remove the safety problems posed by these aging aircraft. This is likely to have a tremendous effect on some ASA members who have significant inventories of parts for aging aircraft – if such aircraft are grounded by the new standards, then the value of the inventories becomes zero overnight!

Proposed AC 120-YY, Widespread Fatigue Damage on Metallic Structure, is guidance for design approval holders on how to establish the operational limits on aircraft.

The proposed rules apply to transport category airplanes under CAR 4b or Part 25 with maximum gross takeoff weight greater than 75,000 pounds.

The proposed rule and the proposed advisory circular also provide guidance for evaluating repairs and alterations to those airplanes. This is related to the recent proposed rules requiring manufacturers to establish operational limits (life-limits) on airframes.

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UPDATE REPORT

is a monthly newsletter of the Aviation Suppliers Association. Questions and/or comments should be addressed to:

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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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Dear Members,

Last month I was afforded the opportunity to address the CCMA Airline Only Meeting. The presentation was about part distribution issues and accreditation. During his presentation at the 2005 ASA Annual Conference, Luis Giacomani, mentioned that if ASA wants to support the air carriers of Latin America, then ASA needs to show its support by meeting with the air carriers and working on issues that impact Latin American air carriers. The ASA Board of Directors took Luis' comments to heart and made it a priority that ASA present and work with the air carriers in Latin America. I look forward to continued relationship development. Growth in Latin America is strong and, from a percentage standpoint, one of the fastest growing regions for aviation. The presentations from the CCMA air carriers and their discussions for strategic growth demonstrated that the future looks strong for aviation growth in Latin America. It was great to see so many members at the meeting. The CCMA reinforces the importance of meeting with your customers and colleagues.

The ASA Annual Member Meeting will be held on July 11, 2006 at the ASA Annual Conference in Las Vegas, NV. The Member Meeting provides members with insight into projects ASA is currently engaged in and also a preview into future programs. There is also an opportunity to ask the Board of Directors questions about ASA's growth and plans. The Board Members also look to the meeting as an opportunity to discuss ideas and opportunities with the membership. Items discussed at the meeting and also throughout the conference often shape the budget for the follow year.

During the 3rd quarter of this year, ASA will be holding a Board of Directors election. In July we will announce the date for nominations and also ballot specific dates.

ASA Annual Conference is one month away! I look forward to seeing you there.

Take Care,
 Michele Dickstein

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REGULATORY UPDATE

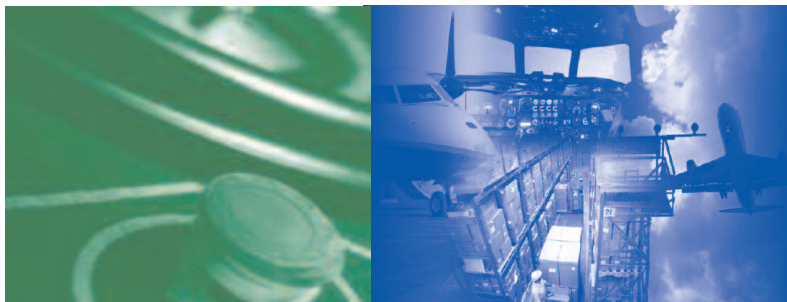
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Comments on the proposed AC should be mailed, in duplicate, to: Federal Aviation Administration, Attention: Walter Sippel, Airframe and Cabin Safety Branch, ANM-115, FAA, Transport Airplane Directorate, Aircraft Certification Service, 1601 Lind Avenue SW., Renton, WA 98055-4056. The FAA must receive your comments by July 17, 2006. These comments would be separate from the comments you file on the underlying proposed rule. As always, we would appreciate it if you would share with ASA a copy of anything you file.

A copy of the draft advisory circular is available online at:
http://www.faa.gov/aircraft/draft_docs/media/DraftAC120-YY.doc



2006 ANNUAL CONFERENCE



The Changing Industry

Thinking Outside the Box

Greg Buller
Federal Express

John Heimlich
ATA

Harry Schaefer
Department of Transportation OIG

Jason Dickstein
Washington Aviation Group

Albert Koszarek
Aerexchange

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July 8-11, 2006

Las Vegas, NV



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Component Control, Inc.	M&M Aerospace Hardware, Inc.	Volvo Services, LP
Growth Industries	Pentagon 2000 Software	Western Aero Services, Inc.
	Pratt & Whitney Services, Inc.	

Uniform Hazardous Waste Manifest

Are you generating hazardous waste? The Uniform Hazardous Waste Manifest has been revised, and use of the new form is required as of September 5, 2006.

You can find an example of what the new form looks like on the EPA's Web site at <http://www.epa.gov/epaoswer/hazwaste/gener/manifest/pdf/newform.pdf>.

