BEFORE THE DEPARTMENT OF TRANSPORTATION OFFICE OF THE SECRETARY WASHINGTON, D.C.

Application of:

BOSTON-MAINE AIRWAYS CORP.: Docket OST-00-7668 - 1-

for issuance of a certificate of public convenience and necessity pursuant to 49 U.S.C. §41102:

SUPPLEMENT NO. 2 TO APPLICATION OF BOSTON-MAINE AIRWAYS CORP.

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October 18, 2001
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BEFORE THE
DEPARTMENT OF TRANSPORTATION
OFFICE OF THE SECRETARY
WASHINGTON, D.C.

Application of

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49 U.S.C. §41102

October 18, 2001

SUPPLEMENT NO. 2 TO APPLICATION OF
BOSTON-MAINE AIRWAYS CORP.

Boston-Maine Airways Corp. ("BMAC") hereby submits this Supplement

No. 2 to its July 19, 2000 Application for issuance of a Certificate of Public

Convenience and Necessity in the captioned proceeding for the purpose of furnishing

certain updated information and documents to the Department in compliance with

Condition (1) of the Certificate attached to Final Order 2000-10-1, served October 2,

2000, as follows:

1. **FAA Part 121 Certification**

   BMAC expects to be issued a Part 121 Air Carrier Certificate by the

   Federal Aviation Administration before the end of October. A copy of that Certificate,

   and relevant excerpts from the Operations Specifications issued in conjunction with that

   Certificate, will be filed with the Department upon receipt by BMAC.
2. **Statement of Fitness-Related Changes**

There have been three significant developments which require an update of the fitness-related evidence and projections submitted previously by BMAC. In addition, there has been one personnel change affecting the position of Director of Safety employed by BMAC.

The principal post-Application development has been BMAC’s entry into a Commuter Air Service Agreement, dated June 15, 2001, with the State of Maryland Aviation Administration (the “Maryland Agreement”). The Maryland Agreement, a copy of which is contained in Exhibit BMA-S/2-109, provides for the operation of scheduled air transportation by BMAC utilizing 19-seat Jetstream 31 aircraft between Baltimore/Washington International Airport (“BWI”), on the one hand, and the Greater Cumberland Regional Airport (“CBE”) and the Hagerstown Regional Airport (“HGR”), on the other hand, at an initial frequency of three roundtrips a day Monday through Friday and two roundtrips a day on Saturday, Sunday and federal holidays.

The primary purpose of the Maryland Agreement is to further the objectives of Maryland’s Regional Air Service Development Program by fostering ____________________________

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1 BMAC was selected by Maryland to perform the air services at issue through a competitive selection process following evaluation of carrier responses to a Request for Proposals issued by the Maryland Aviation Administration.
“development of a system of regional air transportation facilities and scheduled air
service that effectively links to the national and international air transportation system
underserved regions of the State that are capable of supporting scheduled air service”
(Exhibit BMA-S/2-109, p.2). In order to permit the contemplated air service to be
provided at affordable prices, the Maryland Agreement provides for the payment of a
financial assistance grant in the maximum amount of $2,250,000 for air transportation
service provided during the eight-month period from November 1, 2001 through
June 30, 2002, with an option exercisable by Maryland to extend the term of the
Agreement for one year, through June 30, 2003, provided that the Maryland legislature
appropriates funds for the payment of air service grants for fiscal year 2003 (Exhibit
BMA-S/2-109, p.3).

As reflected in Exhibit BMA-S/2-100, BMAC’s operation of the air
services contemplated by the Maryland Agreement will substantially increase the first-
year projected revenues and expenses forecast by BMAC in its initial application in this
proceeding. As a result of the financial grant provision, however, BMAC expects that
it will be able to operate those incremental services at a reasonable profit,
notwithstanding the developmental nature of the two small community markets
involved.
As discussed below, the increased operating expenses which BMAC will incur as a result of its operation of the flights contemplated by the Maryland Agreement will increase BMAC’s working capital requirement under the Department’s financial fitness test. In view of the fact that performance of those contract services will result in fixed bimonthly grant payments to BMAC, however, BMAC submits that the financial grant portion of its compensation under the Maryland Agreement is properly viewed as working capital, rather than passenger revenue, since those payments are guaranteed and do not fluctuate based on passenger volumes.

The second significant change in BMAC’s previously-filed fitness evidence is a three-fold increase in its passenger aircraft fleet to a total of ten (10) Jetstream 31 turboprop aircraft through the purchase of seven (7) additional Jetstream aircraft by Guilford Transportation Industries, Inc., and Guilford’s lease of those seven aircraft to BMAC (Exhibit BMA-S/2-102). The primary impetus for those additional Jetstream acquisitions arose from the fact that turboprop aircraft have recently become available on highly attractive terms as a result of the surging demand to replace turboprop aircraft with larger and faster regional jet aircraft in other sectors of the

\[^2\] As noted in BMAC’s original application (see Exhibit BMA-101), Guilford is an affiliated company with BMAC as a result of its common ownership with BMAC’s parent company, Pan American Airlines, Inc.
regional airline industry. BMAC anticipates that it will be able to utilize the six
Jetstreams which are not required for its planned first-year scheduled-service operations
in expanded charter services and through short-term subleases to other carriers.

