International Society of Transport Aircraft Trading
JETRADER
ISTAT
OCTOBER / NOVEMBER 2003

PRESIDENT'S LETTER

MICHAEL A. "MIKE" METCALF, PRESIDENT, ISTAT

"Get Your Motor Runnin'...Head Out on the Highway... Lookin' for Adventure...And Whatever Comes Our Way"

Steppenwolf: Born to be Wild

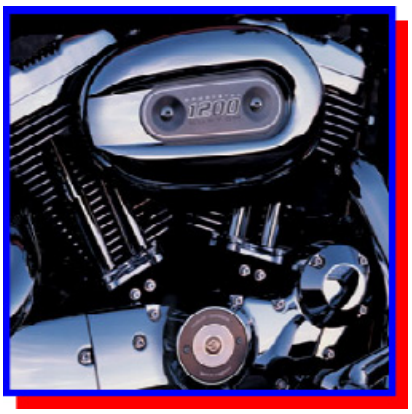
Breathes there a man/woman with soul so dead that the throaty roar of fine machinery doesn't excite and move them to another state of being and ecstasy?

Well I can clearly rise to the challenge in my case, but as those of you who have been kind enough to follow my writings over the years know, I am a gear-head, techno-freak, extraordinaire.

Yep, face it, I love machines of all kinds, but mainly those that make noise and give you a kick in the butt as they transmit torque, power, enthusiasm, and feelings of excitement, strength, and possibility.

Mostly its been airplanes and every time I grabbed a handful of throttle was memorable, from the first time in an American Yankee Trainer, to a fistful of throttles in the first multi-engine airplane I flew (Piper Aztec), to my first turbo-prop (Piper Cheyenne), to my first jet (Rockwell Jet Commander), to my first transport category airplane (B737). Sounds like a parody of Julio Iglesia's, "To All the Girls I've Ever Known" (To All the Planes I've Ever Flown).

But even before the airplanes, I was seduced and moved by motorcycles as a young man. I raced them, worked on them, traded them, and rode them in lieu of driving a car whenever I could. But most of all I learned from them.



I learned about excitement, danger, speed, balance, image, and most of all about how to adapt to any given situation (if you don't know how to lay a flat track racer down then you shouldn't be riding, yelled one old grizzled racing veteran, as he abruptly and sardonically explained to me why he had just slid into me on a turn, knocking me butt over teakettle in a short-track race).

Oh well, don't let me drag this column down to a stroll down memory lane from a balding middle-aged guy, there is really a point to all of this and it relates to the "meat and potatoes" business of the ISTAT Membership and the global aviation / airline / air finance industry.

So let me attempt to tie the threads together by means of the mere utterance of two names which have become icons not only in the bike

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JETRADER is a bimonthly publication of ISTAT, the International Society of Transport Aircraft Trading. ISTAT was founded in 1983 to act as a forum and to promote improved communications among those involved in aviation and supporting industries who operate, manufacture, maintain, sell, purchase, finance, lease, appraise, insure or otherwise engage in activities related to transport category aircraft.

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IN THIS ISSUE...

EASIER BREATHING: AVIATION AT ONLY TWO FEET UNDER WATER INSTEAD OF A MILE BEFORE

By Dr. Adam Pilarski

The world of aviation is evolving, as it always has. The changes are the result of an evolving environment. As the situation deteriorates, changes that were in the making for a long time but were not implemented because of laziness and general human propensity for inaction, have to be finally incorporated into a new reality. The inefficiencies of the industry, which were annoying to analysts but did not bother self-congratulating executives, cannot be allowed to continue unabated lest they wreck the total industry. As in the time of every downturn, talk of maturation, dinosaurs and a disappearing industry come back into vogue.

The most talked about change is the emerging importance of the low cost industry. This transformation is particularly dramatic in Europe. I remember, a few years ago, talking to the planning staff of a major European airline about the need to change. I claimed that eventually lower cost airlines would become a feasible option in Europe. At that time I was told that despite the fact I was born and raised for the first couple of decades in Europe I truly do not understand the European mind. "No European business person will ever consider price when purchasing tickets," I was told. Please notice what is happening in Europe a short decade later. Truly cut throat competition with prices so ridiculously low that one tends to double and triple check them to ensure they are real. And the ads: funny, biting, nasty and clever. True survival of the fittest. Just watch the ads by easyJet, Ryanair, Virgin or even BA. I have never seen such amount of (very funny) venom in the United States in the business world.

Good News

There is plenty of good news in the short term. Airline stocks are up, traffic on all continents is up as are yields. Traffic in Asia is soaring, in some markets being up by 90 percent plus. Traffic and yield improvements are a trend now, i.e. we have experienced two months in a row of good news. Load factors are at a record level, bad news for the flying public but indicating the industry is at least by some measures efficient. USAirways went out of bankruptcy and United is not dead yet. Aircraft traders report substantially more deals, an increasing appetite and better lease rates. And finally, Varig made money in July. While this was in part accomplished by not paying bills it does provide us with a glimmer of hope for the future.

But Problems Remain

While the trends are very positive and indicate that the worst is definitely behind us (subject to the usual caveats of no additional unexpected bad news happening), the objective situation of the industry is not stellar. My analogy is that we are now only a few feet under water, compared to the one mile under water just a short time ago. This allows us to see the sunlight and even the surface of the ocean. It does not, though, still permit us to breath. Most airlines are still losing money, airplane values are still way below base values, manufacturers are still producing way below capacity and MROs are still in the tank. Traffic levels are still below pre 9/11 levels in Asia, Europe and the United States, yields are still depressed and airlines are still a good year away from making consistent profits which are necessary to resume ordering added capacity.

Reasons for Problems

Those of us analytically inclined are pleased to notice that there are good explanations for all the misfortunes that have befallen aviation in the past few years. While it does not make the pain we feel at present less severe, it does give us hope for the future and the ability to forecast as to when a recovery will occur.

The present downturn in aviation is the most severe our industry has ever experienced and is due to a combination of negative factors all happening at around the same time. The first one of those factors is the economic recession which in the United States officially started in March 2001. We know that airline traffic and the economy are, both theoretically and empirically, very strongly correlated. The recession caused an expected downturn in traffic,

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The ISTAT Foundation

SUCCESSFUL FUNDRAISERS

Tom Hiniker, Chairman

The silent auction at the Dresden European Conference and the Concorde raffle at the Cargo Facts Conference together raised over $7,000 for the Foundation. The funds will be awarded next year to a student seeking a career in commercial aviation. Congratulations to Bob Lawson of EADS for winning the Concorde model and many thanks to all of you who purchased a raffle ticket or placed a bid in the silent auction.

The European auction was left with one item that did not meet the bidding minimum. This is a one week vacation in an Antalya resort, including round trip transportation for two people from Germany. I personally visited Antalya and must say that this is an awesome vacation area rich in sunshine as well as culture. We are going to continue the auction on this item through the end of November. This item is easily worth $3,000 and is an outstanding value that could go for as little as $1,000. Please contact either myself or Dawn Foster for additional information or to place a bid.

The Foundation Board is putting together a package of fundraising events for 2004; we welcome the input of any ISTAT member as to suggestions as to how to make fundraisers either more successful or more enjoyable. In the next Jetrader, we will outline those fundraising events for the membership. The Foundation's sole purpose is to provide funds for scholarships, educational programs and grants to qualified individuals and charities that promote the advancement of commercial aviation.

The Foundation would greatly appreciate any donations from your company of items that can be auctioned. This is developing as our primary source of fund raising. Consider offering any aviation related items that you may have that are excess – old aircraft models, airline/aircraft memorabilia, airline trips, etc. Thank You!!!

CALENDAR OF EVENTS

21st Annual Conference
March 28-30, 2004
Westin Diplomat Resort & Spa
Hollywood/Ft. Lauderdale, Florida, USA

Reception in Conjunction with
Farnborough Air Show
Monday, July 19, 2004
Science Museum, London, England
By Invitation

11th European Conference
September 12-14, 2004
The Gleneagles Hotel
Auchterarder, Perthshire, Scotland

Appraiser Chairman's Column

Mid-year Update

John F. Keitz Chairman, ISTAT International Appraisers Board of Governors

Those of you (whom I presume are few in number) that are regular readers of this column may recall in my first "Chairman's Wish List" I proposed to have a semi-annual update of the popular appraisers' panel from the 20th annual conference. I haven't done the extensive survey that I planned because I discovered that the Jetrader deadline seems to come up about as often as the sun. However, I do have a good approximation thanks to the appraisers' panel at the recent Cargo Facts 2003 conference. The participants – Fred Klein, Fred Beardon, Doug Kelly, Jack Feir, Angus Mackay and I have all agreed to allow me to reproduce their data from the conference presentation. I do not intend to give you the individual values from each participant since the mix of aircraft and appraisers is slightly different from those presented in Phoenix last Spring. I will only give summaries and averages to give you a sense of the current and recent trend in appraisers' opinions on these aircraft. There are some interesting revelations in the data.

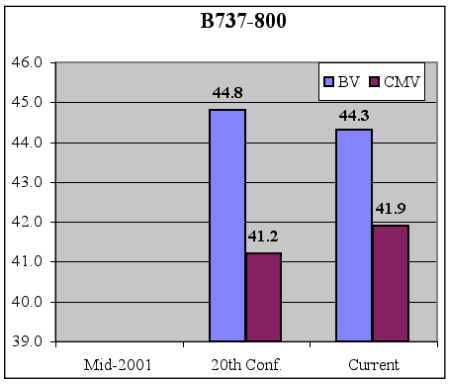
First – The Aircraft

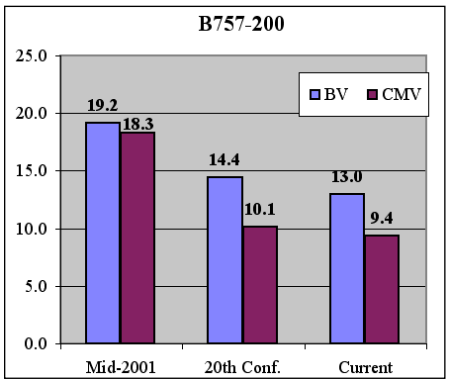
The aircraft included were the same as some of those included at the 20th conference.

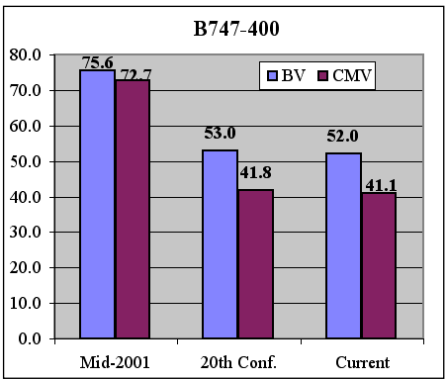
1. A 1985 B737-300/EFIS- /-3B1 power / 132,000 lbs MTOW
2. A new B737-800 /-7B26 power/ 172,500 lbs. MTOW / no winglets
3. A 1990 B747-400 / PW4056 power/ 870,000 lbs. MTOW
4. A 1984 B757-200nonETOPS /-535E4 power/230,000lbs. MTOW
5. A1996 A319/CFM56-5B6 power/ 68 tonnes MTOW
6. A 1990 A320-200/CFM56-5A1 power/73.5 tonnes MTOW
7. A 1985 MD83/analog/-219 power/160,000 lbs. MTOW/aux. Tanks

At Cargo Facts, the presentation included the appraisers' opinion of the current market value and current base value for each aircraft and, for comparison purposes, the corresponding current market value and base value from mid-year 2001, just before 9/11. In the accompanying charts I have included the corresponding values presented at the conference last Spring.

