



LETTER OF COMMENT NO. 12

July 30, 2006

Director@FASB.org

Reference: Proposed FSP AUG AIR-a (planned Major Maintenance Activities)

To Whom It May Concern:

Columbia Helicopters, Inc. (CHI) is very concerned about the consequences of this exposure draft and feels compelled to comment on the Exposure Draft for Planned Major Maintenance Activities. Columbia Helicopters, Inc. is a world leader in heavy lift helicopter services including logging, petroleum exploration, construction and fire fighting activities.

Areas of Concern

Eliminating the accrue-in-advance method of accounting for planned major maintenance activity will require a significant increase in cost without providing any specific benefit to the stakeholders.

General Comments

In the Heavy Lift Helicopter business, we know that the net impact of this draft will cause stakeholders in these companies to have less of an understanding of the actual performance of the organization, or will require an extraordinary amount of work in order to set up a proper tracking system for each and every asset that will be required to be set up.

It is our belief that the application of this promulgated exposure draft makes sense in areas where capital and acquisition costs are extremely high and the recurring maintenance is a less significant element. However, in the heavy-lift helicopter industry, overhauls of components and airframes are large issues in terms of the operational costs of a company. They occur sporadically over time and are required to be performed by

Federal Aviation Administration (FAA) regulations. Specifically, in the helicopter industry, overhauls of a component can be as high as 90% of the original cost of the asset and these overhauls can be required anywhere from less than one year, to up to seven or eight years. Also, these overhauls can take place over a very long span of time (the life of components can be between 30 and 40 years and overhauls are done routinely over the life of the component). As a result, a large fluctuation in expenses will occur and generate misleading financial statements for years in which major overhauls are completed and the revenue associated with the component was generated in earlier periods resulting in a mismatch of revenue and expenses.

CHI maintains a fleet of 23 aircraft, consisting of the Boeing Vertol (107), and Boeing Vertol (234). Each of these aircraft contains components that are life-limited in regards to time until inspection, time until overhaul or in some cases the time until the part must be discarded as required by the FAA. Since our fleet of helicopters has been purchased used and then rebuilt, much of the book value is embedded in the components. Current accounting practices at CHI dictate that we capitalize parts when purchased, adding the costs associated with preparing the asset for use and depreciating them over their estimated useful lives. We accrue a liability (Maintenance Reserve) based on the experience of each component type within each aircraft type multiplied times actual flight hours. When components are overhauled, the cost is applied against the accrued liability. At some point in the aircraft's life when the condition of the aircraft is spent, the asset is completely disassembled, inspected, and re-assembled (a one to two year process). These costs are then capitalized and depreciated over the estimated useful life of the refurbished aircraft. (Much of our fleet are 1960's era aircraft which only we fly commercially. These aircraft in appearance look brand new.)

The following example shows what we believe would be the effects of applying this Planned Major Maintenance Activities proposed change to a company like Columbia Helicopters, Inc.

Example 1

Example 1 illustrates a single component for a period of 15 years. Components are fully interchangeable within the aircraft type and component changes can take place very easily and often if needed. Component changes in an aircraft are done on average several times per month in the evening when the aircraft is not allowed to fly. At the bottom of Example 1, the fluctuation in net expense each year is reflected. As you can see, this example reflects the impact of just one component, and we have hundreds of these types of components. Our stakeholders would only understand the Financial Statements if they had a complete understanding of where each of these hundreds of components were in terms of overhaul status.

Example 2

As another example, we have an engine that was purchased in 1972, and capitalized on our books for \$7,267 at that time. For these types of engines we do an overhaul every 1,000 hours, or about once every five months, or in other cases once every three years depending on where the aircraft are located. Assume the engine overhaul costs in the

range of \$130,000. Since 1972 we have recorded an expense and accrued a Maintenance Reserve liability for every hour flown. When the engine has completed the 1000 hour overhaul, we then reduce the liability reserve account but have proportionately distributed the expense of that overhaul over the period those hours were flown and the revenue was earned. Under the proposed ruling, we understand that CHI would expense the \$130,000 in the year the overhaul was completed. So, if the aircraft were situated some place that it only flies 300 hours per year, then we could be three to four years without any expense being reported in any year except the first year.

Example 3

It is also our belief that this proposal can lead to the misstatement of financial statements due to manipulation of the proposed guidelines. Using the aviation industry as an example, one only has to look at the current financial crisis facing the airlines to see the mismatching of revenues and expenses if the businesses don't accrue for either the replacement cost or soon to be performed overhaul. The proposal also allows companies to exchange engines, landing gear and other critical components from inactive aircraft to active aircraft as needed in order to defer maintenance costs. In this example, the underlying operating costs would be grossly understated without the proper accrual of the upcoming liability, allowing readers of financial statements to be misled.

