

Is Your Pre-Purchase Inspection Taking Too Long?

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In connection with the sale of a pre-owned aircraft, an aircraft is typically subjected to a pre-purchase inspection following execution of the purchase agreement. The purchase agreement ordinarily includes an exhibit describing the scope of the inspection (that is, the tasks that will be accomplished) to be performed at the inspection facility. The parties execute a proposal with the inspection facility, the buyer pre-pays the flat rate cost of the inspection, the aircraft is positioned at the inspection facility and away we go.

While the aircraft is undergoing the inspection, each of the buyer and the seller are attending to their respective tasks. The Seller is organizing the lien release from its lender, obtaining paid-through confirmation from the various service plans and pre-positioning its conveyance documents. The Buyer is typically arranging for its financing, organizing its operating and tax structure, and awaiting the results of the pre-purchase inspection so that it may deliver its conditional or technical acceptance to the Seller. I like to call this period between inspection commencement and conditional acceptance the “quiet period.” Basically, the inspection facility is performing the inspection work-scope to ascertain the aircraft’s status, and the parties are turning inward to work toward closing.

While it may seem that the inspection is mostly a focal point for the buyer, it is equally important that the seller keep apprised of the inspection status. A story painfully makes the point.

Buyer and Seller negotiated the sale of Seller’s aircraft. Part of the negotiation was that the Seller would accept a reduced price if the scope of the pre-purchase inspection was limited to: (i) logbook review, (ii) airworthiness directive

search and (iii) engine borescope. That scope should take about a week (being conservative). After four (4) weeks, Seller was curious as to the status of the inspection and learned that, not only had the agreed upon work scope been completed, but that many other tasks had been accomplished at buyer’s direction, some of the interior had been sent out for re-covering (and completed and returned), and the conditional acceptance letter attached a work order reflecting discrepancies that would cost \$140,000 to repair. Needless to say, there was a disconnect somewhere. In this situation, interestingly, the buyer was at risk for having refurbished the interior of an aircraft it didn’t own yet!

What are the lessons to be learned?

- Be sure that all members of the team are aware of the terms of the transaction.
- When the inspection commences, calendar an anticipated end date for the discovery portion of the inspection and make someone responsible for reminding the working group.
- Have someone on-site at the inspection facility to monitor the pre-purchase inspection so it does not exceed its agreed scope. This can be done by a technical representative (typically at a daily rate) or by a sales representative with technical knowledge. They need not be on-site every day, and in many cases remote monitoring is possible if the inspection facility is providing daily updates. The cost can be worth every penny.
- Pay attention to the inspection facility updates. A line item in the update reflecting “removal of interior for refurbishment” should give you a clue that the inspection is exceeding the agreed-upon scope.