Several observations are worth noting. First, as might be expected, base values continue to decline. Since it is a rare exception, but not implausible, that aircraft increase in value with age, we should expect to see the base values decline. Note however, that with the exception of the B737-800 (which is probably a fluke) current market values continue to decline and in most cases more than would be explained solely by the aircraft being six months older. This probably means, or should I pose it as a question, "does this mean that our panel of esteemed appraisers does not believe we have reached the bottom of the current market?" It certainly appears that way, at least for some aircraft types, the B757 and MD83 in particular. If you look at the low-end values rather than the averages, as I will below, the effect is even more pronounced. Some of our panel members opine that these aircraft are near part-out value.







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Engines – the Other Aviation Collateral (A Guide for Aviation Lenders)

By Alison A. Mason, Treasurer, Willis Lease Finance Corporation

For those of you not based in the US or those who are but somehow missed their advertisements, for many years the Pork Council ran print and TV ads to convince the increasingly cholesterol-averse American public that pork was equal to or better than chicken or fish as an alternative to red meat. Their tag line: Pork – the Other White Meat. As one who has spent the past three years financing aircraft engines and has sometimes run into resistance from lenders who have happily financed airframes and engines when they are joined together as an aircraft, I have often identified with the Pork Council. This was the case before 9/11 and the resistance only increased afterwards – although recently I notice greater receptiveness. There are some advantages that engines have over aircraft but also some disadvantages. I'll do my best to spell out the major advantages and disadvantages, as well as some mitigating factors. My discussion focuses on spare engines since primary engines are usually already pledged as part of the aircraft financing. It would be a brave lender in this environment who would take a second lien on the primary engines as collateral, but if I make my arguments well enough – who knows?

Why are engines attractive? Spare engines are as necessary to an airline's operations as fuel. Without a spare engine for scheduled maintenance or unscheduled removals an airline may face an AOG situation that can cost it $millions through an aircraft sitting on the ground not earning revenue while the airline accrues costs, schedule disruptions, passenger inconvenience/discontent, etc. Spare engines are owned by airlines, MROs, OEMs, parts shops, and engine lessors. The population of the world's aircraft at year end 2002 was approximately 15,600, with an estimated 36,000 installed or primary engines (average of 2.3 per plane), and 6,000 spares – assuming a ratio of 1 spare for every 6 installed. As the population of aircraft grows to potentially 34,000 in 2022[1] , we can expect the primary engine population to grow to 78,000 and spares to 13,000.

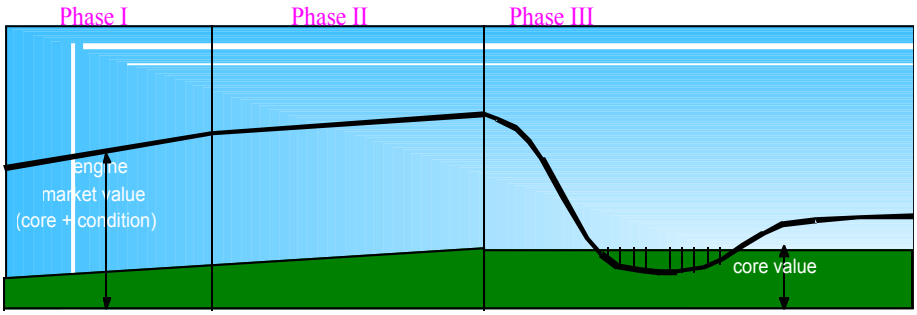
The average value of an engine now is approximately $5,000,000, so spare engines represent $30 billion in assets. Perhaps 50% of this amount is currently financed directly or indirectly - mostly indirectly via unsecured debt for those who are or were able to issue it. That leaves a significant carrying value of long-term assets financed with equity. Assuming an average value of $10,000,000 per engine in 2022 (3.5% CAGR from 2002), the value of these assets will grow to more than $100 billion. In addition, we estimate the current penetration rate for leasing (the number leased vs. total fleet) among the spare engine population is 15 - 20%. This has been growing and we expect it to continue on the path taken by aircraft leasing – particularly as the average price of engines increases – to reach at least the level that leased aircraft make up of the world's fleet today (35%+). As with aircraft, engine lessors don't benefit from the same concessions from the OEMs that an airline might. The owners of spare engines will have to raise a significant amount of capital to fund long-term assets necessary for airline operations and yet I have heard next to nothing in industry discussions about how to pay for these capital expenditures – the focus is always on aircraft deliveries. There is a huge opportunity for lenders here.

Well-maintained engines with complete records hold their value better than aircraft. AVITAS has done long-term studies of the life cycle of engine values for various engine types and, with their permission, I provide the following two graphs. The first shows the life cycle of an engine as the value grows along with the escalation of the cost of a new engine from the manufacturer while the aircraft it supports is still in production, flattens out as the aircraft approaches and then reaches the end of its production cycle, declines as the aircraft begin to be scrapped, and finally reaches a steady-state value related to its remaining green time. This occurs

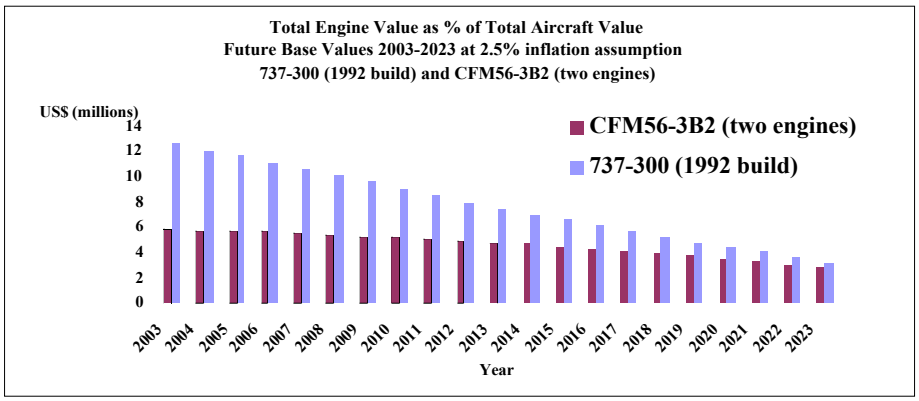
1 Boeing Current Market Outlook, 2003

over a period of 25 to 40 years.

The second graph shows the comparison in values over time of the 737 classic versus the CFM56-3B2 over the life of the plane/engine combination.



Many times, without necessarily realizing it, aircraft lenders are de facto engine lenders as the aircraft ages and the engines make up a greater percentage of the aircraft value (as much as 100% currently of certain aircraft types). Why do engines retain their value while aircraft values decline?



When an engine goes through a heavy shop visit, it is brought back to new condition – zero-time. It is overhauled to restore performance and its life-limited parts are replaced. At that point, the engine performs the same as a new-build engine and is therefore worth virtually the same amount as a new build. This complete renovation happens several times over an engine's life – ending only when bringing it back to zero-time is no longer economically viable, usually when the model has reached the stage of being valuable only for the green time remaining. There is no such similar renovation of an aircraft, only continued deterioration.

Engine values have not declined in this post-9/11 world the way that aircraft values have. In the period shortly after 9/11 engine appraisers reduced current market values of all aircraft engines by at least 10% on the theory that there had to be some effect on engines, although less than for aircraft – as has been the case historically. The number of aircraft parked in the desert at the time would support this theory for a period – the reduced number of aircraft flying meant that fewer spares were needed to support them. However, we all know that most of those aircraft will be (and some already have been) returned to service – thereby restoring the demand for spares. The recognition of this eventual bounceback in values was shown by the fact that appraisers did not reduce their base values for most modern, Stage 3 compliant engines. If they had, it would have reflected an expected permanent decline in value. In many cases, they did reduce base values for aircraft models.

I've always been taken with Mort Beyer's description of aviation appraisers being like the 3 blind men evaluating an elephant: one holds the trunk and decides it's a snake; one holds the ear and decides it's a tent; and one holds the leg and decides it's a tree. Appraisers are doing the best they can with limited information. In the absence of sufficient sales information to value assets, I prefer to view lease rates as a proxy for engine values. Since the fourth quarter of 2000, average lease rates for WLFC's portfolio have declined by about 10 basis points (less than 10%) at the same time that 1-month LIBOR has decreased from 6.6% to 1.1% and the 5-year swap rate from 6.5% to 3.0% (although it's gone up a bit lately). Adjusting for the lag in repricing long-term leases written during periods of higher rates, short-term versus long-term lease rate differentials, and increased credit risks, the stability of engine values is demonstrated – especially considering what has happened to aircraft lease rates during the same time frame. (Engine appraisers have provided values recently that I find more realistic as market information about lease rates and sales has surfaced over time.) Engine leasing and financing was in its infancy during the last downturn and a benefit to this awful period (the only one – it has not been fun) is that it has provided empirical evidence of the performance of a diverse portfolio of engines that matched what we previously expected but had no data to point to.

Other benefits of financing engines as compared to aircraft

Engines have "portability" that leads to increased marketability.

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MICHAEL A. "MIKE" METCALF
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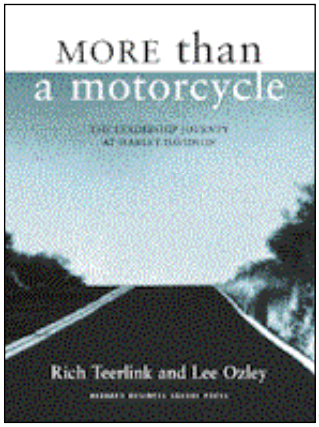
world, but in the business world and particularly among those who study business turn-arounds: "Harley-Davidson."

I would recommend for a fuller explanation of the relevance to aviation and particularly the airline industry, that you curl up one evening with a good read, "More Than a Motorcycle," by Rich Teerlink and Lee Ozley (Harvard Business School Press, 2000; 278 pp; $24.95 hardcover; available from Amazon.com).

Perhaps the following review from Insight gives a good hint as to the relevance to our industry and the incredibly valuable lessons that may lie within:



"*Its 1982. Harley-Davidson, Inc. has a 15 percent market share (down from its high of 80 percent in 1973), serious quality problems, and a $15 million operating loss. The company is struggling to survive. Fast forward to 1999. Market share has climbed to 50 percent, quality is no longer an issue, and operational profit is $416 million. How did they do it? Teerlink and Ozley's book describes the journey of a company in crisis and a management team committed to revitalizing what it believes to be a quality product and a solid organization. From 1987 through 1999, the Harley team got serious about improvements and devoted time, resources and money to make them happen. They experienced numerous setbacks with management attitude, employee buy in and redesigned processes along the way. Eventually, though, they succeeded in reengineering the company from traditional "command-and-control" structure into a "circle organization," where the bosses function as coaches to mentor and guide, rather than make decisions. This book details a real-world case study in change management."*

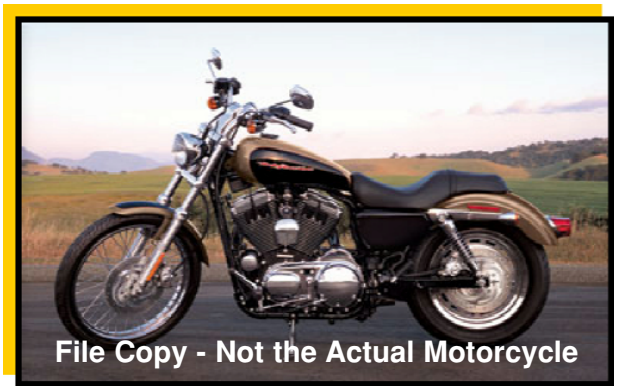
Lets see, from requesting government assistance, to achieving a quality product with overwhelming market acceptance; convincing employees to buy into change; bosses become mentors and guides instead of golden parachutists; transformation of a historically egalitarian product into a coveted elitist status symbol (from coach to first even if you don't have enough frequent flyer miles); and as my old friend John Vitale points out "customer loyalty" so strong they tattoo the company logo on their bodies.

