UNITED STATES OF AMERICA
DEPARTMENT OF TRANSPORTATION
OFFICE OF THE SECRETARY
WASHINGTON, D.C.

Issued by the Department of Transportation
on the 15th day of September, 2000

Application of

BOSTON-MAINE AIRWAYS CORP.  
Docket OST-00-7668

d/b/a PAN AM SERVICES

for a certificate of public convenience and necessity under
49 U.S.C. 41102 to engage in interstate scheduled air
transportation of persons, property, and mail

ORDER TO SHOW CAUSE
PROPOSING ISSUANCE OF CERTIFICATE AUTHORITY

Summary

By this order, we tentatively find that Boston-Maine Airways Corp. d/b/a Pan Am Services is fit, willing, and able to provide interstate scheduled air transportation of persons, property, and mail as a certificated air carrier using small (less than 60 seats) aircraft.

Background

Section 41102 of Title 49 of the United States Code (Transportation) ("the Statute") directs us to determine whether applicants for certificate authority to provide interstate scheduled air transportation are "fit, willing, and able" to perform such transportation and to comply with the Statute and the regulations of the Department. In making fitness findings, the Department uses a three-part test that reconciles the Airline Deregulation Act's liberal entry policy with Congress' concern for operational safety and consumer protection. The three areas of inquiry that must be addressed in order to determine a company's fitness are whether the applicant (1) will have the managerial skills and technical ability to conduct the proposed operations, (2) will have access to resources sufficient to commence operations without posing an undue risk to consumers, and (3) will comply with the Statute and regulations imposed by Federal and State agencies. We must also find that the applicant is a U.S. citizen.

On July 19, 2000, Boston-Maine Airways Corp. d/b/a Pan Am Services filed an application in Docket OST-00-7668 for a certificate to provide interstate scheduled air transportation of
persons, property, and mail pursuant to section 41102. Boston-Maine accompanied its application with the fitness information required by section 204.3 of our regulations.¹

No answers opposing Boston-Maine’s application were filed and no special issues regarding the applicant have come to our attention. Under these circumstances, we propose to decide the issue of the applicant’s fitness on the basis of the written record, and we tentatively conclude that Boston-Maine is a U.S. citizen and is fit, willing, and able to operate its proposed interstate scheduled passenger service. However, we will give interested persons an opportunity to show cause why we should not adopt as final the tentative findings and conclusions stated herein.

The Company

Boston-Maine was organized as a corporation under the laws of the State of New Hampshire in March 1999. The company is a wholly-owned subsidiary of Pan American Airlines, Inc. (PAA), a holding company which also owns the certificated air carrier Pan American Airways Corp. (Pan Am). PAA itself is owned primarily by Mr. Timothy Mellon (94.2 percent) and Mr. David A. Fink (5.2 percent).² These individuals also serve as the company’s directors.³

Boston-Maine commenced operations as an air taxi in June 1999. Initially, the company operated CASA 212s providing all-cargo charter service. In May 2000, the company added passenger charter services utilizing three 19-seat British Aerospace Jetstream 3100 aircraft. If its application is approved, Boston-Maine intends to add scheduled passenger service using Jetstream 3100s. These scheduled passenger operations will be designed to act primarily as a commuter supplement to Pan Am’s large aircraft operations, and the initial markets will be Portsmouth, New Hampshire-Bangor, Maine, and Sanford-Ft. Myers, Florida.⁴ However, the applicant has indicated that it may also conduct separate stand-alone scheduled passenger operations. In addition, Boston-Maine intends to maintain its existing all-cargo service using the CASA 212s and passenger charter service using additional Jetstream 3100s.⁵

