Minutes of the Meeting of the
Air Transportation Stabilization Board
December 4, 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 at 20th Street and Constitution Avenue, Washington, D.C., on Wednesday December 4, 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
William Abrams, Senior Vice President
Michael Kestenbaum, Senior Financial Analyst
James Levine, Chief Legal Counsel
Jaydeep Borwankar, Financial Analyst
Christiana Cameron, Financial Analyst

Federal Reserve Board
J. Virgil Mattingly, General Counsel
Daniel E. Sichel, Senior Economist
Christopher W. Clubb, Senior Counsel
David Skidmore, Special Assistant to the Federal Reserve Board for Media Liaison

Department of the Treasury
Roger Kodat, Deputy Assistant Secretary for Government Financial Policy
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
Bernard Fishman, Office of Inspector General
Mark Dayton, Office of Inspector General

Curtis, Mallet-Prevost, Colt & Mosle LLP
Dan Lenihan, Partner
Steve Reisman, Partner

GAO did not attend this meeting.

Chairman Gramlich called the meeting to order at 2:13 p.m.

The meeting commenced with a discussion about United Airlines, Inc., an applicant for a Federal loan guarantee. The Executive Director discussed United's forecast for revenue growth, the financial and industry consultant reports, United's various labor constituencies and the degree of alignment between United's revenues and costs. He discussed United's proposed non-labor cost and revenue improvements, McKinsey's activities as United's consultant, and whether the proposed non-labor improvements were achievable within United's planned time frame. The Executive Director summarized United's proposed labor and non-labor initiatives and compared them to those of US Airways.

The Executive Director next discussed United's unfunded pension liabilities, United's plan to seek successive waivers, the impact of waivers on United's ability to access capital markets in the future and the financial consultant's analysis of United's pension plans.

The Executive Director next discussed United's probability of default and proposed collateral. The Executive Director noted that collateral is only a secondary source of repayment and that the collateral proposed was highly overvalued by United. The Chairman noted that United's probability of default was substantial. The Executive Director discussed three new developments: the revised term sheet recently proposed by United, the possibility for additional labor concessions, and the possibility that the State of Illinois may provide United a loan guarantee of $200 million. Mr. Fisher discussed what portion of savings would be relative to projected increases in costs and what portion would be relative to current costs. Chairman Gramlich noted the temporary nature of certain labor concessions. Mr. Van Tine commented on the new developments possibly affecting United's business plan. The Executive Director discussed the State of Illinois' possible loan guarantee and whether that would reduce the loan amount to be guaranteed by the Board. He indicated that the proposed staggered loan drawdown would not significantly reduce the Board's risk. The Executive Director and Chairman Gramlich discussed the likelihood and materiality of the Illinois proposal.

Mr. Van Tine indicated that he and the Department of Transportation did not disagree with the Board staff's financial analysis and conclusion that United's proposal was not viable. He recommended, however, that the Board defer action on United's application until December 9, 2002, to allow United to submit additional financial information about its new initiatives.

Mr. Fisher expressed his views on delaying Board action and stated that he had an open mind as to when the Board would make a decision, but that he did not see how a delay would serve anyone's interests. Mr. Fisher stated that the new developments would not resolve the deficiencies inherent in United's business plan. He indicated that the business plan, as well as the ATSB staff and consultant reports already assumed a favorable outcome in the upcoming mechanics' union vote. He noted that United had thirteen months to prepare a proposal, had been allowed to submit additional material after the application deadline, had had its requests regarding scheduling of evaluation of its proposal accommodated by the Board, and that management needed to take responsibility for United's destiny. The Chairman expressed his views on United's management and whether United's proposal reflected an adequate reaction to the fundamental changes that have occurred in the industry since September 11, 2001. He noted the temporary nature of United's wage concessions, the optimism in United's revenue projections and potential issues with United's pension funding proposal. He discussed United's prior request for prompt Board action, the upcoming mechanics' union vote and his belief that the Board should act.

Mr. Van Tine again recommended that the Board defer action until December 9, 2002, to allow United to submit additional financial information. The Chairman moved to not approve United's proposal. Mr. Fisher concurred. Mr. Van Tine voted to defer action until December 9, 2002 to allow United to submit additional financial information. The Board discussed and approved a letter to United. The Chairman indicated the Board's action was not a final action and that in the event United filed for bankruptcy protection, the Board's regulations permitted the Board to participate in a financing in conjunction with United's emergence from bankruptcy.

The meeting ended at 4:45 p.m.