Yeah, I think ISTAT, aviation, and particularly the airlines, can learn something from the "Harley-Davidson story, but more about this with some exciting surprises in later columns, suffice to say, lets don't all-together loose focus on the machinery.

And what machinery it is, sexy, exciting iron guaranteed to raise a…oops almost got carried away, I was of course referring to one's heartbeat. Would, that we could all go back to the excitement and appreciation I felt in my days of motorcycle youth, and once again mount up on a Hog and get out on the highway looking for adventure….., well maybe ISTAT can help us make it happen.

In a stroke of genius and showmanship Tom Hiniker the ever dynamic Chairman of the ISTAT Foundation has come up with the best idea since "sliced bread" for a fund raiser, namely "the ISTAT Foundation Raffle of a 2004 Harley 1200 Sportster" to be awarded at the ISTAT 21st Annual Conference (Westin Diplomat Hotel, Hollywood, Florida, March 28-30, 2004).

Following in the footsteps of Roland Moore, the Immediate past Chairman of the ISTAT Foundation, who set the tone for all future fund raising events, Tom Hiniker and his most "pro-active" ISTAT Foundation Board and the equally pro-active ISTAT Board, have authorized the sale of 350 raffle tickets at a price


File Copy - Not the Actual Motorcycle

MICHAEL A. "MIKE" METCALF
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of $100. USD apiece. This unusually low number of tickets enhances our member's chances to win and makes it a bit more "sporty" for the membership.

To make things even "a bit more juicy," in racetrack parlance, the Board has authorized a limited number of special ticket acquisition programs, the first appropriately titled "The Shakers Dozen" – buy ten (10) tickets in one lot and receive thirteen (13) tickets for the price of ten ($1,000. USD). For other motivated players still on a bit of a budget, the Board has also authorized another limited offer, the "Easy Rider," where a buyer can purchase four (4) tickets for the price of three (3) ($300. USD).

Leading the effort in selling these tickets is Andy LaStella, a charter member of ISTAT and a long time Harley rider. Please contact Andy at: AirCapital LLC, Telephone: 732-530-0243 / Facsimile: 732-530-1627 / e-mail ALaStella@AirCapital-LLC.com.

As always, contacting ISTAT headquarters and Dawn's crack staff for assistance can also provide for ticket purchase. By the way, our accountants will supervise all ticket sales (you've got to watch Cumbo at every turn), and the winning ticket will be drawn by Herb Kelleher -an avid Harley rider who has one of his bikes on display at Southwest Airlines headquarters- the evening of the President's Gala Dinner at the ISTAT Annual Conference; all benefits (proceeds above the cost of the bike and the raffle) will go to the good works of the ISTAT Foundation; ticket holders need not be present to win; the Society and the dealer supplying the motorcycle will help any winner with offshore and/or domestic delivery if requested by the winner (shipping charges to be the winners expense).

These tickets make excellent gifts, employee incentives and/or unique customer solicitation gifts, so give Andy a call and help a worthy cause while having some fun and excitement in your life.

Stop press…. I've just found out that because of the dealer's generous offer, ticket holders who are golfers will have two (2) chances to win a Harley. The dealer, Ft. Lauderdale Harley Davidson (the United States' largest Harley dealership), will display a "V-Rod" on one of the par 3 holes; raffle ticket holders, should they make a hole-in-one will ride away on that bike (tickets will be available for purchase on the tee, if any remain available on that date).

Like a fine piece of Dresden-China (Meissen), the 10th Annual ISTAT European Conference, is now a fond memory to be placed in the owners collection of enjoyable and commercially worthwhile trophies. This year approximately 170 participants met at the Dresden Hilton and participated in the fastest growing ISTAT event in the ISTAT stable of offerings, our Annual European conference.

This conference is rapidly becoming the best known of the "boutique conferences" available to the industry today. This year's Conference was chaired by the able and dynamic duo of Colin Molloy and Bill Cumberlidge, and was held at the Dresden Hilton.

Just the impressive speaker line-up, speaks volumes to the caliber of information and content of intellectual ideas that saw the light of day for discussion at Dresden. Those personages of distinction giving presentations were:

Klaus Heinemann,
CEO, debis AirFinance
Bill Cumberlidge,
Managing Director, Pembroke
Chris Tarry,
Aviation Industry Research & Advisory
Simon Finn,
IBA
Dr. Adam Pilarski,
AVITAS
Colin Stuart,
VP, Airbus
Luiz Fuchs,
SVP, Embraer
Nico Buchholz,
SVP, Lufthansa
Robert James,
Director of Operations, Total Engine Support
Dick Wyatt,
Retired from British Airways
David Sutton,
Managing Director Aircraft Acquisition & Sales, Federal Express
Chris Partridge,
Deutsche Bank
Jim Phillips,
Boeing
Peter van Oostrum,
Stork Fokker
Paul Steinhardt,
Deutsche Structured Finance
Dr. Martin Gillo,
State Minister of Saxony, Economic Affairs

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As to the ambiance and welcome provided by EADS and the people of Dresden, Acting President Bill Cumberlidge, pointed to the evening in the castle and summed it up in one word, "Magic."

Chairman Tom Hiniker, the ISTAT Foundation, and his Board created and presented a novel and effective fund raising initiative by collecting aircraft models and using them as table centerpieces, which were then auctioned off with the proceeds going to the benefit of the ISTAT Foundation.

As always, we would like to thank and remember our sponsors of this growing and

now so proclaimed, "Magical," ISTAT event:

Boeing Capital Corporation
CFM International
EADS Eibe Flugwerk
Finnar Flight Training
Odgers Ray & Berndtson
Executive Search
Pembroke Capital Limited

Next year, our Bonnie Boutique European Conference moves to the regal, yet bucolic settings of Scotland, as we return by overwhelming popular demand to the luxurious confines of Glen Eagles. Come for a few glorious days and live like the Lairds of the old Scotland. Rise early and taste the misty wonder of a Scottish morning, and as Sean Connery has said, one of the finest pleasures in life, a true Scottish breakfast. Savor the taste of the mysterious moors as the sun rises at daybreak, and the taste of a glorious single malt as the, sun reclines. In the interim experience "falconry", shooting, golf, industry-insight, and the best social-commercial networking to be offered anywhere.

I make you a promise, I'll be there next year, and could kick myself for missing this year's Dresden conference for health reasons. So it's a date for next year, you and I, and some two hundred to three hundred other ISTAT members, see you there.

My waking custom is to first thing each morning read the newspapers and check the wires for stories of aviation import. While scanning the excellent ATW (Air Transport World) website, I picked up on the following snippet issuing from the quill of Perry Flint:

"Lufthansa Cargo to replace 747-200Fs with MD-11Fs,"
Dateline: Friday September 19, 2003
Lufthansa Cargo, in a major fleet overhaul, intends to dispose of its entire 747-200 freighter fleet – a total of eight aircraft—while adding five used MD-11Fs.

The program, approved by the LH supervisory board yesterday, will result in LH Cargo operating a homogenous fleet of 14 MD-11Fs, rising to 19 when the additional MD-11s enter service from Jan. 2005.

Three of the airline's eight 747-200Fs will be sold to Air Atlanta Icelandic and re-chartered by LH Cargo "as needs dictate," the company said. Final disposition of the remaining five was not announced, but they will be sold off over the next year. The MD-11s to be acquired will be ex-passenger aircraft converted into freighters.

"The decision to operate with a uniform MD-11 fleet constitutes an investment in modern, environmentally friendly aircraft," said LH Executive Board Chairman and CEO Wolfgang Mayrhuber. He underlined "the needs to make early preparations for major future investments, especially in difficult times."

As an old aircraft trader and "arm chair quarterback" I would make the following observations: 1.) the industry needs more CEOs like Mr. Mayrhuber, who have the courage to make change in difficult times, as change is usually the first step to future success; 2.) there are deals being done in the industry today, it just takes more creativity and effort; 3.) 747 aircraft in the hands of a carrier with lower internal cost structures are given a new "lease on life," and the chance to use their abundant intrinsic productivity, which the appraisers have been reporting since the aircraft's introduction in 1968; 4.) Boeing's decision to halt the production of the MD-11 as a freighter, even after customer requests, seems a bad one and possibly a petty one given the old Douglas pedigree, but an excellent opportunity for current passenger operators and modification centers to benefit from the type's intrinsic

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John Keitz

ISTAT Appraisal Chariman continued from pg 5

I noted above that base values are expected to decline, but note the sharp decline in some cases. After making it the topic of my last column, I am somewhat disturbed that we still don't seem to be "getting it" and are distorting the definition of base value because of the current market circumstances. If the base value is not supposed to be affected by current market circumstances, how can we have base values fall by 32 or 33 percent in 18 months to two years as the data suggest for the B747-400 and the B757? I find it impossible to believe that in a normal balanced market, with no consideration of current market conditions, a thirteen year-old aircraft like the subject B747 could lose 32 percent of its value. If that were so, we would have no more airline industry because nobody would finance aircraft anymore if they thought they could lose 32 percent of value in 18 months even under normal or ideal conditions. Even the Edsel didn't lose value at that rate.

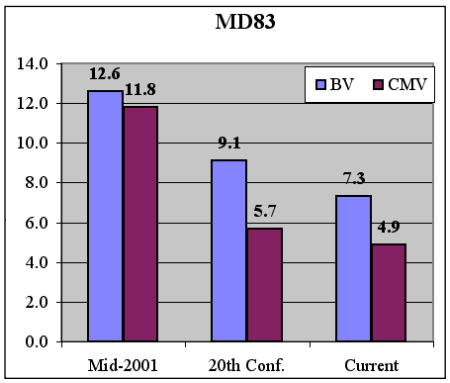
It is interesting to note the wide variation between the appraisers and especially the range between the highs and lows. A long time ago, a client once said to me, "If you all have access to the same data on recent sales, how come appraisers come up with different values." Well, we now all have the same data, nothing, or nothing reliable, but that can't be the only explanation for the wide variation in opinions. The deviations plus or minus from the average values from the
Cargo Facts panel are given below.