In the aviation industry, hazardous wastes can be generated anytime there is a disposal of waste chemicals, and the chemicals are regulated by EPA on the RCRA (Resource Conservation and Recovery Act) lists. These tend to be chemicals exhibiting qualities of ignitability, corrosivity, reactivity, or toxicity. Used solvents, electroplating wastes and manufacturing by-products are examples of hazardous wastes that may be generated by ASA members. Most, but not all, of the hazardous wastes generated by ASA members come from manufacturing or repair/alteration processes; however, hazardous wastes can also be generated by other activities like parting-out of engines.

Normally, there is a short implementation period where two different forms might be used interchangeably, but that is not the case here. The old manifest must be used until September 4, 2006. Shipments originated on or after September 5 will use the new form. There is no overlapping implementation period.

You will need to get the manifests from an approved, registered printer. The list of registered printers can be found online at:

<http://www.epa.gov/epaoswer/hazwaste/gener/manifest/registry/printers.htm>. If you ship hazardous wastes, be sure to get a supply of the new manifest forms before September 5!

Instruction on how to complete the new manifest forms are available online at <http://www.epa.gov/epaoswer/hazwaste/gener/manifest/registry/man-inst.pdf>.

How Does the Hazardous Waste Manifest System Work?

The following description is taken from the EPA's Web site:

The Hazardous Waste Manifest System is a set of forms, reports, and procedures designed to seamlessly track hazardous waste from the time it leaves the generator facility where it was produced, until it reaches the off-site waste management facility that will store, treat, or dispose of the hazardous waste. The system allows the waste generator to verify that its waste has been properly delivered, and that no waste has been lost or unaccounted for in the process.

The key component of this system is the Uniform Hazardous Waste Manifest which is a form prepared by all generators who transport, or offer for transport, hazardous waste for off-site treatment, recycling, storage, or disposal. Currently, the manifest is a paper document containing multiple copies of a single form. When completed, it contains information on the type and quantity of the waste being transported, instructions for handling the waste, and signature lines for all parties involved in the disposal process. The manifest is required by both Department of Transportation and EPA. Each party that handles the waste signs the manifest and retains a copy for themselves. This ensures critical accountability in the transportation and disposal processes. Once the waste reaches its destination, the receiving facility returns a signed copy of the manifest to the generator, confirming that the waste has been received by the designated facility.

Aviation Hazmat – Changing Regulations

Are you in compliance with the hazmat regulations? If you don't have properly trained people, then you are in violation of a training regulation that could cost you \$50,000 in fines per affected employee.

Is My Company a Hazmat Employer?

Most aircraft parts distributors – particularly those dealing with surplus parts – are hazmat employers. The definition of a hazmat employer includes any company that causes hazardous materials to be transported in commerce, and the definition of hazardous materials is surprisingly broad.

Hazmats are found all over the aviation industry. Anyone who has been in the industry over the past decade should know by now that chemical oxygen generators are hazardous materials; yet people are still failing to notice the oxygen generators in the overhead passenger service units when they ship these units.

The FAA has published guidance stating that repair stations are presumed to be hazmat employers because of the possibility that they may receive hazmat in the form of aircraft parts. Distributors also bear this same risk. ASA receives calls from members who have received unanticipated shipments of improperly shipped hazmats from their business partners. When the recipient returns the shipment, the recipient becomes the shipper of these hazmats and must ensure that the package complies with the appropriate regulations.

Can You Give Me a Few Hazmat Examples from the Industry?

The term “hazardous materials” means more than just bottles of chemical compounds. Any component that has hazmat in it becomes a hazmat for shipping purposes – and many aircraft components have hidden hazmats inside. Usually, such components are shipped as “dangerous goods in apparatus,” although there may be a more specific name for certain goods, such as battery-powered equipment.

- Fuel system components often have residual fuel in them. If there is residual fuel in the component – even just a little bit – this is considered to be a regulated hazmat for shipping purposes. Many engine components are required to be treated with a preservative after overhaul and before shipping. This preservative can also be a hazmat, and the introduction of the preservative into the overhauled component makes the component a hazmat.
- Any pressurized gas is a potential hazmat. Pressure vessels containing gasses like nitrogen, oxygen or halon all can be hazmat based on their pressurization.
- The explosive squibs used to engage the fire suppression system in the engine are also hazmats.
- Many industrial solvents are flammable liquids. Some of them may be corrosive. Still others might be toxic. Any one of these characteristics makes it a hazardous material.
- Some greases have been identified as toxic materials (hazmats).

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- Batteries are an often-overlooked hazmat – in fact, both batteries and equipment containing batteries are considered to be regulated hazardous materials and shipping them in violation of the regulations without an appropriate exemption can lead to a hefty fine.