In the helicopter industry where maintenance is larger in proportion to the cost of the aircraft, this becomes an even bigger issue. The mission or use of the aircraft can dictate the frequency of needing to perform an overhaul and this is important in allowing for the proper matching of revenues and expenses. For example, some of our operations include moving oil rigs throughout the world on aircraft that might fly between 30 and 60 hours per month. In the case of a forward transmission overhaul, which is performed every 2,400 flight hours, a transmission can go without an overhaul for 48 months (4 years) assuming 50 flight hours per month. Subsequently, and often times, an aircraft can operate an average of 200 hours per month, allowing the transmission to be able to perform for only one year before requiring an overhaul. Transmissions will need various repairs during use and will be removed periodically between overhauls. As a result, the transmission will most likely work on both aircraft (oil exploration and logging) in the course of its 2,400-hour life between overhauls. We are concerned that the cost and expenses of these projects and financial statements as a whole will be understated in years where no overhauls are performed and overstate expenses in the year the overhaul is performed.

It is not difficult to illustrate the concept that maintenance costs as a percentage of annual revenue allows companies the ability to manipulate income in any year. Assume a company's annual revenues vary between \$180,000,000 and \$200,000,000. Annual processed work orders that are debited against the maintenance reserve liability account approach anywhere from \$16,000,000 to \$30,000,000 per year depending on a number of factors including current economic conditions, weather, etc...

With a profit margin of 10%, deferring certain maintenance costs into future accounting periods can allow the company to alter income by as much as 70%. Assume that a

company generates \$20,000,000 of profit in a given year. By performing a minimum amount of maintenance work in the current period or deferring completion of such work, and shifting it into the following year (performing \$16,000,000 of work in place of \$30,000,000), a company can show an additional \$14,000,000 of profit in the current period. Using the proposed standards, such manipulation will be probable and severely affect the integrity of the financial data being presented within our industry.

Summary

While CHI understands the need to reform the accounting of certain aviation companies in order to better inform the users of financial statements, we do not believe that the changes outlined in your proposal would improve the quality or accuracy of our financial statements nor of companies similar to ours. In addition to our direct competitors we would expect that small aviation companies such as charter for hire (e.g. Hillsboro Aviation, Hillsboro, OR) small regional airlines (e.g. ProMech in Ketchikan, AK) and remote freight companies would have similar difficulties presenting their financial statements in a meaningful way. It is our belief that this proposal would have an inappropriate effect (e.g. significant variations in expenses) on smaller, privately held companies when the occurrence of planned major overhauls does not occur evenly over the years because they have few aircraft and the cost of initial purchase is not significantly greater than overhaul costs.

The argument for rejecting the accrue-in-advance method because they do not believe that estimated future repair and maintenance costs represent a liability as defined in FASB Concepts Statement No. 6. Specifically, prior to the performance of the planned major maintenance activity an entity does not have an unavoidable duty or responsibility to sacrifice assets in the future.

It is our belief that a responsibility to sacrifice assets in the future does exist as FAA regulations will prohibit us from future operations unless the overhauls are performed at specific intervals. This responsibility undoubtedly represents an obligating event prior to the maintenance activities being performed because without them the company will be unable to operate.

As a suggestion, we propose you should consider exclusionary tests such as the following:

Average Life Test. If the average life of your fleet (original date of manufacture) is older than say 15 years.

Purchase Price Test. If the average acquisition cost of your fleet is < 50% of current retail value. If current retail value is not available take original single unit purchase cost and inflate by CPI until the year of purchase.

Component Cost Test. If the value of separable components / purchase price of the aircraft at the time of purchase is > 75%.

These tests would ensure that companies where maintenance is a significant part of operating costs continue to maintain adequate reserves and state net income in a consistent method with expenses incurred, while those who frequently purchase replacement aircraft in lieu of overhauling them do not overstate expenses by accruing liabilities they do not intend to utilize.

As our Example 3 illustrates, we believe if we are prevented from accruing a maintenance reserve liability, we will have the opportunity to fluctuate our net income by 50%-75% each year based on when our overhauls are completed. In periods when we are very busy and unable to complete normally scheduled overhauls, we would have a significant increase in Net Income, whereas, in periods where it is slower and overhauls are completed early, CHI would show a very significant decrease in Net Income. We do not believe this would benefit any of our Stakeholders.

If the accrual in advance method is not deemed appropriate, then we believe all costs incurred in connection with planned major overhauls should be capitalized and amortized over the life of the overhaul.

We appreciate your interest in our comments and look forward to participating in this discussion further with you.

Sincerely,

COLUMBIA HELICOPTERS, INC.

Stan Wilson
Vice President Finance