¹ Boston-Maine filed information supplementing its application on August 16, 2000.
² Together, Mr. D. Armstrong Fink, the son of David A. Fink, and Mr. Richard S. Kelso own 0.6 percent of PAA.
³ While the company’s initial incorporation also designated Messrs. D. Armstrong Fink and Richard Kelso as directors, these individuals have not subsequently participated as active members of Boston-Maine’s Board of Directors.
⁴ The Sanford-Ft. Myers operations will not commence until March 2001. Boston-Maine’s scheduled passenger operations in the Portsmouth-Bangor market will be conducted using the three Jetstream 3100s currently in its fleet. The company intends to expand its scheduled passenger fleet to a total of six Jetstream 3100s prior to the inauguration of the Sanford-Ft. Myers service.
⁵ The applicant has stated that, by the end of its first year of scheduled passenger operations, it will be operating a total fleet of 10 Jetstream 3100s (six in scheduled service and four in charter service), as well as the two CASA 212s it utilizes for its all-cargo operations. Thus, the company’s total fleet will consist of 12 aircraft.
Managerial Competence

Mr. Timothy Mellon serves as Boston-Maine's Chairman, while Mr. David A. Fink serves as its President. These individuals, along with Mr. John R. Nadolny, the applicant's Sr. Vice President, General Counsel, and Secretary, and Mr. Joseph L. Carey, the applicant's Treasurer, also hold similar positions with PAA, Pan Am, or both. Additional senior management of Boston-Maine consists of Mr. Gordon R. Long, its Vice President and General Manager, together with the key technical personnel noted below.

Mr. Long, as General Manager, will be the individual responsible for running Boston-Maine's day-to-day operations. Since 1983, Mr. Long has been directly involved in overseeing the CASA 212 operations currently conducted by Boston-Maine. These operations were previously conducted by Arlington Leasing, Inc., a company Mr. Long joined in October 1983 as Director of Operations. At that time, Arlington Leasing was based in Newport, Rhode Island, and conducted air taxi operations along the East Coast. In late 1985, the operations of Arlington Leasing were moved to the Louisville area and the company operated 12 CASA 212s on behalf of UPS. In 1987, the company's base was again moved--this time to California--and the company continued its air taxi operations throughout the next ten years before ceasing operations. In 1999, all remaining assets of Arlington Leasing were purchased by Pan Am and transferred to Portsmouth where its former CASA operations were reinstituted by the applicant.

Mr. Stewart J. Beck, an Airframe and Powerplant Mechanic, serves as Boston-Maine's Chief Inspector. Mr. Beck brings to his position approximately 16 years of aircraft maintenance experience, the last two working in aircraft structures maintenance and serving as a quality assurance representative with Pan Am. Prior to joining Pan Am, Mr. Beck spent approximately six years with two New England-based air taxi operators, serving as Director of Maintenance and Chief Inspector for General Aviation Services, and as Quality Control Manager with Skymaster. In addition, Mr. Beck has previously worked as a technical instructor with East Coast Aerotechnical School and as a mechanic with Petroleum Helicopters of Lafayette, Louisiana.

Serving as Boston-Maine's Director of Maintenance is Mr. Timothy J. Donovan, an Airframe and Powerplant Mechanic, who has worked with Pan Am's maintenance department during the last two years, serving most recently as a supervisor of heavy maintenance. Prior to joining Pan Am, Mr. Donovan worked for two years in aviation maintenance with American International Airways/Kitty Hawk, and for three years as sole proprietor and line maintenance representative with DMC Enterprises which provided aircraft maintenance services for its clients.

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6 Prior to 1983, Mr. Long worked as a pilot with Newport Aero, Inc., an air taxi operator, for approximately four years and owned and operated Air Transport/Center, also an air taxi operator, for a little over three years.
Mr. Christopher S. Chapman, an Airline Transport Pilot with approximately 4,300 total flight hours, serves as Boston-Maine's Chief Pilot. Mr. Chapman began his aviation career in 1994 as an assistant flight instructor with a New Hampshire-based flight school. Since that time, he has held instructional positions with other flight schools, as well as pilot positions with Air Transport, Inc., an air taxi operator; Wilton Investment Group, a private company; Cape Air, a commuter air carrier; and Pan Am.