OK, I am a Hazmat Employer. Now What?

First and foremost, everyone who makes any decision that affects the safe transportation of hazmat must be trained. This is not just a good idea; it is required by United States regulations. Similar training requirements exist in most nations outside the U.S.

There is a recurrent training requirement under the hazmat rules, and one of the reasons for recurrent training is that the rules do change with some frequency.

For example, are you retaining your shipper's declarations for 375 days? That retention period was recently extended to two years. Are you indicating quantity as part of the marking on the outside of the package? Net quantity of dangerous goods is now a required element of the markings. Is US Airways one of your customers? They have changed their IATA-declared limitations so that they are now a pure "do-not-carry" air carrier ... which means that they will no longer carry a hazmat aircraft part on one of their aircraft (not even for an AOG). The maximum gross weight for a consumer commodity package (ID 8000) has been increased from 25 kilograms to 30 kilograms. These are just a few of the most recent regulatory changes that could affect ASA members.

So What is ASA Doing to Help My Company?

The most important hazmat resource that ASA is offering to its members is affordable and targeted hazmat training. ASA has joined with several other aviation industry trade associations to offer a two-day hazmat training class that meets both U.S. and international training requirements and also shows participants how to identify and ship the hazmats that you are most likely to see in an aircraft industry facility.

ASA has a variety of resources available to assist its members. Need some visual reminders in the workplace concerning hazmats? ASA's "Hidden Hazards in Aircraft" Poster can be found posted in receiving and shipping departments throughout the industry. If it is not hung up in your facility, then you can call us and we will send you one for free! Have a quick question concerning hazmats? Call ASA's General Counsel, Jason Dickstein at (202) 347-6897 and identify yourself as an ASA member. He is always happy to answer your questions.



HAZMAT Training

July 12-13, 2006
Four Seasons Hotel
Las Vegas, NV

Initial Hazmat Training will be held in Las Vegas following the 2006 ASA Annual Conference.

To register, please visit our Web site: www.aviationsuppliers.org

Export Compliance: Ask Yourself What, Where and To Whom

Increasing attention is being directed toward export compliance, both from the federal government and from the aerospace industry. Companies have become painfully aware of the dire consequences that attend an export compliance misstep—like an unpleasant encounter with an investigator or a prosecutor. Some aerospace companies have had robust export compliance systems in place for years; others are scrambling to put a rudimentary system in place. This export compliance column is intended to offer some general guidelines to companies within the aerospace industry as they undertake export compliance efforts.

This first issue will focus on the question of “what” is being exported. In future columns, we will discuss “where” and “to whom.” A future column will also discuss the precise definition of “what is an export.” The answer may surprise you.

Start with Classification: Ask yourself “what am I exporting”?

QUESTION ONE: IS IT AN ITAR ITEM?

If you are exporting your product, technology, or service (collectively referred to as an “item”), then compliance begins with classification. You must know what it is you are exporting. To begin with, you must first determine if your item is governed by ITAR, the International Traffic in Arms Regulations. Administered by the State Department, ITAR governs and regulates U.S. Munitions List items. These are items that are specifically designed or modified for military use. The U.S. Munitions List can be changed, or be clarified, from time to time by the State Department. For example, recently the State Department asserted its jurisdiction over the airframe of the C-130 military aircraft. Any item that is governed by ITAR requires a license, or a license exception, to be exported.

QUESTION TWO: IF NOT AN ITAR ITEM, THEN WHAT KIND OF CCL ITEM?

If an item does not fall under the jurisdiction of ITAR (i.e. it is not a U.S. Munitions List item), then it falls under the jurisdiction of the Commerce Department and its classification is covered by the Commerce Control List (“CCL”). Although the Commerce Department restrictions might be less than those applicable to an ITAR item, the jurisdictional classification scheme of the CCL is much more complex. Each item must be assigned a specific ECCN number (the “export control classification number”). And there are hundreds of ECCN numbers and sub-numbers. Often the CCL classification analysis can be complex, with the ultimate determination being made by an engineer. It is also important to understand that the classification number for a part or product is different from the classification number for the related technical data. The ECCN number is the key to making an export determination under the Commerce Department regulations. Proper ECCN classification and appropriate paperwork will help speed your item through customs.

Advice

A few other recommendations regarding export classification:

- Once an item has been classified as a U.S. Munitions List item, and falls under the jurisdiction of ITAR, it stays that way. Even years later, it is still an ITAR item until specifically

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released by the State Department by official commodity jurisdiction. Thus, surplus Mil Spec parts may be classified as ITAR items even if they are no longer used on defense aircraft.