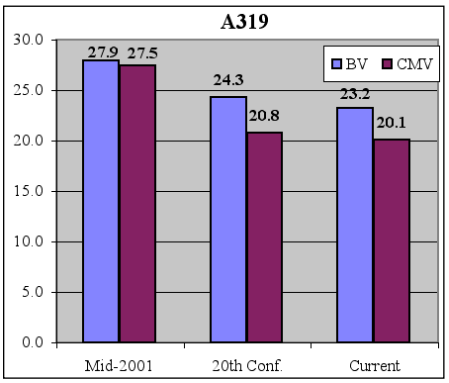
BASE VALUES

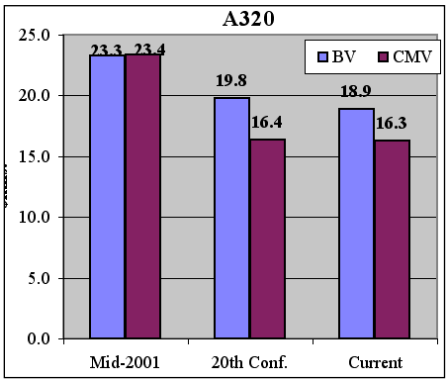
B737-300	-33% to +26%
B737-800	-5% to + 9%
B747-400	-26% to +28%
B757-200	-33% to +37%
A319	-7% to +8%
A320	-11% to +12%
MD83	-33% to +51%

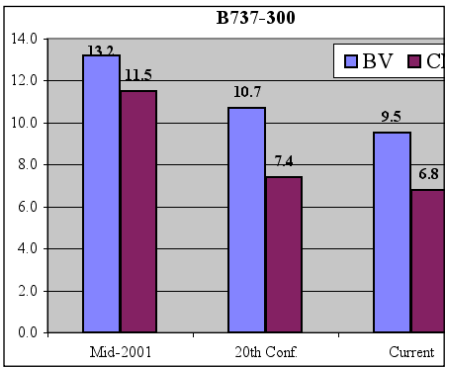
CURRENT MARKET VALUES

B737-300	-21% to +21%
B737-800	-8% to +8%
B747-400	-17% to +19%
B757-200	-28% to+38%
A319	-9% to +12%
A320	-7% to +7%
MD83	-20% to +43%









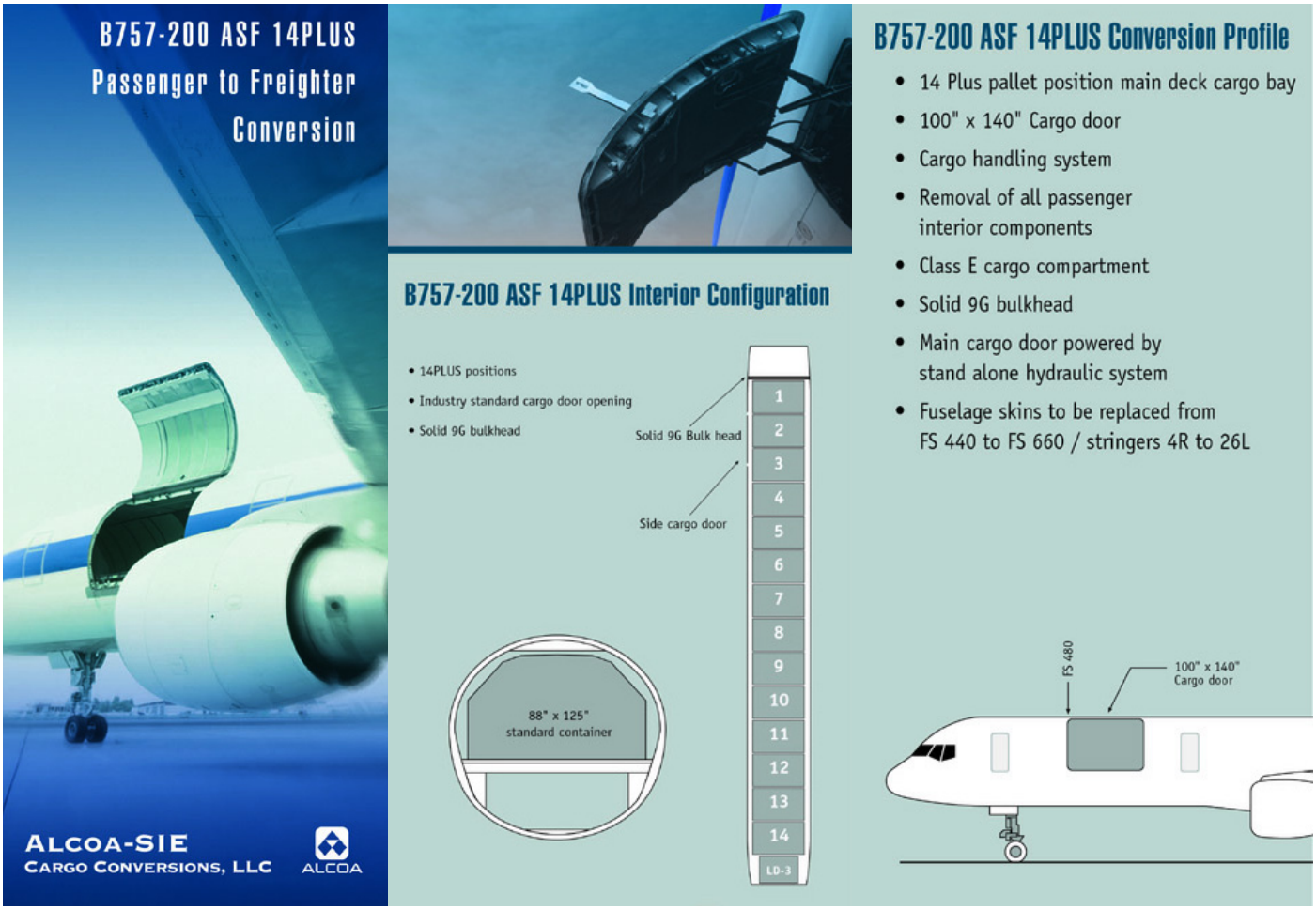
Several questions come to mind. Why are we so relatively consistent on the B737-800, A319 and A320? How can we be consistently closer to each other on current market values than base values? The base values are supposed to be based on long-term historical models for which we all have the same database. Current market values are based on the last rumor we heard about how much someone sold an aircraft for. How can five appraisers differ by 84%, the range on the MD83 base values? Converted to dollars the high for the MD83 was $11.0 million and the low was $4.0 million. On the current market value the spread was from $7.0 million to $3.9 million. Does this mean that some appraisers consider the current value is somewhere around $4.0 million regardless of whether 12.5 percent of the fleet is idle and in storage or whether there are no parked airplanes and the market is balanced, or said in another way, the current market value nearly equals the base value for the MD83? If any of you think you have the answers, please contact me because it would probably make a good topic for the next column.

I suspect that some of you

Continued on page 21

The B757-200ASF is just the beginning!

By, Robert T. Convey, Vice President Marketing, Alcoa-SIE Cargo Conversions, LLC



As we approach the 100th anniversary of the Wright Brothers first flight one can't help but reflect back on the technical challenges that faced the Wright's as they built their flying machine. Alcoa aluminum first took flight that clear December day, offering a new industry a lightweight material we now perhaps take for granted. With new partner Structural Integrity Engineering (SIE) by their side, Alcoa will once again change the face of aviation by embarking on a program that will give the Boeing 757-200 a new lease on life and many more years of operational profitability. The 757 Passenger to Freighter project is under development by Alcoa-SIE Cargo Conversions, LLC (ASCC), a company formed by two industry leaders for the purpose of developing airborne solutions for the cargo industry.

ASCC is in the process of designing what we expect to become the industry standard B757-200F. The 14Plus configuration retains more original structure than any other 757 conversion available on the market today while still allowing for a full 14 88 x 125 positions and one LD3. By retaining most of the original structure ASCC minimizes the risk of future AD's while retaining the same proven operational reliability operators have come to expect from the 757 airframe. ASCC will take charge of the design, engineering, manufacturing, certification and installation of the conversion using some of the most sophisticated design and analysis computing systems available on the market today, ensuring that Alcoa's strict requirements for quality and customer satisfaction are met.

ASCC targeted the 757-200 for conversion due to its worldwide acceptance as a passenger aircraft as well and its superior operating economics. With over 1,000 aircraft manufactured and a production history that spans 20 plus years, the 757 provides an adequate, standardized fleet of airplanes that gives ASCC the raw material needed to replace an aging narrow body freighter fleet that is nearing operational obsolescence.

The B757-200ASF 14Plus will offer operators a 100" by 140" main deck cargo door with positions for 14 88 x 125 pallets or

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Balance in the Board

Susan Thompson, Principal Consultant, Air Transport Practice

ODGERS RAY & BERNDTSON

"The monitoring of performance and the management of teams, are a constant requirement for any business. If the different parts of the Board are not in harmony, the company will never reach its full potential".

Composition

A well-balanced Board, properly focused and working together to achieve its objectives, is a formidable competitor. As members are appointed, or move on, the Boards fluidity and composition will vary according to the type of company, its markets, size, growth, culture, and stage of development.

Up to ten to twelve members is considered about right, and key issues for achieving balance in the Board include; the skills and experience mix of executives, personality profiles, cultural fit, and how the latter influences the dynamics of the Board. Other factors include; how members split their roles between corporate governance, and adding value through their knowledge, contacts, and experience.

Dynamics

Building a balanced Board is highly complex, and executive search needs to be undertaken to the highest professional standards, involving extensive discussion with all Board members, and the careful evaluation of candidates, to assess not only their personal strengths and weaknesses, but how they will operate in the context of the Board, both present and future.

Hiring mistakes can be difficult to rectify, and the selection process must focus on building a team with the balance, commitment, and will to win. People who have run international businesses, who understand the problems of restructuring, have operated successfully in different economic cycles, and provide valuable insight and a steadying hand when needed, add a significant extra dimension to the Board.

The Chairman and Chief Executive

Within the Board, the right combination of Chairman and Chief Executive is immensely powerful, and where there are issues in the balance of power, or where the relationship breaks down, the company becomes ungovernable. In handling assignments to find the Chairman or the Chief Executive of a company, one of the most important issues to resolve at the start, is the differentiation between the two roles. We have found the following concept a useful framework on which to build:

The Chairman has three crucial things to deal with. The first is the integrity of the business, ensuring that the company is run on a sound financial and commercial basis, and that the Board members are carrying out their duties prudently, ethically, and in the interest of the shareholders. Secondly, the Chairman must ensure that the Board as a whole are convinced that the long-term strategy is sound. Thirdly, they must be satisfied that the top team, particularly the Chief Executive and direct reports, are of the right quality and performing to the required standards.

The Chief Executive is responsible for leading and directing the business, in all aspects including the development of strategy. It is all about vision, leadership, team building, motivation and extracting the maximum possible performance. At any time, there will be a series of major initiatives including, expansion strategies, acquisitions, capital investment, marketing & development, quality and training programmes, with which it is vital that the CEO be concerned.

The fixing of stretching but achievable performance targets is one of the CEO's key tasks, demanding a wide range of interpersonal and commercial skills. Mechanisms to ensure these targets are monitored, must be in place, and if they are not met, appropriate action taken. A good CEO will not flinch from tough and timely action.

In summary, top appointments transform organisations, and the Board has to be absolutely satisfied with the executive team reporting to them. This covers not only direct reports, but also several layers below. Succession planning is also vital, to ensure that the quality of the management in the immediate, medium, and long-term is guaranteed.