Boston-Maine's Director of Operations is Mr. John J. Hughes, an Airline Transport Pilot who began his aviation career in 1974 as a pilot with Lakeman Fisheries. Since that time he has held pilot positions with various Part 135 and Part 121 companies including Merrimack Airlines, Bay State Airways, Precision Airlines, Business Express, and FlightSafety International. For the last year, he has served as Chief Pilot of the applicant.

Serving as the applicant's Director of Safety is Mr. Robert C. Nessa. Prior to joining Boston-Maine in this capacity, Mr. Nessa served as Safety Manager and worked in structures maintenance with Pan Am for approximately one year. Previously, he had worked in aircraft structures maintenance and related fields with various aircraft repair firms and manufacturers for approximately 16 years. These firms included BF Goodrich Aerospace, Northrop Grumman Corp., Lockheed Corp., Teledyne Ryan Corp, and Rockwell International.

In view of the experience and background of the applicant's key personnel, we tentatively conclude that Boston-Maine has assembled a management team who have the managerial skills and technical ability to conduct its proposed service.7

Financial Plan and Operating Proposal

If granted the certificate authority it seeks, Boston-Maine intends to commence scheduled passenger operations offering three roundtrips per day between Portsmouth and Bangor using three 19-seat Jetstream 3100s. Its plans call for the addition of four roundtrips per day between Sanford and Ft. Myers using three more Jetstream 3100s in March 2001.8 These operations will be designed to supplement Pan Am's service at Portsmouth and Sanford.

In support of its ability to undertake its proposed scheduled passenger operations, Boston-Maine has provided forecasts of its anticipated pre-operating expenses and its operating expenses for its first year of certificated operations. We have reviewed the applicant's first year expense forecasts and find that they appear to be reasonable.

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7 Before authorizing a carrier to conduct air transportation operations, the FAA also evaluates certain of the applicant's key personnel with respect to the minimum qualifications for those positions as prescribed in the Federal Aviation Regulations. The FAA's evaluation of these key personnel provides an added practical and in-person test of the skills and technical ability of these individuals.

8 Both of these schedules require only two aircraft to operate. However, the applicant intends to dedicate three aircraft to each market, thereby providing a maintenance spare and giving it the ability to operate extra-section flights when demand warrants.
Boston-Maine has forecast that it will incur approximately $184,000 in additional expenses in order to commence its scheduled passenger service. In addition, the applicant anticipates that it will incur approximately $485,500 in operating expenses during three months of normal certificated operations. Thus, Boston-Maine will need approximately $670,000 in available funds to meet our financial fitness criteria.9

Boston-Maine’s balance sheet as of June 30, 2000, reflects current assets of $889,200 and current liabilities of $131,000, giving the company positive working capital of $758,200 and a current assets to current liabilities ratio of 6.79:1. In addition, the company has other assets totaling $798,000, no long-term liabilities, and its current air taxi operations have resulted in small net profits, giving Boston-Maine positive retained earnings of $56,200 and net stockholder’s equity of $1.56 million at June 30. In addition to these internal resources, Boston-Maine has obtained a $500,000 revolving line-of-credit from PAA upon which it may draw as needed.10 Thus, we tentatively conclude that Boston-Maine will have sufficient financial resources available to it to enable it to commence its proposed scheduled passenger operations without posing an undue risk to consumers or their funds.

**Compliance Disposition**

We also tentatively conclude that Boston-Maine has the proper regard for the laws and regulations governing its services to ensure that its aircraft and personnel conform to applicable safety standards and that acceptable consumer relations practices will be followed.

Boston-Maine has stated that there are no actions or outstanding judgments against it, its owners, or its key personnel, nor have there been any charges of unfair, deceptive or anti-competitive business practices, or of fraud, felony or antitrust violations brought against any of these parties in the past ten years. The applicant has also stated that there are no pending investigations, enforcement actions, or formal complaints filed by the Department against it, its key personnel, or persons having a substantial interest in it with respect to compliance with the Statute or the Department’s regulations.

