Application of

BOSTON-MAINE AIRWAYS CORP.

for issuance of an amended certificate of public convenience and necessity pursuant to 49 U.S.C. § 41102 (Interstate Large-Aircraft Operations)

Docket OST-00-7668

SUPPLEMENT NO. 2 TO APPLICATION OF
BOSTON-MAINE AIRWAYS CORP.
FOR AMENDED CERTIFICATE AUTHORITY

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September 26, 2002
BEFORE THE
DEPARTMENT OF TRANSPORTATION
OFFICE OF THE SECRETARY
WASHINGTON, D.C.

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Boston-Maine Airways Corp., d/b/a Pan Am Clipper Connection ("BMAC")
hereby submits this Supplement No. 2 to the captioned application for the purpose of
responding to certain further questions and requests for information contained in the
September 19, 2002 request by the Air Carrier Fitness Division (Attachment A, infra.),
as follows:

1. Line of Credit Facility. In order to meet its first-year working capital
availability requirement, BMAC is relying, in part, on a $750,000 Line of Credit
facility provided by BMAC's parent company, Pan American Airlines, Inc. (PAA) (see
Exhibit BMA-110). A similar facility, which BMAC has never utilized, was accepted
by the Department as part of BMAC’s financial fitness evidence in connection with its initial certification in 2002.

The Fitness Division has asked for evidence of PAA’s ability to support the foregoing Line of Credit, based on the fact that PAA had a negative working capital position of over $5.7 million as shown on its June 30, 2002 Balance Sheet (see Exhibit BMA-S/1-2).

As reflected in the attached Balance Sheet of PAA as of September 15, 2002 (Exhibit BMA-S/2-1), PAA’s working capital position has improved substantially since June 30, 2002.\(^1\) Additional cash is expected to be derived from the sale of a portion of the $4,750,000 in Assets Held For Resale (consisting primarily of B-727 aircraft airframe parts, JT8D-15 engines and rotatable parts) between now and the end of the year. Based on the current and anticipated continuing improvement in its working capital position, PAA expects to have a positive working capital balance in excess of $2 million before BMAC commences operations toward the end of 2002.

The combination of PAA’s current and expected future improved working capital position provides substantial assurance that PAA will be fully able to fund

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\(^1\) Two significant components of that improvement resulted from the recent infusion of $1,987,857 in cash to PAA through an account in the name of its non-operating subsidiary, Pan American World Airways, Inc. (PAWA) (See Exhibit BMA-S/2-2) and the reduction of PAA’s prepaid travel liability from $2,937,104 on June 30\(^{th}\) to $1,778,596 on September 15\(^{th}\).
drawings by BMAC against its $750,000 line of credit facility, as required, throughout BMAC’s first year of large aircraft operations.

2. **Impact of Pan Am Service Reductions on BMAC.**

As reported in the trade press (*Aviation Daily*, September 17, 2002, p.3), BMAC’s sister carrier, Pan American Airways Corp. (Pan Am) implemented a significant but temporary reduction of its service to various East Coast points and the Dominican Republic for the next three months, and made a corresponding reduction in its workforce and grounded several aircraft\(^2\), due to substantial traffic declines in the area in which Pan Am’s curtailed services are operated.

As that article noted, however, the Jetstream turboprop services operated by BMAC are not expected to be affected by the temporary reductions in Pan Am’s flight schedules. It is too soon to determine whether Pan Am’s recent service reductions will have any material impact on BMAC. BMAC notes, however, that its own new services to Canada have already developed strong load factors and are profitable.

BMAC has also recently rescheduled its three daily roundtrip flights between Baltimore (BWI) and Cumberland and Hagerstown, Maryland to provide additional convenient

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\(^2\) Pan Am noted that its temporary workforce reductions and aircraft groundings are the first such steps it has taken since the terrorist attacks of September 11, 2001, in contrast to the very substantial employee layoffs and service reductions implemented by virtually every other major U.S. airline except Southwest.
morning and evening connections at BWI to the services operated by several other
carriers at BWI. BMAC is strongly committed to maintaining and expanding its
turboprop services, and its lessor, Guilford Transportation Industries (GTI) has, just
last week, finalized the acquisition of 13 additional Jetstream 31’s to bring BMAC’s
total Jetstream fleet up to 23 aircraft.