Without the right people, little can be accomplished….

www.odgers.com/aviation

similar to other periods in our economic history. The second element of revenue for airlines is yield. Yields have also witnessed a catastrophic decline, contributing to airlines facing declining revenues and significant losses. It is my contention that a large part of the yield decline was of a self inflicted nature, i.e. airlines did it to themselves. Through insane yield management airlines managed to position themselves in a highly adversary situation vis-à-vis their customers, a sure recipe for disaster in a service industry. The outcome of declining traffic and declining yields was obvious and extremely painful for the industry. A number of other negative factors by coincidence also occurred in the past couple years. Terrorism has a very detrimental impact on aviation, especially since our industry has been a favorite conduit for terrorist activity for years. The tragic events of 9/11 were a magnification of past terrorist activities, much more bloody, planned and destructive. War, as experienced in Afghanistan and Iraq, has a similar0 negative impact on aviation. War in the Middle East, the source of most of the world's oil reserves, has an additional negative impact on petroleum markets through higher kerosene prices, a big component of operating cost of airlines, resulting in further downward pressure on profits in the airline industry. Unresolved wars, like the ones in Afghanistan and Iraq, tend to increase political tensions and intensify uncertainties, both developments not conducive to business in general and travel in particular. SARS caused a massive although luckily relatively short term stoppage of traffic, mainly in Asia. The draconian steps taken had a severe negative impact on a number of airlines but probably in the end resulted in the containment of the dreadful disease.

The problems mentioned above affected almost everybody in the industry. Various parts of the industry had their own additional problems. Many financial institutions had to take substantial losses. A number of holders of financial papers will add bankruptcies to my list of woes since they forced them to renegotiate and lose money. Faced with declining traffic and a terrible financial situation of the airlines trading activity dried up denying traders their livelihood. With less flying and more parked aircraft, maintenance activity was curtailed substantially, contributing to a massive problem for MROs. The list can be continued for a long time, eventually including everybody in the industry to some degree.

And the Future?

We know where we are and even why we are in the situation we are in. How about the future? Going down the list of problems we can look at solutions. The relationship between the economy and traffic holds both on the way down as on the way up. This means that in the same way recession caused a decline in traffic, a solid economic recovery will lead to increases in traffic. I, along with most economists, believe we are now in a (albeit low employment) recovery which will only gain strength with time. On the yield side I believe airlines learned their lesson and will refrain from a continuation of pricing policies detrimental to their own self-interest. The line from Aviation Daily "Finnair to reform fare structure, simplify it to only seven different price levels and two basic rules" can be used for dozens of other airlines. Airlines will simplify their capricious and irrational pricing or disappear from the scene, replaced by those who have smarter policies. The two elements are already pointing the right way and, barring another major economic recession, we can expect a solid "traffic first and profit later" airline recovery.

All the other elements were one time, dramatic and highly disruptive events. The impact of these events can actually be assessed and even predicted. Human nature is resilient; we learn to live with danger. If future terrorism were to happen, there still would be a negative immediate impact but eventually we would not give up living and traveling. As a matter of fact, a serious terrorism event has an immediate very negative impact on traffic leading to a decline in the neighborhood of one third for the first quarter after the event. That impact usually lasts around a year by which time its impact disappears. The same with war and uncertainty, although we all hope there will be no more wars. We cannot predict epidemics. When they will happen they will have a negative impact but there does not seem to be anything on the horizon. All the other impacts mentioned above are secondary in nature. So, if as a result of recession and terrorism airlines lose money they may go bankrupt. This will affect note holders as a secondary impact. Hence, if the industry is financially safe, all the players will prosper. To achieve this we need economic prosperity, peace, smart airline pricing and a lack of unusual, negative events.

PRESIDENT'S LETTER CONTINUED FROM PAGE 10

earnings capability.

Please allow me to take this opportunity to apologize to the ISTAT Board of Directors and the ISTAT Membership, however, I will not be able to fully fulfill the duties of the ISTAT Presidency, following this next Board meeting, to be held in Seattle, September 28, 2003.

As many of you may know, I was diagnosed with a cancer of the tonsils about two years ago, and given very little chance to survive. I elected to undergo an experimental radiation and chemotherapy regimen, and was fortunate enough to beat the cancer.

After receiving a clean bill of health and certification of being cancer free, and only then, I decided to accept the elected ISTAT Presidency and planned to work with all my strength and abilities to continue the excellent tradition of leadership, which the Society has been privileged to enjoy from its Past Presidents.

However, I am now diagnosed with a new cancer in my larynx; again another tough battle on the horizon, however, I'm a tough old redneck and don't give up too easily. Unfortunately, if I am to have any chance of survival, I will have to have my entire voice box removed.

Recognizing that ISTAT needs a clear and dynamic voice from its President during this period of juxtaposed industry turmoil and continued ISTAT growth and improvement, I immediately undertook a prudent plan of action to smoothly pass along the duties and functions of this office (ISTAT President), with which you have so graciously honored me in the recent past with your confidence and vote.

ISTAT does not use "Roberts Rules of Order" as a

governance tool, accordingly no defined succession plan was in place, and obviously no situation like this has ever occurred at ISTAT. Therefore, I have acted by requesting Mr. Bill Cumberlidge, our Immediate Past President, to serve as "Acting President" of ISTAT until the next annual Conference to be held in Hollywood, Florida, March 28-30, 2004.

At that time the Board will, according to custom, choose a new President-Elect and may want to decide on a more definite course of action.

Cumbo has always worn the trappings of office with the best of them, and as someone in the know said to me the other day, "Where could you possibly find a better mouthpiece than Bill?" Please join me in supporting Bill as he undertakes his renewed duties as Acting President.

I would be remiss if I did not thank those of you, who have heard of this happening, and have called and asked me to stay on as President in some form. I am deeply touched and honored by this gesture, and would respond to all by saying it will be my pleasure to stay and contribute in whatever way I can to the growth and continued success being enjoyed by ISTAT.

As I mentioned to Dawn when I communicated this news to her, "I have received far more from ISTAT, than ISTAT has ever received from me."

Along those lines, I now face the future without the ability to speak (a clear drawback for an aircraft salesman of thirty years), however modesty aside, I have been told by others that I have a gift for innovation, strategic planning, organization, and certain writing skills, with an occasionally wicked sense of humor. Accordingly, I hope to stay involved with the governance of ISTAT and use these tools as you, the Board and Membership, may see fit.

Further, I hope to find a way to stay involved in our great industry, as retirement was never in my mental dictionary or psychic wish list. Thanks to the generosity of Bill Cumberlidge, I will still be able to take a few pot shots every other month by continuing to pen the "President's Column."

In some ways, I seem to be an anthropomorphic analogy to the airline industry, in that I'm cutting out some of the bad parts in hopes of survival, and a much more productive future. Whatever the outcome, I have been most privileged as an extremely "ordinary guy" to have been a part of an "extraordinary industry," and a most robust and vibrant International Society of Transport Aircraft Trading.

Thanks to all of you for your, past support and assistance and my best wishes to each of you going forward. So…Lets Get Our Motors Running and Head Out on the Highway…

Michael A. "Mike" Metcalf
ISTAT President (2003-2005)

ISTAT 10th European Conference

Attendance at the ISTAT 10th European Conference was up 15% with a record 167 attendees. An impressive list of speakers discussed noteworthy topics ranging from private funding for aircraft financing to the development of the A380 Freighter. (Please see the President's Letter thanking the Speakers.) Receptions were held both evenings at the best Dresden had to offer: Castle Grossen Garten and Castle Albrecht. EADS graciously treated the attendees to professional opera performances between courses and a private tour of the Albrecht Palace. EADS continued to outdo themselves offering an impressive tour of the EADS EFW Airbus Freighter Conversion Line, including a wonderful luncheon. Thank you to all sponsors for making the Euro Conference such a success: Boeing Capital Corporation, Chateauroux Air Center, CFM International, EADS EFW, Finnair Flight Training, Odgers Ray & Berndtson Executive Search, Pembroke Capital Limited.

ISTAT 10th European Conference

More 10 Conference pictures on page 19

Ch-ch-ch-changes!

Boeing helps carriers capitalize on changing cargo market

By Vicki Ray, Boeing Commercial Aviation Services

The air cargo market is one of the bright spots on the horizon while commercial airplane passenger traffic remains sluggish. A steady rise in air cargo is prompting some operators to consider converting to freighters relatively modern passenger airplanes that may be underutilized. That's why when Boeing announced recently that it is offering air carriers a chance to convert their 747-400s from passenger airplanes to freighters — the timing couldn't be better.

Freighter conversions comprise about two thirds of the world's current cargo fleet, and forecasts predict this trend will continue. In the 747-size freighter market, the future fleet will be equally divided between production freighters (with their larger payloads and range capabilities and versatile nose doors) and converted freighters. And while operators have a plethora of conversion sources to choose from, many are choosing the original equipment manufacturer.

"One of the reasons customers are choosing Boeing is because Boeing works with the airplane's original design, and that means these conversions are less subject to recall down the road if problems arise," said Mike Stewart, vice president of freighter conversions for Boeing Commercial Aviation Services.

And Boeing is sharing the wealth in the process. For example, with the 747-400 Special Freighter, Boeing is teaming with Taikoo (Xiamen) Aircraft Engineering (TAECO) in Xiamen, China to convert the first three airplanes that are built as part of the new conversion program. Boeing will provide detailed engineering design work and oversight, and TAECO will perform the physical conversion.

"Licensing agreements such as this arrangement with TAECO signal a change in Boeing's original conversion business model," explains Stewart. "In the past, Boeing offered a complete package, including the touch labor. Now we're leveraging the capabilities of Boeing and a global network of partners."

The model is an extension of the Boeing strategy to focus on large-scale system integration. "It also supports our intention to speak with our actions," Stewart said. "Boeing is a global company and 70 percent of its commercial airplanes are sold to customers outside the United States, and our customers want to participate in our business."

Boeing expects the first customers for the 747-400 Special Freighter to launch the program later this year. Certification and entry into service would then follow in late 2005.

For the freighter conversion, the airplane will be modified with a side cargo door and layout that is identical to the 747-400 production freighter, with 30 pallets on the main deck and comparable volume. The longer upper deck of the Special Freighter will include seating for up to 19 people, an option found on no other converted freighter. Also included in the conversion is a strengthened main-deck floor, full main-deck lining, provisions for a new cargo handling system and revised flight-deck systems.

The 747-400 Special Freighter will have an estimated capacity of 250,000 pound (113 tonnes) structural payload at a design range of 4,100 nautical miles (7,600 kilometers) and will be capable of 870,000 pounds (394,625 kg) maximum takeoff weight. And that's a lot of capacity to transport goods to meet the changing needs and desires of people around the world.

Timing is everything when it comes to transporting goods by air, and Boeing is pleased to offer its conversion program to carriers who wish to take advantage of the changing market.

Alcoa: B757 continued from page 12

containers plus room for one LD3. The freighter will be capable of hauling 65,000 lbs of freight over 3,000 km with a Zero Fuel Weight of 188,000 lbs. Structurally, the freighter boasts a solid 9G bulkhead, state of the art patented cargo loading system, courier area with room for six supernumeraries, full restroom and galley facilities, and perhaps the most civilized design feature, a standard sized crew entry door on both the right and left side of the aircraft.