Further, our search of the Department’s records found no compliance problems with Boston-Maine or its key personnel, and we have previously found the compliance disposition of its

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9 In evaluating an applicant’s financial fitness, the Department generally asks that the company have available to it sufficient resources to cover all pre-operating costs plus a working capital reserve equal to the operating costs that would be incurred in three months of “normal” certificated operations. Because projected expenses during the first several months of actual air transportation operations frequently do not include all costs of operations that will be incurred during a normal period of operations, it is our practice to base our three-month test on one quarter of the first year’s operating cost forecast. In calculating available resources, projected revenues may not be used.

10 PAA appears to have the ability to provide the funds committed. As of December 31, 1999, PAA reported current assets of $19.0 million and current liabilities of $9.8 million, giving it positive working capital of $9.2 million. In addition, its net stockholders’ equity position was a positive $21.6 million.
owner satisfactory in conjunction with its ownership of Pan Am. In addition, the FAA has advised us that Boston-Maine has applied for certification under Part 121 of the Federal Aviation Regulations and that it knows of no reason why we should act unfavorably on the company’s application.

CITIZENSHIP

Section 41102 requires that certificates to engage in air transportation be held only by citizens of the United States as defined in 49 U.S.C. 40102(a)(15). That section requires that the president and two-thirds of the Board of Directors and other managing officers be U.S. citizens and that at least 75 percent of the outstanding voting stock be owned by U.S. citizens. We have also interpreted the Statute to mean that, as a factual matter, the carrier must actually be controlled by U.S. citizens.

As stated earlier, Boston-Maine is wholly owned by PAA, which also wholly owns the certificated air carrier Pan Am. The ownership of this holding company has not changed since we found Pan Am to be a U.S. citizen under its ownership and control. Further, all of Boston-Maine’s key personnel are U.S. citizens and the company has provided an affidavit attesting that it is a citizen of the United States within the meaning of the Statute and that it is actually controlled by U.S. citizens. Finally, our review of the applicant’s citizenship has uncovered no reason to suggest that control of Boston-Maine rests with non-U.S. citizens.

Based on the above, we tentatively conclude that Boston-Maine is a citizen of the United States and is fit, willing, and able to conduct the interstate scheduled passenger operations proposed in its application.

OBJECTIONS

We will give interested persons 14 days following the service date of this order to show cause why the tentative findings and conclusions set forth here should not be made final; answers to objections will be due within 7 days thereafter. We expect such persons to direct their objections, if any, to the application and points at issue and to support such objections with detailed economic analyses. If an oral evidentiary hearing or discovery procedures are requested, the objector should state in detail why such a hearing or discovery is considered necessary, and what material issues of decisional fact the objector would expect to establish through a hearing or discovery that cannot be established in written pleadings. The objector should consider whether discovery procedures alone would be sufficient to resolve material issues of decisional fact. If so, the type of procedure should be specified (See Part 302, Rules 19 and 20); if not, the reasons why not should be explained. We will not entertain general, vague, or unsupported objections. If no substantive objections are filed, we will issue an order

12 The majority owners of PAA remain Mr. Timothy Mellon and Mr. David A. Fink, both U.S. citizens.
that will make final our tentative findings and conclusions with respect to Boston-Maine's fitness and certification.

CERTIFICATE CONDITIONS & LIMITATIONS

If Boston-Maine is found fit and issued the certificate it seeks, its authority will not become effective until the company has fulfilled all requirements for effectiveness as set forth in the terms and conditions attached to its certificate. Among other things, this includes our receipt of evidence that Boston-Maine has been certified by the FAA to engage in the subject operations.

We note that our finding of fitness for Boston-Maine is based on the operating plans described in its application, namely the use of small aircraft. Were the applicant to propose to expand its operations to include large aircraft our fitness findings might no longer apply. 13 Therefore, we propose to limit any authority issued to the applicant to operations with aircraft having a maximum passenger capacity of not more than 60 seats or a maximum cargo capacity of not more than 18,000 pounds payload. Should Boston-Maine subsequently desire to operate larger aircraft, it must first be determined fit for such operations.