- A company can submit items to the State Department for a Commodity Jurisdiction (also know as a “CJ”) or to the Commerce Department. This process can take time and may require the help of an expert.
- A company can also self-classify certain items, but you must be careful. Classification can be very complex—and sometimes the classification result is not intuitive.
- Don't forget that technical data must also be classified before being exported.

In summary, begin by asking “what” you are exporting. The proper classification of your item will then inform the rest of the analysis regarding export compliance. Once you know the classification of your item, you can move on to the next questions: Where am I exporting the item, and to whom am I exporting the item? These questions will be addressed in future export compliance columns.

Eric Vernon of Exportfolio, Inc. provides this month's export advice. This article is not intended to represent specific legal advice. Eric's company, Exportfolio, provides export compliance services, including item classification expertise. Exportfolio can be reached at (801) 368-4864 or info@export-folio.com.



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Future Directions for the Aviation Parts Marketplace

Several recent conferences have addressed the economic factors that are shaping the aviation parts marketplace. ASA will have its own slate of speakers addressing the economics of the parts market and how various factors inside and outside the industry may be affecting that market.

This article summarizes some economic predictions for the industry, as well as future outlook for the growth of the MRO industry as a customer of aftermarket suppliers, and the growth of desire for PMA parts by the aftermarket.

The Airline Marketplace

David Doll from Aviation Maintenance Management Associates recently provided an overview of the current state of air carrier economics and how that is likely to affect air carrier purchases of aircraft parts in the near future. Also in recent weeks, we've seen Hal Chrisman and Kevin Michaels of Aerostrategy discuss some of the statistical trends that their group has seen concerning the purchase of aircraft parts by MRO organizations, including details on the purchase of PMA parts. Jason Caldwell, the President of Dixie Aerospace, recently gave a talk that focused on MRO use of PMA parts and where he has seen the greatest growth in purchasing.

All four gentlemen provided keen insights into the future of aftermarket parts in general that were quite useful to those distributing parts, as well as to those intending to manufacture aircraft parts.

Both Mr. Doll and Mr. Chrisman are scheduled to speak at the 2006 ASA Annual Conference, July 8-11 in Las Vegas, Nevada. For more information on these presentations as well as others scheduled for the event, please visit our Web site: <http://www.aviationsuppliers.org>.

Airlines' Painful Transitions

David Doll explained that the current state of the industry is a result of a series of painful events leading to important transitions. In Doll's opinion, the first painful transition goes back further than many might think – he dates the start of both the woes and the successes of the airline industry from the 1978 Airline Deregulation Act.

“The regulated airlines were a good ol' boys' club,” explained Doll. Doll's own experience in aviation goes back to the early 1970s, so he readily admits that he was part of that club. Doll explained that the regulated airline community was characterized by high wages and benefits, sluggish management and low capital utilization. It comes as no shock to anyone today that deregulation allowed market forces to help shape the industry, causing headaches for legacy carriers but permitting airline ticket prices to drop in real dollars.

Deregulation permitted two new business models to emerge. The first was the high-performance low cost carrier (LCC). These carriers helped to drive down prices charged to consumers.

The second new business model that developed as a consequence of deregulation was the high performance freight carrier. These carriers entered the lucrative small package shipping market and married absolute on-time-delivery commitments to improved customer service and interface.

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Both of these new business models put pressure on the legacy carriers. Doll explained that the legacy carriers “were unable to bring their cost structure down to LCC levels or service quality up to package carrier levels.” This was just the beginning of the problems that squeezed the finances of legacy carriers.

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2006 Hazmat Training



DO HAZARDS IN AIRCRAFT PARTS HAVE YOU CONFUSED?

GET EDUCATED!

2006 Hazmat (Dangerous Goods) Initial Training Schedule

April 17-18
Palm Springs, CA
Hilton Palm Springs Resort

July 12-13
Las Vegas, NV
Four Seasons Las Vegas

July 20-21
Miramar, FL
Hilton Garden Inn

Who should attend ?

This course is intended for all individuals who may come into contact with, or make decisions that affect hazardous material(s) (HazMat) or dangerous goods (DG).

Why Should I Attend ?

The course meets Federal Regulatory requirements of 49 CFR 172 Subpart H, including additional elements as described in 14 C.F.R. 121.433a.

All attendees receive a Certificate of Training stating 49 CFR 172 Subpart H training requirements have been met (upon successful completion of all attendance and testing requirements).

The US Department of Transportation (US DOT) requires that all individuals engaged in handling hazardous materials must be trained at least once every three (3) years. Air Carriers are required to be trained annually and IATA requires training every two (2) years. The FAA has suggested that many aviation companies are HazMat employers by virtue of the wide variety of materials received which could include HazMat. This course will focus on shipments of Dangerous Goods under the IATA Dangerous Goods Regulations (a field manual that includes the ICAO technical instructions). This course will also address matters arising out of United States' regulations that are not covered by IATA.

