



# *The Seawind Flyer*

Fall 2012

*"The evolution of an intelligent design."*™

*Seawind* LLC

P. O. Box 1041  
Kimberton, PA 19442

Ph: 610-983-3377  
Fax: 610-933-3335  
[www.seawind.net](http://www.seawind.net)

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## **WE ARE BACK IN THE AIR**

It has been almost a year since our last Seawind Flyer. If you would like to know what happened, read on. If you just want a summary, then:

- Last year, due to all the glitches and delays in flight testing, we were running out of money and we were counting on the Government R&D credits for a large part of the project budget.
- The Canada Revenue Agency (CRA) has withheld well over \$1,000,000 in refunds, even though the project qualifies.
- We had to interrupt operations while we tried to raise money in terrible economic times.
- Our shareholders believe in the project and invested half of the one million shortfall. We were able to raise the rest through loans.
- We did not want to raise hopes unless we resumed operations and the flight testing of the Stall Prevention System (SPS) showed that we should be successful.

- Everything looks like a go and ergo, the Fall 2012 Seawind Flyer.

Note: If you want more detail read on. If you don't then skip to page #144.

### **WHAT HAS HAPPENED**

I must apologize to all of you who have missed the *Seawind Flyer* last winter and through last summer. Quite frankly, I was at a loss for words; we could not understand what was happening, why, and neither did we know how to explain it to our readers in a way that made sense. This is the long history of what happened.

When it was decided in the late 1990s to develop a certified Seawind, we attempted at first to certify in the United States, but it was soon obvious that we would not have enough money to certify under Part 23.

A good friend introduced us to Canada, where there were a number of programs to make certification possible. The most important program of them all was a

Federal and Provincial Research and Development Program known as SR&ED program.

With the assistance of the provincial agencies, we had our program structured by Deloit Touché, a noted accounting firm, and the company legal structure developed by Davis Ward, a noted legal firm. We met with Canada Revenue Agency (CRA) to review the structure for preapproval. We also met with specialists from CRA to make sure that the Seawind aircraft certification was an approved project for SR&ED program.

Approved by CRA, we moved the business to Québec and started to develop the certified Seawind. We set up a Canadian-controlled Private Corporation (CCPC) to perform the R&D exactly complying with the CRA website recommendations to derive the maximum benefits and savings while bringing jobs to Canada. All of these are the stated goals of the CRA SR&ED program.

There was an ongoing need for such an SR&ED company for general aviation certification since Canada is dominated by Bombardier Transport category Part 25 aircraft.

We collected refunds for five years and reinvested those refunds back into the project. Not one penny was taken out of Canada. To the contrary, many millions of dollars were sent into Canada. This continued until we had a funding problem and the loss of the prototype. In August 2007, operations had to be shut down. We did not take the money that was left and run out of town. Instead, we paid all the taxes, vacation, etc. owed to the employees and government. Most importantly, we did not give up.

We managed to get commitments from a number of order holders who were willing to become investors. We successfully bid on the assets and reacquired what we needed to restart the program.

New corporate entities were registered including the all-important CCPC, and we revived the project in the same building in Canada, using the financial and legal corporate structure exactly as before. Only the names were changed, and the doors were reopened in April of 2009.

The full story is much too long to tell, so I will do it with bullet items.

- After regaining the assets and the necessary



*We reacquired the assets and resumed operations.*

funding, we set up the exact same corporate structure and resumed operations in April 2009.

- AeroNautic Development Corp. (ADC) is the Canadian-Controlled Private Corporation (CCPC) responsible for the SR&ED certification development work of the Seawind and for any other projects in the future.
- ADC has a contract to perform the SR&ED certification work for the Seawind.
- The 2009 SR&ED application was submitted, and six months later it was reviewed by a Pharmaceutical Specialist from the CRA, who turned down the project. He had no knowledge of aviation and did not follow any of the CRA Guidelines for reviewing aerospace projects.
- ADC appealed the action and the CRA corrected its ruling and found the project to be eligible. That was just the beginning of the saga of the bureaucrats.
- Since it took a year, ADC had already submitted the 2010 refund application. We were now entitled to a total of about \$970,000 in refunds.
- The CRA said they wanted to review both 2009 and 2010 together, supposedly to help us and to speed up the process.
- In December 2011, we had to cease operations for lack of funds. So much for CRA speeding up the process.
- After a year-and-a-half of bureaucratic screw-ups and delays, the CRA preliminarily ruled in March of 2012 that ADC could receive only the 20% credits on labor only and would not be treated as a CCPC for the higher 35% refund rate and no refunds on

materials. Instead we will receive a 20% reduction in future taxes from profits.

- We had to hire an expert on R&D credits. He is following up on our behalf with the CRA.
- We have already applied for the 2011 R&D credit, which is about another \$400,000.
- This fiasco has put over a 1 million dollar hole in our budget, which was needed to complete certification.
- We were intent on raising at least the total of the \$1,000,000 which we need to complete but which is being withheld by the CRA, who was doing everything possible to make us fail. We don't know why and they won't be honest with us.
- NONE OF THIS IS THE FAULT OF THE PROVINCE OF QUÉBEC OR ANY OTHER FEDERAL AGENCY EXCEPT THE CRA.