The first conversion will commence February 5, 2004 and take 12 months to complete. Future 757s will be converted in 2 to 3 months. The B757-200ASF is just
the beginning!

ISTAT 10th European Conference

SAXON POTATO SOUP

ORIGIONAL RECIPIE Served At Schloss Albrechtsberg, Dresden

INGREDIENTS - (Serves 10)

- •2 Garlic
- •Smoked Sausage
- •100 gr. of Butter
- •Sprig Parsley
- •600 gr. of Potatoes
- •Salt, Pepper & Nutmeg
- •50 gr. Leeks
- •100 gr. of Onions
- •2 – 3 litres Vegetable Stock
- •500 ml. Cream
- •150 gr. of Bacon

COOKING METHOD

- •Cut the potatoes, onion, bacon, & leek and sauté in the pan with butter.
- •Do not let them cook or brown too long!
- •Add the vegetable stock into the pan and simmer slowly for 60 minutes.
- •Mix the vegetable ingredients in a mixer - and place in the pan. •Add salt, pepper and nutmeg.
- •Slice the smoked sausage and sauté in the pan. •Garnish with chopped parsley and serve.
- •DIET the following day….

Submitted by Susan Thompson of Odgers Ray & Berndtson who obtained the recipe from the chef at Castle Albrecht.

ENGINES UPDATE ~ THE COURT HAS SPOKEN

By Neil Whitehouse, Ariel Aviation, Inc.

Update

The United States District Court for the Western District of Tennessee on August 27, 2003, filed its decision in the case FedEx v. The United States of America. The case involved a dispute over the tax treatment of engine and APU shop visits. Fedex contended that ESV costs are ordinary and necessary business expenses and as such should be expensed in the tax year in which they occur. The Internal Revenue Service position was that engine and APU ESV's should be capitalized and depreciated. The Court found for FedEx.

Among the issues under consideration were:
(i) whether commercial jet engines are separate from airframes, and,
(ii) whether the useful economic life of commercial jet engines is increased as a consequence of an engine shop visit ("ESV").

Rather than attempt to summarize the Court's decision in my words, I have extracted (and italicized) some of the words of the Court[1].

Unit of Property

The Court found that the applicable unit of property is the entire airplane.

"The Federal Aviation Administration provided that engines and airframes combined to form a single unit of property. Although the FARs separately defined "airframes" and "aircraft engines," the definition of "airplane" included the airframe (referred to wings) and explicitly referred to the engines. FedEx flew airplanes, not airframes or engines, and thus the definition of a "airplane" is the relevant definition to consider."

The Court also determined that in tax years 1992 and 1993, "Stand-alone sales of engines and APUs rarely occurred."

"the substantial weight of the evidence establishes that engines and APUs were treated as part of a fully-assembled aircraft for purposes of acquisition, operation, maintenance and disposal. This factor, taxpayer and industry treatment of property, favors classifying the aircraft as the unit of property for applying the Repair regulations."

"The third factor to consider is whether the larger unit of property and the smaller unit of property can function without each other."

"Engines and APUs cannot perform their functions of powering jet aircraft unless they are mounted on those aircraft in proper working order."

"Engines and APUs are integrally linked to the aircraft that they power and the aircraft should be considered a single unit of property."

Engines Economic Useful Life

The Court cited ISTAT and the ISTAT Appraisers' Handbook Glossary definition. The Court noted that, "the term economic useful life has been precisely defined by ISTAT, the primary appraisal authority in the airline industry, and that definition contemplates period ESVs during the useful lives of aircraft, engines and APUs."

"economic useful life is the period of time over which it is (or is expected to be) physically and economically feasible to operate in its intended role. Periodic maintenance and repair will usually be required in order to preserve safety and efficiency during the economic useful life."

The Court found that, "The lives of engines and APUs at issue here were co-extensive with the airframes on which they were mounted. Although the engines required on-wing inspection and maintenance, as well as periodic ESVs, FedEx expected all of their main components to last thirty years."

ESVs as Incidental Repairs

"The repair Regulations allow taxpayers to deduct the cost of "incidental repairs" which do not (1) materially add to the value of the property, (2) appreciably prolong the life of the property, or (3) adapt the property to a new or different use."

The Court measured change in value of the property from immediately after one ESV to the value immediately after the next ESV and found that there would be no material increase in value between these points. The United States of America had argued that change in value should be measured from immediately before and immediately after an ESV.

"To determine whether the ESVs materially added

1. Nothing herein should be construed to reflect the official view or position of the Justice Department or other agencies of the Federal Government.

Neil Whitehouse, Ariel Aviation, Inc.

to the value of FedEx's aircraft, appreciably prolonged their life, or adapted them to a new or different use, the court compares the state of the engines and APUs before the "condition" necessitating an ESV to the state of the engines and APUs "fresh" from an ESV. The "condition" necessitating the ESV was the wear and tear an engine or APU had sustained in powering FedEx's aircraft since the previous ESV. Under this analysis, if an engine or APU is in no better condition after a given ESV than it was after the preceding ESV, the ESV could not have improved the condition of the aircraft, and the court must conclude that the ESV only corrected the damage sustained by the aircraft during the ordinary course of its operation."

"ESVs did not appreciably increase the value of FedEx's aircraft."

"The ESVs at issue in this case did not appreciably prolong the life of FedEx's aircraft.

The Court's Conclusions

"FedEx's engines and APUs were so closely linked to the aircraft on which they were mounted that they were part of a single unit of property, the aircraft, for purposes of the Repair Regulations."

"The ESV invoice costs at issue in this case were incurred as ordinary and necessary business expenses incidental to the maintenance of FedEx's aircraft, engines and APUs and were properly deductible under 26 U.S.C. Section 162 and the Repair Regulations."

Postscript

Aside from the issues being adjudicated, it is notable that the Court further documented the preeminent role of the ISTAT Appraisers' program as the primary appraisal authority in the airline industry.

~Neil Whitehouse is President of Ariel Aviation, Inc., which is based in Tarrytown, New York, and provides asset management, expert witness and appraisal services. Neil is an ISTAT Senior Certified Appraiser, and a Fellow of the Royal Aeronautical Society. Ariel Aviation's web address is http:www.arielaviation.com. Please contact whitehouse@arielaviation .com for a copy of the Court's decision.

John Keitz

ISTAT Appraisal Chariman

think you have the answer because some think that some appraisers are just consistently higher or lower in their values. This was not the case here. Each of the panelists was the contributor of the highest or the lowest value at least once among the seven aircraft reviewed. I am not going to document that here, however, because I don't want to tempt you into thinking you can get higher values by using one or another appraiser. This has become an issue recently, but that is the topic for another column. Several appraisers have noted that some clients are saying, in so many words, that if you don't give higher values we will take our business elsewhere. Our ISTAT code of ethics nor our conscience permits us to condone such behavior but it is tough to lose business for being honest.

Nominations for ISTAT Board of Directors

The Nominations Committee is accepting nominations for the Board of Directors. Nominees must be ISTAT members in good standing and should have been a member for at least the past two years. Nominees will be presented to the ISTAT membership via email in February 2004 and will be voted upon at the 21st Annual Conference on March 30th in Hollywood/Ft. Lauderdale, Florida, USA. (The conference is March 28-30,2004.)

Two (2) of the nominees will be selected to serve on the Board from March 2004 until March 2008. Board Responsibilities Include:

Attendance at 4-5 Board Meetings per year (suspension from board if 3 consecutive board meetings are missed)

Active participation on committees: including securing speakers and sponsors for conferences, events and special projects; moderating panel discussions at conferences; assisting with recruiting and retaining members; participation in setting board policy and assuring the goals and objectives of ISTAT are achieved.

Biographical sketches of nominees should be submitted to the ISTAT office via Email: istat@istat.org or Fax: 703.503.5964 by January 14, 2004.

Kindly direct your questions or comments to Nominations Chairman Bill Cumberlidge: billcumbo@aol.com

What does it take to remarket an aircraft after lease return or repossession? First, you have to find an airline or investor who wants to increase their fleet of that kind of aircraft with that power plant (god forbid you have to re-engine the plane!), which in this climate doesn't happen overnight. Aircraft lessors start remarketing as much as 12 months (or more in some cases) in advance of a lease termination. Lenders who repossess an aircraft can't start the process much in advance. Once a new user is found and an LOI signed (with non-refundable deposits, hopefully), the aircraft must be repainted with the new user's livery and reconfigured. This takes time and may cost millions of dollars. These upfront costs require a level of return for a certain period in order to recoup the investment and may cause one to wait for the "right" deal, further delaying the period when your loan begins earning interest and amortizing again. Is the aircraft collateral for a syndicated financing? Who decides what is the "right" deal? The Agent Bank? A majority? All of you? These situations may make for great war stories at the bar at future ISTAT conferences but will cause nightmares as they occur.

By contrast, it takes none of that to remarket an engine. We have on many occasions shipped an engine from one lessee to the next with 0 days between leases. In addition, the modularity and ability to easily derate or upgrade (by thrust) most modern engines increases the pool of potential users – whether for lease or sale. This enables us to take advantage of short-term opportunities arising from an uncertain market – as we have done repeatedly over the past 24 months. (I'll give you that hard times require hard measures and there has certainly been an increase in power-by-the hour and other short term supply of aircraft – although this is most often provided by lessors who are better equipped to manage it, rather than lenders.) To be certain, there are costs involved with higher turnover of engines - in documentation at the start and technical inspection of the engines and records at the end. However, these costs run to 5 digits rather than 7 and some are the responsibility of the lessee.

Given all that, what holds lenders back?

The first line of resistance to financing engines instead of aircraft is always the lack of an ownership registry for engines. For those who specialize in aircraft finance, engines are lacking in that regard, at least for the time being. However, it must be recognized that there is no ownership registry for the vast majority of the world's equipment – from office equipment to rail cars and shipping containers – yet the lack of a registry raises qualms for engines that don't seem to arise for other types of equipment. I believe this stems from a straight comparison with aircraft since they serve the same industry. However, one should take the broader view of comparing engines with all commercial equipment. True, engines can easily be transported internationally, making it harder to track the collateral, but the same can be said of ocean containers – yet the owners of each do manage to know where they are. For an owner or a lender, it's a lot harder to find a container in the thousands that form mini-mountains in some busy ports than it is to locate an engine in a hangar. Engines are serialized, they are large, and ownership plaques are installed on them. It's hard to misplace one – I haven't heard of anyone doing so accidentally.

This all presupposes, of course, a lack of intent to defraud. Someone bent on committing fraud can find all sorts of ways to hide/move anything – even registered aircraft – for at least a period of time to prevent repossession. The mitigant to this risk is the same "know your customer" due diligence that goes with any lending situation – also known as the "smell test." As your mother may have said, "If it smells bad, don't eat it. It's likely to make you sick."

Eventually, the Capetown Convention agreed in November 2001 will provide for a registry of all mobile equipment – including aircraft engines – that will remove this risk. I hope this will be up and running in my life time and will be operated on a level playing field similar to aircraft where all mobile equipment has to be registered – rather than offering an "opt-in" provision where those who desire to have their ownership registered or are required to do so by third parties (usually lenders) add this additional level of red tape and others don't. (It's high time that the Aviation Working Group invites engine lessors to the planning process to ensure such a level playing field – let alone to develop standard engine lease docs - but that's another subject.)