For more information and to register for Hazmat Training, please visit our Web site: www.aviationsuppliers.org or contact ASA (202) 347-6899 info@aviationsuppliers.org.

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In more recent years, terrorism has played a significant role in the profitability of air carriers. Doll explained that after the attacks of 9/11, “We dropped 30% overnight and even though we rebounded a little, we were still at minus 16% and we held there for three years.” Combined with the international health threats posed by SARs, Doll explained that “this destroyed the financial reserves of the legacy carriers.”

The results of this combination of financial pressures has lead air carriers to consider new ways to save money. The most important offset to cost savings, though, is that no cost saving is allowed to diminish safety. One important strategy that air carriers have pursued in recent years is a significant increase in their interest in parts manufactured under Parts Manufacturer Approval (PMA). This, in turn, has infused capital into the PMA market which is leading to more PMA development and more opportunities for ASA members to partner with PMA manufacturers in order to sell PMAs.

Doll believes that “Legacy airlines are the most important users of PMA. They are large consumers of material and they are being driven by cost concerns. You can see how desperate they are for savings by examining their use of PMAs, because PMA for an airline engineer is an unnatural act because it requires extra effort to be sure it doesn’t represent extra risk.” He has noticed that low cost carriers have lagged behind the legacy carriers in PMA acceptance, and that they are just beginning to accept PMAs. He explained that the main reason that low cost carriers have lagged behind in PMAs is because they generally have not committed the engineering manpower (in many cases it just did not exist) to review PMA opportunities. Without the engineering analysis commitment, no air carrier is willing to simply accept the FAA’s word for the quality of the PMA part. “In this business,” he explained, “if you don’t know what you are doing, then you don’t do it.” The low cost carriers are finally getting involved with PMAs and are relying, in part, on the success that PMAs have enjoyed among the legacy carriers.

PMA as a Distribution Opportunity

PMA distribution chains are not as well developed as they could be, and this provides a terrific opportunity for existing distributors to partner with PMA manufacturers in order to market and sell their product.

David Doll explained that “a few big suppliers are starting to dominate the market. So other PMA manufacturers are starting to develop bundling partnerships with the larger ones.”

Hal Chrisman of Aerostrategy said “The distribution of material is becoming much, much more important. Even going down to the turn times, the industry is becoming much more conscious of the costs associated with these assets.” Distributors who are able to rise to these challenges and meet them head-on will continue to thrive.

Most established distributors have a lot to offer the typical PMA manufacturer. Smaller PMA companies may not have the resources to effectively market their products to the companies that are buying (and may not even understand the market well enough to know the most effective ways to seek out the appropriate customers), nor do they generally have the contacts to get into more than a small handful of air carriers (and they may not yet realize the importance of selling to the MRO companies as well).

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Inventory Management*

The cornerstone for the Quantum Control system. The parts summary screen provides a central viewpoint for all information and activity related to a given part.



Physical Inventory*

Manages the physical inventory process. Generates count sheets for manual or barcode counting efforts.



Purchase Orders & Requests*

Manages the purchasing process including request routing and approval by dollar amount and employee position. Manages purchasing activity for stock, non-stock and exchange.



Purchase Management*

Provides the capability to manage purchasing activities by being able to review all parts needed for procurement based upon sales order requirements and below minimum level stock quantities.



Receiving and Inspection*

The receiving module is a powerful tool for efficient, cost-saving receiving, intermediate and final inspection, and defect recording.



Shipping Management

Manages the shipping and order consolidation process to include user defined stages and statuses. Creates custom invoices, packing slips and certification forms within one shipment.



Demand Planning

Optimizes material and production planning by analyzing historical usage and projecting future demand. Recommends minimum and maximum order quantities based on lead time and forecasted demand.



Lot Costing

Manages lot purchases and assembly teardowns. Provides total tracking of acquisition costs, overhaul expenses, component part sales, profit margins and full traceability.



Data Services

Provides flexible tools to manage the process of both importing and exporting data to/from the Quantum database. Integration points include ILS, USA Info, Partsbase and AvRef.



AVREF Catalog Files

The AVREF Catalog System provides the latest OEM pricing information along with access to Government MCRL cross reference data. Completely integrated with the Quantum Inventory Module.



Integrated Accounting

The Accounting Module includes General Ledger, Accounts Receivable, Accounts Payable, and more - all integrated with Sales, Purchasing, Repair, Exchange, Work Order and Invoicing modules.



Vendor Quotes*

Provides a tool to locate sources for part procurement and send out requests for quotes to multiple vendors, including multiple lines.



