

**Minutes of the Meeting of the
Air Transportation Stabilization Board
August 14, 2002**

The meeting of the Air Transportation Stabilization Board (“Board”) was held in the offices of the Board of Governors of the Federal Reserve System, 20th Street and Constitution Avenue, Washington, D.C., on Wednesday, August 14, 2002.

The following people were present at the meeting:

Board

Edward M. Gramlich, Chairman of the Board, and Governor, Federal Reserve Board
Peter R. Fisher, Voting Member of the Board, and Under Secretary for Domestic Finance,
Department of the Treasury
Kirk K. Van Tine, Voting Member of the Board, and General Counsel, Department of
Transportation

Board Staff

Daniel Montgomery, Executive Director
Michael Kestenbaum, Senior Financial Analyst
Jaydeep Borwankar, Financial Analyst
Cameron Fleming, Senior Vice President

Federal Reserve Board

J. Virgil Mattingly, General Counsel
Donald J. Winn, Assistant to the Board
Daniel E. Sichel, Senior Economist
Christopher W. Clubb, Senior Counsel

Department of the Treasury

Michael D. Scott, Senior Advisor to the Deputy Assistant Secretary for Government Financial
Policy
Brad S. Lerner, Attorney

Department of Transportation

Terence W. Carlson, Attorney, Office of General Counsel
Nancy Kessler, Attorney, Office of General Counsel
Regis Milan, Associate Director, Office of Aviation Analysis
Suzanne Shaps, Office of Inspector General

GAO did not attend this meeting.

Chairman Gramlich called the meeting to order at 1:10 p.m.

The meeting commenced with a discussion of US Airways' bankruptcy filing. The Executive Director stated that the Board's staff has maintained communication with US Airways, that the Board's outside legal counsel attended US Airways' initial bankruptcy hearing and that the Board's staff is awaiting US Airways' reorganization plan.

The Board then discussed a letter received from United Airlines expressing its intention to submit a revised business plan to the Board within thirty days. The Board discussed a draft response letter.

The Executive Director then updated the Board on the status of remaining applications.

The Executive Director discussed the application of Evergreen International Airlines ("Evergreen"). He stated that Evergreen had hired new investment bankers. He suggested that the Board request a final proposal from Evergreen.

The Board then discussed the application of National Airlines ("National"). The Executive Director noted National's recent initiatives to raise additional equity. Mr. Van Tine asked the ATSB staff whether a significant portion of National's proposed equity was represented in the form of rent abatement and other concessions that should not be viewed in the same manner as cash equity. The ATSB staff responded in the affirmative.

The Executive Director stated that Fitch had reaffirmed its rating on the proposed loan. He stated the Board staff's view that National's business plan was optimistic, and that a loan guarantee for National was not a necessary part of maintaining a safe, efficient, and viable commercial aviation system because of other low-fare carriers in Las Vegas. He recommended that the application be denied.

Chairman Gramlich noted the high probability of default and expressed concern that approving National's application would expose the taxpayers to unacceptably high risk. Chairman Gramlich, Mr. Fisher, and Mr. Van Tine voted to deny the application.

The Board then discussed the application of Spirit Airlines ("Spirit").

Mr. Fleming summarized the changes to Spirit's application since the Board meeting on July 29, 2002 and the related analysis under the criteria set forth in the Act and the regulations. He discussed Spirit's lease rates and discussed GRA's revised analysis of Spirit's business plan. Mr. Fleming also discussed the warrants offered to the Board by Spirit.

Mr. Van Tine expressed his strong concerns with GRA's analysis and questioned the basis for certain of their conclusions. Mr. Van Tine stated that Spirit had responded well to the questions raised by the Board at the July 29 meeting. He noted that Spirit presented a downside scenario in which it would be able to repay the loan. Mr. Van Tine stated that Spirit was important competitively. He suggested that Spirit might be able to raise additional equity if the Board provided Spirit with a positive indication on its application.

Mr. Fisher stated that he was not favorably disposed towards Spirit's application. He discussed Spirit's lessor concessions as well as Spirit's aircraft lease rates. Mr. Fisher felt that Spirit's business plan was unrealistic, and did not provide a reasonable assurance of repayment. Mr. Fisher urged the Board to deny the application.

Chairman Gramlich and Mr. Fleming discussed the cumulative default probability for Spirit's loan application. Chairman Gramlich expressed his concern that the cumulative default probability remained high. He asked if Spirit would be able to further reduce its lease rates if given additional time. Mr. Fleming stated that he felt some additional concessions were possible. Mr. Fisher said that Spirit had already been given ample notice and time to put forth its best proposal.

Mr. Van Tine re-iterated his continuing serious concerns about overreliance on the process for determining credit ratings and default probabilities. Mr. Van Tine further stated that while the cumulative default rate could be used as a guide for the Board members and a factor in evaluating the application, undue emphasis should not be placed on it. Chairman Gramlich indicated that he has been generally satisfied with the process for determining credit ratings and default probabilities and believes such calculations important in evaluating applications.

Chairman Gramlich stated his concerns with Spirit's business plan. He noted that Spirit had made progress on cost concessions and loan economics, but was unable to significantly change its credit risk profile. He agreed with GRA's analysis indicating that Spirit's business plan had a high degree of risk. He stated that in the current tenuous airline industry environment, competition from other low-fare carriers, in addition to major carriers, would remain intense. He said he was uncomfortable with Spirit's business plan and ability to repay the loan. He agreed with Mr. Fisher that Spirit had been given adequate notice and time to put forth its best proposal.

Chairman Gramlich and Mr. Fisher voted to deny the application. Mr. Van Tine voted to approve the application. The application was denied by a vote of 2 to 1.

The meeting adjourned at 2:13 p.m.