Furthermore, we remind the company of the requirements of 49 U.S.C. 41110(e). Specifically, that section requires that, once a carrier is found fit initially, it must remain fit in order to hold its authority. Thus, should Boston-Maine propose other substantial changes in its ownership, management, or operations, it must first comply with the requirements of section 204.5 of our rules.14 The compliance of the company with this requirement is essential if we are to carry out our responsibilities under the Statute.15

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13 Section 298.2(h) of our rules defines large aircraft as any aircraft designed to have a maximum capacity of more than 60 seats or a maximum payload capacity of more than 18,000 pounds. Section 298.2(u) defines small aircraft as any aircraft that is not a large aircraft.

14 The carrier may contact our Air Carrier Fitness Division to report proposed substantial changes in its operations, ownership, or management, and to determine what additional information, if any, will be required under section 204.5. In addition, by notice dated July 21, 1998, the Department requested air carriers to provide a 30-day advance notification of any proposed change in ownership, restructuring, or recapitalization. If the carrier fails to file this updated information or if the information fails to demonstrate that the carrier will continue to be fit upon implementation of the substantial change, the Department may take such action as is appropriate, including enforcement action or steps to modify, suspend, or revoke the carrier's certificate authority.

15 We also remind Boston-Maine about the requirements of section 204.7 of our rules. This section provides, among other things, that (1) the certificate authority granted to a company shall be revoked if the company does not commence actual flying operations under that authority within one year of the date of the Department's determination of its fitness; (2) if the company commences operations for which it was found fit and subsequently ceases such operations, it may not resume certificated operations unless its fitness has been re-determined; and (3) if the company does not resume operations within one year of its cessation, its authority shall be revoked for dormancy.
Finally, to aid the Department in monitoring the fitness of new carriers, we have adopted a requirement that all newly certificated carriers must submit a detailed progress report, within 45 days following the end of the first year of certificated operations, to the Air Carrier Fitness Division. The report should include a description of the carrier's current operations (number and type of aircraft, principal markets served, total number of full-time and part-time employees), a summary of how these operations have changed during the year, a discussion of any changes it anticipates from its current operations during its second year, current financial statements,\textsuperscript{16} and a listing of current senior management and key technical personnel. The carrier should also be prepared to meet with staff members of the Fitness Division to discuss its current and future operations.

**ACCORDINGLY,**

1. We direct all interested persons to show cause why we should not issue an order making final the tentative findings and conclusions stated above and award a certificate to Boston-Maine Airways Corp. d/b/a Pan Am Services authorizing it to engage in interstate scheduled air transportation of persons, property, and mail, subject to the attached specimen Terms, Conditions, and Limitations.

2. We direct any interested persons having objections to the issuance of an order making final any of the proposed findings, conclusions, or the certificate award set forth here to file them with Department of Transportation Dockets, 400 Seventh Street, SW, Washington, D.C. 20590, in Docket OST-00-7668, and serve them upon all persons listed in Attachment A no later than 14 days after the service date of this order; answers to objections shall be filed no later than 7 days thereafter.

3. If timely and properly supported objections are filed, we will accord full consideration to the matters or issues raised by the objections before we take further action.\textsuperscript{17}

4. In the event that no objections are filed, we will consider all further procedural steps to be waived and we will enter an order making final our tentative findings and conclusions.

5. We will serve a copy of this order on the persons listed in Attachment A.

\textsuperscript{16} These financial statements should include a balance sheet as of the end of the company's first full year of actual flight operations and a twelve-month income statement ending that same date.

\textsuperscript{17} Since we have provided for the filing of objections to this order, we will not entertain petitions for reconsideration.
6. We will publish a summary of this order in the Federal Register.

By:

FRANCISCO J. SANCHEZ
Assistant Secretary for Aviation
and International Affairs

(SEAL)

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