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

Application of

BOSTON-MAINE AIRWAYS CORP.

Docket OST-00-7668

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

OBJECTIONS OF AIR LINE PILOTS ASSOCIATION
TO ORDER TO SHOW CAUSE

Communications with respect to this document should be sent to:

JERRY D. ANKER
RUSSELL BAILEY
Air Line Pilots Association
1625 Massachusetts Avenue, NW
Washington, DC 20036
Phone: 202-797-4087 or 4086
Facsimile: 202-797-4014

Attorneys for
Air Line Pilots Association

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Air Line Pilots Association, International (ALPA) respectfully objects to
Order 2002-12-20, served December 30, 2002, which proposes to grant Boston-
Maine Airways Corp. (BMAC) amended certificate authority to perform
interstate air transportation using large aircraft, namely, a Boeing 727. The
ground for ALPA’s objection\(^1\), as more fully described below, is that the
Department’s determination that BMAC has sufficient working capital to cover
“the operating costs that would be incurred in three months of ‘normal’ [large
aircraft] operations” took into account only the projected operating costs of

\(^1\) ALPA, of course, continues to adhere to all the views set forth in the answer to
the application that it filed on September 19, 2002. However, the present
objections will focus on what we believe to be a clear error in the Department’s
analysis concerning the issue of financial fitness.
BMAC’s proposed new B727 service, and failed to consider the ongoing 
operating costs of the carrier’s existing small-aircraft services. Those small-
aircraft operations have consistently suffered substantial operating losses, which 
we believe must be taken into account in determining what the carrier’s true 
“operating costs” will be during “three months of ‘normal’ operations.” If the 
operating costs are calculated in this manner, BMAC’s current working capital 
reserve is grossly insufficient to meet the Department’s minimum requirements.

The Department’s Order found BMAC to be financially fit to operate large 
aircraft on the following basis:

... 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. Based on its forecasts, 
Boston-Maine will require funding of $1.36 million to meet this 
criteria. This figure is based on the remaining pre-operating 
expenses forecast to be incurred ($170,000) plus one-quarter (that is, 
$1.19 million) of the first-year forecast operating expenses.

(Order at 5, footnote omitted). The Order then stated that the carrier has
sufficient current assets to cover these costs:

Specifically, Boston-Maine’s balance sheet as of September 30, 2002, 
reflects current assets of $960,090 and current liabilities of $318,020

... Further, the company has recently received a cash infusion of 
$750,000 from PAA to help cover the expenses associated with the 
proposed B727 operations. Thus, in total, it appears that Boston-
Maine has approximately $1.39 million available to support its 
planned large aircraft operations.

(Id., footnotes omitted).
The flaw in this analysis is that it treats BMAC’s proposed B727 operation as if it were a separate, stand-alone airline, rather than what it actually would be -- part of a larger, ongoing airline operation. Thus, the Department’s forecast that one-quarter of the first year’s operating costs would be $1.19 million was based on Exhibit BMA-101, which is entitled “First-Year Projected Large Aircraft Revenue and Operating Expenses” (emphasis added). Not shown on this exhibit, and therefore not considered in the Department’s analysis, were the substantial additional operating costs that the carrier will incur as a result of its small-aircraft operations. Those costs will necessarily be an additional charge against the carrier’s working capital, and therefore must be taken into account in determining whether the carrier will meet the Department’s requirement to have sufficient working capital reserve to cover the first three months of normal operations.

If BMAC’s existing small-aircraft services had been operating on a profitable or breakeven basis, then the Department’s approach might have been reasonable. But that, of course, has not been the case. The Order itself acknowledges that “Boston-Maine’s [small-aircraft] operations have not been profitable, and, as a result of its losses, Boston-Maine had negative retained earnings of $4.0 million through September 30, 2002 . . . .” (Order at 5). In the 12 months ending June 30, 2002, the carrier lost $2,265,225. (Exhibit BMA-S/1-1). If losses were to occur at that rate for the first three months of large-aircraft operations -- and there is no basis in the record to assume they would be any less
-- the carrier's working capital would have to cover operating losses of over $566,000 during the first three months of large-aircraft operations, in addition to the estimated operating costs of the large aircraft itself. Thus, the total operating costs for the first three months would not be $1.19 million, as the Department assumed, but rather but rather nearly $1.76 million. This leaves BMAC's working capital $540,000 short of meeting the Department's requirement.

Moreover, there is every reason to believe that BMAC’s small aircraft operations will suffer even greater losses in the coming months than they have in the past. BMAC’s sister carrier, Pan Am, recently announced a total suspension of service effective January 15, 2003, attributed to “the continuing lag in recovery throughout the travel industry in general and air travel in particular.” (See Attachment 1 hereto). Although Pan Am has stated that its “current plan anticipates the phased-in resumption of operations beginning in mid-February” (id.), this prediction may be no more reliable than its previous statement to the Department that its “significant but temporary reduction” of service in September 2002 would be only “for the next three months.” (Supplement No. 2 to Application of BMAC, filed September 26, 2002, p. 3). It must be assumed that the adverse conditions affecting Pan Am are also affecting BMAC. In addition, there have been recent press reports that BMAC’s Maryland service linking the cities of Cumberland, Hagerstown, and Baltimore have been doing so poorly that the Maryland Aviation Administration has recommended discontinuing the
State’s subsidy, which reportedly amounted to $4.25 million since the service commenced in late 2001. (See Attachment 2 hereto).

We urge the Department to request an updated financial statement from BMAC showing its income or losses for the period July through December 2002. Based on that information, as well as all the other information in the record, the Department should estimate BMAC’s total operating costs for the first three months of normal operation of its proposed large aircraft operations, including the net costs of its ongoing small aircraft services. The Department should then use those numbers, rather than those it used in its Order, to determine BMAC’s financial fitness to operate large aircraft.

Respectfully submitted,

JERRY D. ANKER
RUSSELL BAILEY
Air Line Pilots Association
1625 Massachusetts Avenue, NW.
Washington, DC  20036
Phone: (202) 797-4087 or 4086.