Another problem is the smaller dollar value of engines as compared to aircraft. As a former lender, I realize that the same amount of work (almost) is needed for a $5 million loan as compared to a $50 million loan. Why should you finance an engine instead of an aircraft? The short answer is: you shouldn't. It's not economical for most lenders in this arena to finance an individual engine. You should instead look to finance a (small or large) diverse portfolio of engines. Diversity can be achieved by financing a package of engines of various models with

the same borrower; a pooling arrangement for several of the same model to be used by a group – maybe an airline alliance (complicated documentation perhaps, but doable) or through an MRO or lessor; or – the ultimate in diversity - a portfolio of different engine models, operated by a number of different users with different applications, in different geographies, and for different time frames (full disclosure: this last describes the WLFC portfolio). Aircraft are "lumpy" assets given their high dollar value. The smaller dollar value of an engine by comparison allows you to spread your risk through a package and start recouping your investment earlier (provided you invest wisely) if the worst happens.

OK, now you know the major benefits and drawbacks to financing engines. Where do you start? What structures can you use?

The first thing to consider is whether this will be an asset-based loan or a cash-flow loan. A simple rule of thumb: if the asset generates sufficient cash on its own to pay down the loan (fully or to a balloon) over a time period that doesn't make your credit committee wince, you can make a cash-flow loan (you probably don't need me to tell you that!). Under these circumstances the cash generated by the engines is the primary source of repayment for the loan and the sale or refinancing of the engines is a secondary source of repayment. This scenario fits the engines owned by engine lessors and, in some cases, MROs, OEMs, or parts shops. As a lender, you need to ask the questions that will determine whether a group of engines can support a cash-flow loan: What is the purpose of these engines? Can you demonstrate the cash flows generated by these engines (or others similar) in the past? Are you willing to commit them to a revenue-generating role? If the answer to these questions is yes, it's possible to generate revenue and repayment scenarios that allow high loan-to-value ratios.

If the answer to these questions is not yes (or is not yes for a sustained period of time – i.e. enough to amortize the loan to a level, and in a time frame, you are comfortable with) – then you are better off with an asset-based loan. This will be the case for most airlines and, in some cases, MROs, OEMs or parts shops. In this case, the sale or refinancing of the engine will be your primary source of repayment (or secondary if the engines back a general corporate obligation). You should structure such a transaction with a lower loan-to-value ratio (again, stating the obvious). For engines whose value you are confident will be maintained (based on future new deliveries of the aircraft that it supports, for example), you can build in such things as residual sharing – sharing in the proceeds of the sale beyond the debt repayment - that give you upside participation and allow you possibly to offer a higher loan-to-value ratio to better serve your client's needs.

Engine financings have been structured as term loans, as revolving credits – amortizing or with bullet repayments, as asset-backed commercial paper conduit deals, and as EETCs - with several structures devised successfully for each. We at WLFC continue to work towards the first pooled-lease securitization of this asset class and hope to close it in 2004. I haven't covered all the benefits and risks that you may encounter in financing engines, but hopefully enough to whet your appetite. Engines take some additional understanding but offer the opportunity to put your structuring skills to work to develop something unique and generate rewards commensurate with that ingenuity. If you have any questions about engine financings, feel free to contact me by phone or e-mail.

Alison A. Mason has been Treasurer of Willis Lease Finance Corporation since late 2000. Prior to that, she spent 8 years lending to leasing and transportation companies (including Willis) as a Vice President at Union Bank of California. She spent 3 years working in investment banking and brokerage early in her career. She is the current President of the Financial Women's Association of San Francisco. Ms. Mason graduated from Dartmouth College with a B.A. and holds an M.B.A. from New York University.

MEMBER LOCATOR

Please note new contact information:

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ISTAT 21st Annual Conference

Westin Diplomat Resort & Spa, Florida, USA

Saturday, March 27, 2004

Appraisers Exams (all day)

Sunday, March 28, 2004

Golf Tournament 8 a.m. Diplomat Resort Golf Course
Appraisers Exams (half day) & Appraisers Continuing Education
Registration & Welcome Reception

Monday, March 29, 2004

State of the Aviation Business	**Holly Hegeman, Plane Business** **Klaus Heinemann, debis AirFinance**
What Does the Future Hold?	**Ed Greenslet, ESG Aviation Services**
Aircraft Finance - Putting Deals Together, Taking Deals Apart	**Lee Palm, GMAC Equipment Finance** **Wolfgang Driese, DVB** **Hossein Amir-Aslani, JP Morgan Chase** **Ron Scheinberg, Vedder Price**
Keynote Address	**Robert Milton,President & CEO, Air Canada**
Appraisers Panel	**Bill Gardner, Fred Bearden, John Keitz,** **Fred Klein, Phil Seymour, John Vitale**
ISTAT Opening Day Reception	

Tuesday March 30, 2004

Keynote Address	**Mauricio Botelho, CEO, Embraer**
The TSA and the Airline Business	**Frank Berardino, GRA, Inc.**
The State of the Cargo Business and Conversion Programs	**Steve Fortune, Brian Clancy,** **Rick Hatton**
Keynote Speaker	**Steven F. Udvar-Hazy, CEO, ILFC**
Lessors Panel	**Alan Coe, Mike Platt**

The ISTAT Foundation Silent Auction & Reception
Gala Dinner and The ISTAT Award
Recipient: HERB KELLEHER
Keynote: Dr. Adam Pilarski

International Society of Transport Aircraft Trading
21st Annual Conference • March 28-30, 2004
Westin Diplomat Resort & Spa • Hollywood, FL USA

OFFICE USE ONLY:
Date R'cvd_____
Dues Pd Until_____
Cfrm#_____
__

CONFERENCE REGISTRATION FORM

Complete and fax this form with payment information to:
ISTAT in the USA: Fax #: 1.703.503.5964
Tel: 1.703.978.8156 • Email: istat@istat.org • Mail: 5517 Talon Court, Fairfax, VA, 22032 USA

Registration confirmed only with payment. Registration Fees must be paid in advance to gain entrance to the Conference. Membership dues must be current to receive member rates. Must be listed on the corporate membership to receive member rate. Substitutes must be members to receive member rate. **Refund Policy**: $200 processing fee after 5:00pm EST March 12, 2004
No Refunds after March 24, 2004 Midnight EST • Cancellations must be in writing to receive refunds

PLEASE PRINT LEGIBLY OR TYPE INFORMATION

Name for Badge: _____ Job Title:_____

Company:_____

Mailing Address:_____

City:_____State/Prov:_____Postal Code:_____Country:_____

Email address:_____ Telephone:_____ Fax:_____
Include Country & city codes where applicable

Spouse Name for Badge:_____

• Dues must be current to receive Conference Member Rates. Contact ISTAT office to check your membership status.

MEMBERSHIP DUES: (a) Check to pay Individual or Corporate

INDIVIDUAL Membership: $ 400 USD	
CORPORATE Membership: $ 1,750 for 6 ($200 each after 6)	

CONFERENCE FEES: (a) Check one that applies

Early Bird

REGISTRANT TYPE	a	UNTIL Feb 2/2004
Member: Single Registrant		$ 750 USD per registrant
Member: 3 or more from same company		$ 650 USD per registrant
Airline Personnel		$ 425 USD per registrant
Non Member		$ 1,150 USD per registrant

Regular

REGISTRANT TYPE	a	Feb 3 2004 ONWARD
Member: Single Registrant		$ 950 USD per registrant
Member: 3 or more from same company		$ 850 USD per registrant
Airline Personnel		$ 425 USD per registrant
Non Member		$1,350 USD per registrant

Early Bird

PAID ***BY*** Feb 2/04		
Golf Tournament 3/28		$175
Club Rentals (left) (right)		$ 80

Regular

PAID Feb 3/04 onward		
Golf Tournament 3/28		$190
Club Rentals (left) (right)		$ 80

Shoe Rental NOT Available

Spouse Monday tour, Receptions, Tues. Dinner		$225
Spouse w/out tour		$150

Spouse golf 4/6/03		$175 early / $190 reg
Club Rentals (left) (right)		$80

Must Fill In

Membership dues to be charged or enclosed: $_____
Conference Fees to be charged or enclosed: $_____
Total Amount to be charged or enclosed: $_____

GALA DINNER: (a) Check if YES

I/we will attend the Gala Dinner on Tuesday March 30th (included in above fee)	
Please contact me about reserving a table at the Gala Dinner (Cost: $1,200)	

PAYMENT METHOD: registration not complete without payment

☐ Check ☐ Bank Wire ☐ MasterCard ☐ VISA ☐American Express

Credit Card Number: _____Exp Date:_____(mm/yy)

Cardholder Name:_____

Cardholder Signature:_____

Bank Wire Instructions: SunTrust Bank, Richmond, Virginia, USA • Bank Code: 061-000-104
Swift Code: SNTRUS3A • Account Name: International Society of Transport Aircraft Trading
Account #: 202.534.847 • Reference: Conference Registrants Name/ ISTAT 21st Annual Conference

Boeing 757-200ETOPS

RB211-535E4/E4B

The 757 ETOPS version is capable of a broad variety of missions, especially given its long range. All 757s can be equipped to ETOPS specifications. Demographics below are for both standard and ETOPS passenger aircraft and exclude one combi, 79 factory freighters and 33 converted -200SFs. Rolls Royce engines are in use with many more operators than the P&W engines. **Values assume ETOPS-equipped aircraft of 250,000 pound MTOW with RB211-535E4/E4B engines.** 2002 list price is $73.5 – $80.5 million. United's actions could have a major effect on this market. The July 2003 order book for -200s stood at one airplane.

Aircraft Specifications:

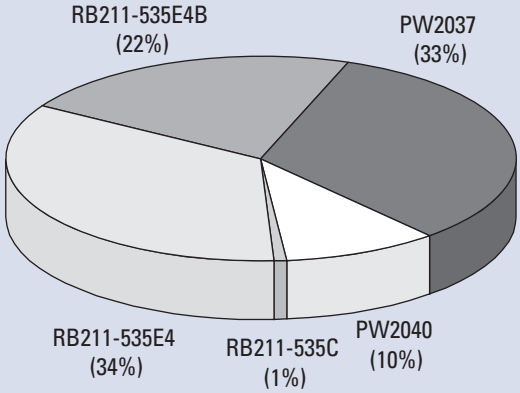
Length	155.3 feet
Wing span	124.8 feet
MTOW (000)	220-255 lb
Range (nm)	3,900 w/ 200 pax
Capacity (typical/max)	194-228 pax
Engines in service	PW2037/2040; RB211-535C/E4/E4B
Fuel capacity	11,489 USG

Geographic Distribution:

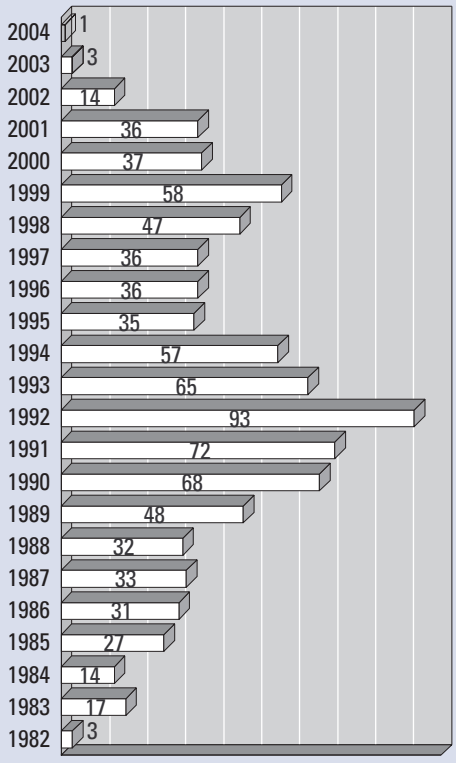
Aircraft Demographics:

Total in service	862
Outstanding orders	1
Operators	81
Average age	10.1
Years manufactured	since 1982

Engines – % of fleet aircraft



Deliveries – Actual & Scheduled



Demographics are as of June 2003 and are for passenger aircraft except where specifically noted.