THE CRA HAS PUT THE PROJECT IN JEOPARDY ALONG WITH 190 CANADIAN JOBS and the investment of the Canadian shareholders. Once the CRA turned down our 2009 refund, common business sense says slow down and preserve capital until you are sure you will receive the money. Then when the CRA jerked us around for two more years and held up two refund applications, you know they are not your friend even though they repeatedly claim "they are from the government and here to help us". Every week for a year, they said they would give us an answer in two weeks only to ask for more papers and to repeat the cycle. MORAL OF THE STORY: Don't trust them. Don't believe their website. Don't come to Canada if you have to depend on them.



*The Seawind resumes flight testing in Ottawa.*

## **TEST AIRCRAFT STATUS**

The Seawind test aircraft was flown back to the Canadian National Research Council (NRC) hangar in Ottawa in August. The instrumentation computer had to be re-installed. We have frozen the design and all the details have been worked out. New locations for the wing transducers had been determined and the transducers were moved inboard. The flight test aircraft is now flying.

## **STATUS OF PHASE 3 CERTIFICATION AND FLIGHT TESTING**

It appears that we are finally over the hurdles in the resumption of flight testing. Because of the trailing edge changes to make the elevator and rudder compliant we had to re-examine the flutter characteristics using "production parts". We also had to have shake down flights, instrument calibration flights, and we completed the forward and aft c.g. glide flights.

With that accomplished, the way was then now clear for the Stall Prevention System (SPS) calibration flights. The first two calibration flights showed the shaker to be close to the desired setting. We are confident that we will get better results now that we have moved the wing lift transducers inboard. Once the SPS is calibrated and clear of the stall/spin envelope then we will be on the last leg which is the rest of the performance testing. That should take about six or seven weeks of data gathering. With the performance data on hand we can complete the noise testing and the Pilot Operating Handbook (POH), all of which are required for certification.

We still have a lot of documentation and test reports which need to go back and forth with Transport Canada. We are making good progress.

## **PHASE 4 PRODUCTION**

Once we have the flight testing completed we will start the production ramp up.

We already have the fiberglass parts for Seawind 003 and 004. In addition we have the landing gear and flight controls for both aircraft. However, a number of parts were changed during the developmental and certification flight testing. We estimate

that to be about 5% of the machined parts will have to be redone.

We are targeting to start recalling and hiring staff in late January or February. During phase 3 we kept on refining the major tooling fixtures. In Phase 4 we will start the smaller fixtures and drill template required for a production facility.

One of the next three aircrafts will be for customer option during Phase 4. We are anxious to see the new Continental diesel engine which is supposed to be available in early 2013. That test aircraft will also be used for developing a glass cockpit along with any other instruments testing for ADS-B, TAWS, outboard motor, etc. The testing required will be minimal because all of the equipment is certified.

### **AUGMENTING OUR STAFF**

We have started recalling staff. Obviously, after a significant interruption, we will have to replace some people who are currently working elsewhere. When we had to interrupt operations because of the CRA withholding our refunds, we knew that the engineering manager was in the process of starting his own business.

I had been communicating with Pascal Beaudouin, who is an experienced aircraft engineer from France. He was very interested in the Seawind, in designing and certifying general aviation aircraft, and in moving to Canada. Of course, we could not offer him a position at the time because of the funding shortfall.

He had agreed to come to Canada and attend an important meeting with me at Transport Canada. He has experience in certifying small aircraft and STCs as well. He has also proposed time-saving methods for the remaining documentation work to be done. He is now on board.

Welcome Pascal!

### **NEW ENGINE DEVELOPMENTS**

As most of you know, we have been hoping for a turbo-charged diesel engine since 1996. Continental has announced that they expect to have a turbo-charged diesel engine in production in 2013. Let's hope 2013 is for real and the engine does not weigh 200 pounds more than the

standard AVGAS engine. They are also talking about a gasoline turbo-normalized engine. The turbo diesel would be preferred because it satisfies two options. The turbo charged aspect is good for high altitude lakes and safe clearance over mountain ranges. The diesel allows us to use Jet A or diesel fuel; all are more plentiful than AVGAS. Turbo normalized should be a benefit with the Seawind high thrust line during take off. We have harmony between the engine power and elevator pitch control. As soon as we have reliable information, we will pass it on to you.

### **CASH FLOW**

"Cash Flow", you can't accomplish anything without it. I was encouraged last July with the response of two institutions who will consider lending money for production (BUT NOT FOR CERTIFICATION). They made it sound so easy. Nothing is EASY when you are dealing with banks. However, it should be possible, but we are conducting a parallel effort to raise equity.

Equity Capital will keep us debt free which has so many advantages. Ask Continental, Cirrus, Diamond, Piper, and Money who are now all owned by foreign interests.

Our break even point will be less than fifteen aircraft per year. We can have a production facility capable of manufacturing 235 Seawinds per year. We also have an additional 30,000 square feet for expansion. Our shareholders also have non-dilutable stock.

We want the company to have a solid financial foundation.

If you are interested in participating in Phase 4, we would be glad to talk to you.

### **SALES**

I know it has taken a long time to get to this point. To hear our Flight Analyst, Test Pilots, and Consultants, we have done the near impossible and we have done it with far less money. We are not done yet, but we are now making greater strides.

Without our investors and order holders the Seawind would not exist. We remember and are thankful for your loyalty.

Richard Silva