

**Minutes of the Meeting of the
Air Transportation Stabilization Board
June 17, 2004**

The meeting of the Air Transportation Stabilization Board (“Board”) was held in the offices of the Board of Governors of the Federal Reserve System at 20th Street and Constitution Avenue, Washington, D.C., on Thursday, June 17, 2004.

The following people were present at the meeting:

Board

Edward M. Gramlich, Chairman of the Board, and Governor, Federal Reserve Board
Brian C. Roseboro, Voting Member of the Board, and Under Secretary for Domestic Finance, Department of the Treasury
Jeffrey N. Shane, Voting Member of the Board, and Under Secretary for Policy, Department of Transportation

Board Staff

Michael Kestenbaum, Executive Director
Jaydeep Borwankar, Financial Analyst
Brad Hauert, Intern

Federal Reserve Board

Christopher W. Clubb, Senior Counsel
Daniel E. Sichel, Senior Economist

Department of the Treasury

Michael D. Scott, Senior Advisor to the Deputy Assistant Secretary for Government Financial Policy
Brad S. Lerner, Attorney
Brian Jackson, Chief Financial Officer, Federal Financing Bank

Department of Transportation

Terence W. Carlson, Attorney, Office of General Counsel
Regis Milan, Associate Director, Office of Aviation Analysis
Bernard Fishman, Office of Inspector General
Mark Dayton, Office of Inspector General
Nancy Kessler, Attorney, Office of General Counsel
E. Michael O’Malley, Counselor to the Under Secretary

Curtis, Mallet-Prevost, Colt & Mosle LLP

Dan Lenihan, Partner

GAO did not attend this meeting.

Governor Gramlich called the meeting to order at 9:34 a.m.

The meeting commenced with a discussion of administrative matters. The first matter discussed was a proposed amendment to the ATSB regulations that would permit, in the event of a vacancy in the position of Chairman of the ATSB, the remaining two members of the ATSB to call meetings and take actions between meetings. The Board approved the proposed amendment and gave staff the authority to publish the proposed amendment in the Federal Register and otherwise make the amendment effective. In addition, the Board adopted a resolution appointing Ms. Marguerite Owen as the Board's Legal Counsel.

Chairman Gramlich asked the Executive Director to summarize the United Air Lines ("United") loan guarantee application. The Executive Director provided an overview of United's proposal including an update on United's most recent proposal to the Board, which included private equity investment and other structural changes. The Executive Director stated that United would have some access to the capital markets but there is uncertainty about how much capital the carrier could raise to exit bankruptcy. Furthermore, he noted that private equity investors would likely require further changes to United's business plan. He also stated that the sale of assets may also play a part in the carrier's ability to raise enough capital to exit bankruptcy.

Following the discussion, Governor Gramlich asked the voting members to present their positions on United's application. Under Secretary Shane stated that the Department of Transportation and the Department of the Treasury had in the past several days taken part in discussions with United about structural enhancements to the carrier's proposal that would positively impact the proposed transaction. He stated that United had requested additional time to explore these issues and that the Department of Transportation was in favor of deferring a Board decision on United's application by one week to accommodate the request.

Under Secretary Roseboro stated that the changes being proposed by United would not change the Department of the Treasury's view on the application. In reviewing the statutory criteria, he stated that the Department of the Treasury determined that the loan guarantee was not a necessary part of maintaining a safe, efficient and viable commercial aviation system in the United States, specifically that United would not face liquidation and further that providing such a subsidy to a high cost air carrier would likely have very negative long-term effects on the industry and competition. Treasury also determined that credit is reasonably available to United, particularly for a credible business plan. Finally, Treasury determined that the obligation would not be prudently incurred, specifically that the underlying business plan was built on unrealistic assumptions and that the restructuring was insufficient. He stated that the Department of the Treasury would vote to deny the application.

Governor Gramlich stated that the most recent changes proposed by United would not change his view on the application. He stated that United had made tremendous progress in bankruptcy and that it was a much improved airline today compared to December 2002. However, he stated that most of the airlines that received loan guarantees from the Board received them in 2001 and 2002 when an argument could be made that these airlines had very limited access to capital markets. Although the capital markets have not fully rebounded for airlines, he stated that access to capital markets for airlines has improved since right after 9/11. He also expressed the view that there is a strong probability that United would successfully emerge from bankruptcy without an ATSB guaranteed loan and therefore he was going to vote to deny United's application.

The Chairman then called for a vote on the United application. Chairman Gramlich and Under Secretary Roseboro voted to deny United's application. Under Secretary Shane voted to defer a decision on the application for one week, pending further Board discussions with United regarding its most recent proposals. The Board's decision is based on a determination that a guaranteed loan to United is not a necessary part of maintaining a safe, efficient, and viable commercial aviation system in the United States, a requirement of the Act. Given United's circumstances, a majority of the Board believes that the likelihood of United succeeding without a loan guarantee is sufficiently high so as to make a loan guarantee unnecessary.

The Board discussed and approved a letter to United.

The meeting adjourned at 11:55 a.m.