The third material change in BMAC’s previously-filed fitness evidence
has been a very substantial increase in BMAC’s projected pre-operating expenses from
its initial projection of $184,000 in startup expenses to its current, and final, projection
of $2,775,000 (Exhibit BMA-S/2-101). As reflected in Exhibit BMA-S/2-101, the
majority of its increased pre-operating expenses have been attributable to the cost of the
FAA Part 121 certification process ($235,000), the cost of hiring, training and retaining
pilots and mechanics in anticipation of the commencement of scheduled service
operations ($609,000), and the cost of acquiring and upgrading its fleet of Jetstream 31
aircraft ($1,467,000). As shown in Exhibit BMA-S/2-101, BMAC has already paid the
vast majority of its total pre-operating expenses, through additional contributions of
paid-in capital by its owner (see Exhibit BMA-S/2-104). Due to the relatively small
amount of pre-operating expenses which remain unpaid at this point, BMAC’s
increased total pre-operating expenses have had virtually no impact on its updated
financial fitness test calculation (Exhibit BMA-S/2-107).

Finally, Captain Hobart T. Livingston, who came out of retirement to
become a member of BMAC’s initial operating management group, has returned to
BMAC to fill the position of Director of Safety. Captain Livingston’s extensive and distinguished airline experience and unblemished fitness record are set forth in his biographical resume and fitness questionnaire responses contained in Exhibit BMA-S/2-103. Captain Livingston has been approved by the FAA to hold the position of Director of Safety with BMAC.

Other than the foregoing developments, there have been no other material changes in the fitness-related information previously submitted by BMAC to the Department in this proceeding.

3. **Final Pre-Operating Expenses and Working Capital Reserve.**

As discussed above, BMAC’s final list of pre-operating expenses paid to date and remaining to be paid is set forth in Exhibit BMA-S/2-101.

Evidence that BMAC possesses working capital reserves on hand or available to it in an amount sufficient to exceed the total of: (1) BMAC’s remaining unpaid pre-operating expenses of $17,600, and (2) one-quarter of BMAC’s revised projection of its operating expenses expected to be incurred in BMAC’s first year of certificated scheduled-service operations, amounting to $1,106,730, is contained in BMAC’s Balance Sheet as of September 30, 2001 (Exhibit BMA-S/2-104), BMAC’s previously-filed Credit Line Agreement dated June 1, 2000 (Exhibit BMA-S/1-5), and BMAC’s contractually-guaranteed grant of $2,250,000 in financial assistance in
connection with its performance of specified small community air services pursuant to
the Maryland Agreement (Exhibit SMA-S/2-109). Third-party verification of BMAC’s
working capital is contained in Exhibits BMA-S/2-108 and BMA-S/2-109.

As shown in Exhibit BMA-S/2-107, the total of $3,073,310 in working
capital on hand and available to BMAC exceeds BMAC’s total working capital
requirement of $1,124,330 by a surplus of $1,948,980.

4. Liability Insurance Certificate

A copy of a U.S. Air Carrier Certificate of Insurance on OST Form 6410,
issued on October 10, 2001, evidencing the issuance of a policy of liability insurance
coverage to BMAC meeting or exceeding the requirements for certificated small
aircraft air carriers, as stated in 14 CFR Part 205.5(b) of the Department’s Economic
Regulations, is set forth in Exhibit BMA-S/2-110, infra. The original of that
Certificate has been filed with the Department’s Office of Aviation Analysis.

5. Verification

A Title 18 Certification in the form specified in 14 CFR Part 204.3(v),
verifying the accuracy and completeness of the information contained in this
Supplement and executed by a duly authorized officer of BMAC, is set forth in Exhibit
BMA-S/2-111.
6. **Request for Issuance of an Effective Certificate**

Except for the issuance of BMAC’s Part 121 Certificate, BMAC submits that the foregoing information and attached documents constitute a complete response to each of the requirements stated in Condition (1) in its Certificate attached to Order 2000-10-1. Accordingly, BMAC respectfully requests the Department to issue an effective Certificate of Public Convenience and Necessity to BMAC authorizing it to provide scheduled interstate air transportation, subject to the aircraft capacity limitation set forth in Condition (3) to that Certificate, immediately following issuance of BMAC’s Part 121 Certificate, and without awaiting the passage of six (6) business days following the issuance of that Part 121 Certificate.

BMAC particularly urges the Department to expedite its review of the foregoing updated fitness information, and to issue an effective Certificate of Public Convenience and Necessity to BMAC immediately following the FAA’s issuance of its
Part 121 Air Carrier Certificate, in order to enable BMAC to commence scheduled service pursuant to its Air Service Agreement with the State of Maryland on or about November 1, 2001.

Respectfully submitted,

[Signature]

Nathaniel P. Breed, Jr.
SHAW PITTMAN LLP

Attorneys for
BOSTON-MAINE AIRWAYS CORP.

CERTIFICATE OF SERVICE

I hereby certify that I have this day served a copy of the foregoing Supplement No. 2 to Application of Boston-Marine Airways Corp. by messenger, telematic transmission or United States mail, properly addressed and with postage prepaid, upon each of the persons listed in the Service List attached hereto.

[Signature]
Cara L. Graham

Washington, D.C.
October 18, 2001
#1150509 v1 - Supplement No. 2 - BMAC
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