Quotation Processing*

Manages the customer quotation process and the recording of supplier responses from outgoing RFQs.



Sales Orders*

Manages the customer order process to include back order management, invoice preparation and product returns.



Invoice Management*

Provides the opportunity to manage the invoice process by viewing system wide for open sales orders and determining if these can be expedited or consolidated with existing invoices, etc.



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Contact Management

This module provides a tool for sales, service or support centers to record, track, status and assign contact activity. Email list management and broadcasting is also included.



The StockMarket

Quantum users can search, buy, and sell parts with other Quantum Users in real time without leaving the software. Inventory postings are automatic and can include details such as serial numbers, images, time life and prices.



Internet Quantum™ (iQ)

The Internet Quantum module (iQ), utilizes StockMarket technology to allow customers to login to your website and view, RFQ, or purchase from your existing stock in real-time. Information such as condition, time & cycles remaining, tag info, scanned documents, delivery time and more is available to assist users in their purchasing decisions.



Max-Q

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The Manufacturing Module addresses all aspects of the manufacturing process including product lines, floor control, inspections, materials planning, purchasing and outside servicing.



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Manages the preparation, pulling from inventory, shipping and receiving of components sent out for repair. The Repair Order module provides historic as well as current repair cost per component, detailed by parts, labor and miscellaneous charges.



Bar Coding

Prints bar codes and allows for the scanning of physical inventory to track and manage stock and account for all parts when shipping, receiving, etc.



Repair Manual Tracking

Tracks all publications and revision dates and review dates. Provides for manual effectivity by part, customer and ATA. Integrated with the Shop Control module providing specific manual requirements for individual work orders.



Document Imaging

Provides the ability to attach images or documents against part number, stock line, work order, and company.



Rental and Leasing

The Rental and Leasing module has the versatility to handle all of your rental and leasing transactions including flight-time based billing.



GFI Faxmaker

This is a fax manager that supports "background" faxing from all Quantum users by using a service based system. This is a third party MAPI compliant fax manager supporting multiple fax servers and Citrix.



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The Future of PMA

David Doll discussed the future of PMA in terms of its market acceptance. He explained that the FAA has been a key part of the increased acceptance of PMA parts. “Rigorous certification actually helps the marketing for PMA. It really shows the safety of the PMA.” “The downside,” of FAA involvement, according to Doll, “is that you are putting more work on a branch of the government that is already being downsized.” He noted that as the FAA continues to redirect funding to other priorities instead of certification, it become more and more difficult for PMA applicants to easily wend their way through the FAA certification process.

At the upcoming ASA Conference, Doll will discuss the future of the aircraft parts industry. His presentation is expected to not only explain what factors are currently affecting the economics of the industry; he will also address how to read other factors that may or may not arise in the future in four areas:

- Global Economics: major economic indicators, as well as industry-focused indicators like fuel costs
- Global Conflicts: how they impact commercial flight, and how our definition of conflict must change to accurately track the conflicts most likely to affect the bottom line
- Global Health: how past threats of epidemics have affected commercial aviation, and what actions have been taken to make sure that future threats have less of an impact
- Industry Health: air carrier survival and expansion of business

Growth of the Global MRO Market

One trend that many analysts are noticing is that many of the purchasing decisions are moving from the air carriers to the third-party maintenance facilities that service the air carriers. While an air carrier still needs to approve a novel replacement part for installation on its fleet, parts that are already approved for use on the fleet may be purchased and held in the stores of the maintenance facility, rather than the air carrier’s stores.

The maintenance, repair and overhaul (MRO) market is somewhat more dynamic than the air carrier market, because it is easier for an air carrier to shift its maintenance work to a different MRO than it is for the air carrier to make a major shift in its own base of operations. For this reason, the globalization of the MRO market is important to ASA’s members – we need to know where the maintenance will occur so we know where to focus future sales endeavors.

According to Hal Chrisman, North America remains the largest market for MRO and will continue to be the largest market, but there are many other markets that will be growing at a far greater rate than previously seen – and it is this growth that presents a tremendous new opportunity for parts sales. The Middle East is currently the fastest growing market region. Although Aerostrategy’s data does not distinguish India from the rest of Asia, Chrisman confirmed that India in particular is a very significant growth market. In the recent past, analysts have identified South America as a growth leader, so it appears that the Middle East and India are overtaking South America in terms of growth

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rate.

Selling Parts in Europe

The Europeans have had an important breakthrough in PMA acceptance, with the recent decision of the European Aviation Safety Agency (EASA) that PMA parts intended for installation on aircraft where the United States is the state of design would be accepted in Europe based upon the US production approval, with no further showing. PMA parts intended for installation on aircraft where the original state of design is in Europe would be subject to some additional criteria: notably, that critical (e.g. life limited) parts intended for European designed aircraft would only be accepted if they were produced (1) under licensing agreement with the OEM or (2) where the importing state has previously approved the design under its own legal authority.