BMAC does not anticipate that Pan Am’s recent and temporary service
reductions will have any adverse impact on BMAC’s traffic and revenues.

3. First-Year Aircraft Limitation.

In response to the Fitness Division’s comment noting its practice of limiting
initial grants of large aircraft authority to the number of aircraft which the applicant
proposes to operate during the first year of expanded service, BMAC confirms that it
plans to operate one B-727-200 aircraft in scheduled interstate service during the first
year of such operations. Accordingly, BMAC would have no objection to a condition
limiting BMAC to a single B-727 aircraft for interstate services during the first year,
subject to three provisos: (1) that BMAC be permitted to use a part of the time of a
second B-727 aircraft, to be leased from its existing aircraft lessor and used as needed
as a maintenance spare from time to time, (2) that BMAC would remain free to apply
to the Department for authority to operate an additional B-727 aircraft in interstate
service during the first year if circumstances warrant such additional capacity, and
(3) that the proposed limitation to one B-727 aircraft for interstate services would not
preclude BMAC from applying for, and being granted, authority to operate additional large aircraft in foreign air transportation services, as described below.

In connection with that third proviso, BMAC notes that it plans to apply in the relatively near future for authority to operate additional B-727 aircraft to be used in serving certain foreign markets in Canada and the Caribbean. Under the Department’s applicable regulation, that application for foreign authority could not be combined with BMAC’s pending application for interstate authority (see, 14 CFR Section 201.4).

BMAC deliberately accelerated its filing of its pending application to amend its Interstate Certificate of Public Convenience and Necessity, before it had completed the traffic and economic analysis required in connection with its planned foreign authority application, because of the linkage between the Department’s action on that Certificate amendment application and BMAC’s ability to commence the necessary FAA Part 121 application process to add the Boeing 727-200 aircraft to BMAC’s Part 121 Operations Specifications.

The sole reason for the limitation of BMAC’s interstate application to a single “off-shore” market is based on a restriction applicable to the B-727 aircraft planned to be utilized by BMAC which prohibits the utilization of that aircraft (and 14 other B-727 aircraft acquired by BMAC’s lessor, GTI, at the same time from the same seller (United Air Lines)) in any interstate operations within the continental United States for
a period of five years. GTI's willingness to accept that restriction enabled GTI to acquire the 14 B-727-200 aircraft it purchased from United on highly favorable terms.

BMAC fully intends to submit complete and detailed evidence of its financial fitness to operate large aircraft in specific foreign markets in its forthcoming application for authority to serve the foreign points it will propose to serve. That fitness demonstration will enable the Fitness Division to fully examine BMAC's ability to satisfy the Department's financial fitness requirements in the context of its subsequent application for foreign authority.

BMAC strongly urges the Department not to defer final action on its pending interstate certificate amendment application to await BMAC's future submission of a separate foreign application. As the Department is well aware, such a deferral would preclude BMAC from commencing its FAA Part 121 application, which entails full CSET procedures, and would impose a lengthy and extremely costly delay on BMAC's ability to begin its initial B-727 services in the San Juan-St. Thomas market in time for the upcoming Winter 2002/2003 peak travel season.

WHEREFORE, BMAC requests the Department to expedite its issuance of an amended Certificate of Public Convenience and Necessity authorizing BMAC to

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3 The timing of that application is uncertain at present and is dependent upon a variety of factors including aircraft availability and traffic seasonality.
provide interstate air transportation of persons, property and mail, utilizing both small and large aircraft, as requested in its pending application in this proceeding.

Respectfully submitted,

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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-Maine Airways Corp. by messenger, telemachery, or United States mail, properly addressed and with postage prepaid, upon each of the persons listed in the Service List attached hereto.

Cara L. Graham

Washington, D.C.
September 26, 2002