The EASA decision seems quite useful on its face. Some companies are experiencing problems, though, based on their perceptions of EASA. Jason Caldwell explained that “Because EASA is not yet an official bilateral between the EU and the US - until that [US-EASA bilateral] is set – we don’t know if EASA governs or if the civil aviation authority governs.... The confusion does not come from what EASA says. The confusion comes from the fact that EASA is not yet perceived as the government in Europe ... so there is operator confusion.”

In Europe, Caldwell sees the potential for significant growth of PMAs in the near future. Drivers of increased growth include the growth of the use of MROs in Europe and also the increase in PMA penetration of the marketplace.

Selling Parts in Asia

According to David Doll, the most exciting developments in PMAs are taking place in Asia. “Asia has been the last bastion that would not accept PMAs;” according to Doll, “They wanted OEM only.” But there has been a significant change in recent years as Asian air carriers have embraced PMA alternatives. Doll explained that this change makes a great deal of sense in the Asian marketplace: “If you look at it, it makes sense because they are not people poor but they are capital poor so if they can do anything to save capital it makes sense.”

While a slow start has left Asia behind in the use of PMAs today, the region is expected to reflect the greatest short-term growth in PMA usage. “Right now,” says Doll, “they [Asian Air Carriers] are about ten years behind where we [North American Air Carriers] are ... but it is only going to take them about three years to catch up because we have so much experience with PMAs.”

Caldwell explained that “The breakthrough of PMA in China is very recent.” He noted that the Civil Aviation Authority of China, CAAC, only recently legalized the use of PMAs (February 2003).

Hal Chrisman explained that “There is a growing interest in PMAs in Asia in general and in China in particular.” He feels that this has been driven in large part by market entry by large PMA companies like Wencor and Heico. Wencor is well known as a PMA manufacturer that also serves as a distributor for other PMA manufacturers. Caldwell, a ten-year veteran of the Wencor Group, reiterated the importance of PMA companies and their efforts to sponsor conferences to educate

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the Asian marketplace about the aftermarket parts options available to them.

Although Doll sees the Asian marketplace rapidly embracing PMA parts in the next few years, he notes that PMA manufacturers in the United States should be viewing Asia as double-edged sword. Not only will the Asian market for aftermarket parts continue to grow, but he sees a real desire among Asian manufacturing companies to join the fray and begin fabricating their own approved aftermarket aircraft parts.

Doll's predictions reflect more potential good news for distributors, as it could mean more opportunities for distributors to become involved in moving parts between North America and Asia. Most of the international framework is already in place to permit Asian aftermarket parts to be imported and used in the United States – once they are manufactured under government-approved systems. The real stumbling blocks now are the internal legal systems of the individual countries in Asia; until the Asian governments implement regulatory systems that effectively permit and even encourage manufacturing of aftermarket parts under government oversight (analogous to the PMA program in the United States), regulatory impediments will continue to prevent companies in Asia from manufacturing approved parts destined for the rest of the world. Once those regulatory impediments are removed and safe, approved parts can be manufactured in Asia, there will be plenty of opportunities for distribution of parts in both directions across the Pacific Ocean.

Selling PMA Parts in Latin American

Latin America represents about 3% of worldwide PMA sales right now, but it continues to grow rapidly. Mexicana has recently become an aggressive user of PMA parts. Caldwell noted that ALTA (Asociación Latinoamericana de Transporte Aéreo) is an organization in Latin America that is seeking to lower the costs of aircraft parts by introducing Latin American carriers to alternatives like PMA. This could reflect an important market for ASA members interested in selling PMA parts.

How Big is the MRO Market for PMA Parts?

For distributors contemplating sales of PMA parts, it is important to examine the size of the marketplace and the growth potential in order to understand the potential return on investment. Two factors in particular stand out because of their impact on acceptance and growth of PMAs:

Original Equipment Manufacturer (OEM) pricing is a major factor in examining PMA market penetration. OEMs can use their pricing policies to stifle the entry of PMAs into the marketplace, but there are both legal and practical limits to the ability of an OEM to use pricing to keep a PMA manufacturer out of the market. OEM control of the overhaul market is also affecting the real size of the available marketplace, since they will generally not put PMA parts on their aircraft/engines.

Value to the customer drives the customers to examine PMAs as an option, so value is also an important factor in the growth of PMAs in the marketplace.

There are two strategic issues that should concern any distributor considering whether to begin selling PMA parts: how big is the PMA market likely to get (what is the potential market) and how big is the PMA market today?

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You need to know how big the PMA market could become because often the choice to handle PMA parts can preclude some distributors from other relationships as a practical matter. You also should understand the amount of penetration that PMA companies have achieved, because the difference between the potential market and the 'achieved' market reflects a vast expanse of virgin territory waiting to be serviced by the right distributor.

The current annual MRO market for engines, for example, seems to stand at \$13.8 billion according to Aerostrategy's research (and all of the following data comes from Aerostrategy's own research). Only about \$8 billion of that market remains outside the direct control of OEM manufacturers – the remaining \$5.8 billion is generally unavailable to PMA sellers under typical economic models.

How much money is spent on parts in non-OEM MRO shops? Of the \$8 billion spent in non-OEM MRO shops, parts reflect an expenditure of about 5 billion dollars. AeroStrategy estimates that 35% of the parts in an engine are "PMA friendly" so this limits the market for PMAs even further. Applying other factors to the equation, Aerostrategy concludes that the potential marketplace for PMA parts on engines is about \$750 million. Compared to the full marketplace this number seems small, but it still reflects a huge potential market for those manufacturing and selling PMA parts.

Component PMA sales represent a potential marketplace of \$420 million. There are only about \$100 million in annual PMA components sales today, so there is plenty of room to grow in this area, too. This is an area that seems to reflect a great deal of focus for PMA manufacturers today, so this is an area of likely near-future growth.

The airframe marketplace for PMA parts reflects a potential of about \$150 million. \$30-60 million in PMA parts are sold for airframes in that market today. Once again, there is significant room for growth of PMAs in this arena.

PMA Conclusions

Overall, there is a \$1.3 billion potential marketplace for PMA parts in MRO facilities, and PMA manufacturers have captured about \$330 million worth of that business. With new products to sell and the potential for greater penetration across the MRO industry, distributors could be quite successful in selling PMA parts to MRO facilities.

Hal Chrisman asked, "If you take all of these things into consideration, what does it mean for the suppliers in this industry? OEMs will need to take into account the existence of PMAs in their own strategic plans. The bloodline for most of these OEMs is spare parts sales and this [the growth of PMA sales] is a phenomenon that is going to affect that.... We think this rocks the boat with respect to OEM price on parts as well as on new products."

Jason Caldwell feels that "Over the next five years, the proportion of PMA friendly parts will increase by almost 30% and acceptability will grow to almost 75%. Plugging these variables into Hal Chrisman's formulae leads to a doubling of the potential market for PMA parts over the next five years.

Estate Tax on the Senate Floor

The Senate is scheduled to take up legislation to fully repeal the estate tax (known by repeal proponents as the “death tax”). This is particularly important to ASA members with family businesses, as the estate tax can represent a significant financial impediment to passing along a family business to the next generation, and a number of ASA members invest significant sums in insurance or other strategies designed to overcome this impediment.

The 2001 Tax Reform Act temporarily repealed the estate tax, but the tax will return to its original 55% rate in 2011 if Congress does not act to permanently repeal it. The reason that the repeal was only temporary was because Congressional Rules at the time made it easier to pass temporary measures with a simple majority, whereas the budgeting rules required a supermajority for permanent changes.

H.R. 8, the estate tax repeal bill, is expected by some to be the second or third item considered on the Senate floor after the Memorial Day break -- so the vote could occur as early as this week.

While a majority of the Senate seems to support repeal, Senate rules permit a minority to filibuster any legislation. As a practical matter, this means that major pieces of legislation often need to achieve the 60-vote supermajority necessary to end a filibuster in order to be passed by the Senate.

The House of Representatives has already passed permanent repeal legislation, but Senate action on the bill is required before it can be sent to the President for this signature.

How are FAA ADs Issued when a Foreign Government Has Already Issued its Own?

The FAA has published a draft Order for comment that instructs FAA employees on how to issue a U.S. airworthiness directives (ADs) against a foreign-produced product when the foreign state of design has issued an airworthiness directive of its own. Many ASA members track the airworthiness directives issued against components in their own inventory. This guidance will help standardize the manner in which some of those directives are issued.

Comments are due to the FAA by June 15, 2006, and should be provided by email to 9-AMC-AIR-140-Policy@faa.gov or by mail to Linda S Walker, Delegation & Airworthiness Programs Branch, Aircraft Certification, AIR-140, 6500 S. MacArthur Blvd, ARB, Rm 308, Oklahoma City, OK 73169

A copy of this proposed FAA Order is available online at:
http://www.faa.gov/aircraft/draft_docs/media/MCAI_Order_8040.2.doc.

CONTACT US!

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For more information on ASA events, visit us online <http://www.aviationsuppliers.org/training/training.htm>.

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