Aviation Specialists Group

Boeing 757-200ETOPS

RB211-535E4/E4B

Third Quarter 2003

Year	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003			
Estimated Current Market Value	11.0	12.0	13.0	14.0	15.0	16.2	17.4	18.8	20.2	21.6	23.0	24.4	26.1	27.7	29.3	31.3	33.2	52.0			
Base Value 2003	15.1	16.3	17.5	18.8	20.2	21.7	23.3	25.0	26.9	28.8	31.0	33.3	35.7	38.4	41.2	44.3	47.5	52.0			
2004	14.5	15.6	16.8	18.0	19.4	20.8	22.4	24.0	25.8	27.7	29.7	31.9	34.3	36.8	39.5	42.5	45.6	49.9			
2005	13.8	14.9	16.0	17.3	18.6	19.9	21.4	23.0	24.7	26.6	28.5	30.6	32.9	35.3	37.9	40.7	43.7	47.8			
2006	13.2	14.2	15.3	16.5	17.8	19.1	20.5	22.1	23.7	25.5	27.4	29.4	31.5	33.9	36.4	39.0	41.9	45.8			
2007	12.5	13.5	14.7	15.8	17.0	18.3	19.7	21.1	22.7	24.4	26.2	28.2	30.2	32.5	34.9	37.4	40.2	44.0			
2008	11.9	12.9	14.0	15.1	16.3	17.5	18.9	20.3	21.8	23.4	25.2	27.0	29.0	31.2	33.4	35.9	38.6	42.2			
2009	11.2	12.2	13.3	14.4	15.6	16.8	18.0	19.4	20.9	22.4	24.1	25.9	27.8	29.9	32.1	34.4	37.0	40.4			
2010	10.6	11.6	12.6	13.7	14.8	16.0	17.3	18.6	20.0	21.5	23.1	24.8	26.7	28.7	30.8	33.1	35.5	38.8			
2011	9.9	10.9	11.9	13.0	14.1	15.2	16.5	17.8	19.1	20.6	22.2	23.8	25.6	27.5	29.5	31.7	34.0	37.2			
2012	9.3	10.2	11.2	12.3	13.4	14.5	15.7	17.0	18.3	19.7	21.2	22.8	24.5	26.4	28.3	30.4	32.7	35.7			
2013	8.6	9.5	10.5	11.5	12.7	13.8	14.9	16.2	17.5	18.9	20.3	21.9	23.5	25.3	27.1	29.2	31.3	34.2			
2014	7.9	8.8	9.8	10.9	11.9	13.0	14.2	15.4	16.7	18.0	19.4	20.9	22.5	24.2	26.0	28.0	30.0	32.8			
2015	7.2	8.1	9.1	10.1	11.2	12.2	13.4	14.6	15.9	17.2	18.6	20.0	21.5	23.2	25.0	26.8	28.8	31.5			
2016	6.4	7.4	8.4	9.4	10.4	11.5	12.6	13.8	15.1	16.3	17.7	19.1	20.6	22.2	23.9	25.7	27.6	30.2			
2017	5.6	6.6	7.6	8.6	9.6	10.7	11.9	13.0	14.2	15.5	16.8	18.2	19.7	21.2	22.9	24.6	26.5	28.9			
2018	4.9	5.8	6.8	7.8	8.9	9.9	11.0	12.2	13.4	14.7	16.0	17.3	18.8	20.3	21.9	23.5	25.4	27.7			
2019		5.0	6.0	7.0	8.1	9.1	10.2	11.4	12.6	13.8	15.1	16.5	17.8	19.3	20.9	22.5	24.2	26.6			
2020			5.2	6.2	7.2	8.3	9.4	10.5	11.7	13.0	14.2	15.6	17.0	18.4	19.9	21.5	23.2	25.5			
2021				5.3	6.3	7.4	8.6	9.7	10.8	12.1	13.4	14.6	16.0	17.5	18.9	20.5	22.2	24.3			
2022					5.5	6.5	7.6	8.8	10.0	11.2	12.4	13.8	15.1	16.5	18.0	19.5	21.1	23.3			
2023						5.6	6.7	7.9	9.1	10.3	11.5	12.8	14.2	15.5	17.0	18.5	20.1	22.2			

Values in U.S.$ millions for a typical aircraft. **Used aircraft are built in June, new aircraft in third quarter 2003.** Values assume single or small lot transactions, not launch orders or large purchases and that aircraft/engines/major components are in average condition and half-life/half-time status. Future Base Values assume 3.0% annual inflation. **These values may change with the passage of time and exclude the effects of any attached leases. See text on facing page for possible value notes.**

Aviation Specialists Group

PRESS RELEASES...

Aeronavali, an Alenia Aeronautica / Finmeccanica company, announced the redelivery of an ATR 42 Freighter aircraft to the Alaskan largest all-cargo carrier, Northern Air Cargo.The aircraft has been modified by Aeronavali from its original passenger configuration to the full cargo one with a new Large Cargo Door. This modification has been accomplished in the frame of a program launched by Alenia Aeronautica / Aeronavali to convert passenger ATR aircraft into freighters that likely will become the new standard for the regional feeder market all around the world.

The first converted aircraft was an ATR 72, which is in full operation with the Swiss operator Farnair Europe since September 2002. Northern Air Cargo signed a Memorandum of Understanding with Aeronavali at the Farnborough Air Show in July 2002 for the conversion of four aircraft, of which this is the first one (total value for the conversions of around six millions USD).

ATR aircraft are produced by the European consortium ATR between the two equal partners Alenia Aeronautica and EADS. The freighter conversion is designed by Alenia Aeronautica in accordance with standards recognized worldwide. Its certification has been released by the Italian Airworthiness Authority ENAC (Ente Nazionale per l'Aviazione Civile), is therefore recognized by the European JAA (Joint Aviation Authority) and has been extended by the American FAA (Federal Aviation Authority) in September 2003.

Based in Anchorage, Northern Air Cargo (NAC) has been a recognized leader and a pioneer in Alaska's airfreight industry since its inception in 1956. Carrying nearly half of all airfreight shipped out of Anchorage to the state's remote communities (known as the Alaska Bush), NAC provides both scheduled and charter air cargo transportation. Alaska's many rural communities, generally inaccessible by road, depend on air shipment of cargo ranging from mail to all sorts of goods.

With revenues of 200 million euros in 2002, Aeronavali has 1,600 employees at its plants in Venice, Naples and Brindisi. The company is one of the world leader in its business area having carried out commercial and military airplane conversions and overhauls for over 50 years on models such as the DC-8, DC-10/MD-10, MD-11, MD-80, 707, 727, ATR42/72, BR1150 "Atlantic", C130H, G222/C27J, 707-767 Tanker Transport, NATO E-3A AWACS and TCA and is now starting similar activities for the Boeing 767.

PRESS RELEASES. . .

PRESS RELEASES. . .

Airbus Asset Management purchased A340-212 (MSN 019) from Lufthansa and immediately leased it to South African Airways.

Airbus Asset Management re-marketed Ex-Ansett Australia A320-200, MSN 622, and leased it for 3 years to Air Moldova on behalf of the European Export Credit Agencies.

BAE SYSTEMS Regional Aircraft has won an exclusive mandate from aircraft owners for the re-marketing of nine Boeing 757-200 aircraft currently operated by US Airways. The aircraft are on lease to US Airways and form an integral part of the airlines' plans under the successful recently agreed re-structuring of the airline, and will be sold subject to these leases.

This important mandate marks the growing success of the Trading and Services venture that has already placed a number of aircraft into new markets on behalf of other owners. Commenting on the deal Jon Skirrow who heads up BAE SYSTEMS Trading and Services, says: "We are delighted to be working for the aircraft owners. The services that we are providing are built upon our long experience in aircraft sales, asset management and portfolio servicing. At such difficult times in the market we believe our expertise can be vital for aircraft owners and financiers to maximize value from their aircraft."

The agreement is with Wilmington Trust Company, acting as Collateral Agent, for nine (9) Boeing 757-2B7 Rolls Royce-powered aircraft bearing manufacturer's serial numbers 27246, 27303, 27805, 27806, 27807, 27808, 27809, 27810 and 27811.

BCI Aircraft Leasing, Inc. ("BCI") announced that Alain F. Maestracci has joined as Vice President Business Development. BCI was founded in 1997 and is head quartered in Chicago and has 28 commercial aircraft at this point, with such lessees as Delta, KLM and Southwest. It has access to substantial equity and debt resources and is planning an aggressive growth. Alain will focus on sale-leasebacks with smaller and medium size airlines, as well as purchase of existing leases from other lessors. All aircraft will be considered. Tel: 1 415 461 0762
Fax: 1 415 461 0742;
amaestracci@juno.com; amaestracci@bci-aircraft.com

Beard Aviation Consultants: Mick Beard has all but "retired" from aviation activity (other than doing the odd job for certain clients) and now owns and operates Cornell Wine
Company, a wine shop on the west side of Portland. If you live in a "shipping legal" state and want some of those hard-to-find Oregon wines, contact him at mick@cornellwine.com

debis AirFinance announced that it completed its second Japanese Operating Lease ("JOL") transaction. Crédit Lyonnais and Sumitomo Mitsui Banking Corporation jointly acted as arranger of the transaction. debis AirFinance secured this deal, which has a volume of US$ 44 million, for an Airbus A321 aircraft from its existing fleet (MSN 1711). Under the JOL-structure, debis AirFinance will sell the aircraft to the Japanese lessor and lease it back for a period of twelve years. Heinrich Loechteken, Chief Financial Officer of debis AirFinance, said: "The Japanese Operating Lease is a very complex but favourable financing instrument for aircraft operating lessors. In addition to a US$ 840 million European Export Credit Agency facility, debis AirFinance has now completed two JOLs this year, worth a total of US$ 84 million, and this is a firm endorsement of our diversified financing policy." Japanese Operating Lease structures enable Japanese investors to invest in cross border aircraft leasing transactions. debis AirFinance closed its first Japanese

PRESS RELEASES. . .

Operating Lease earlier this year for an Airbus A320. This transaction was also arranged by Crédit Lyonnais.
Focus Aviation announced the appointment of Grant Roberts as Regional Sales Manager. Grant is 28 years old and joins Focus from the Royal Navy. He will, initially, be based in Focus' UK office. In addition to operational duties, he managed the Fleet Air Arm Field Gun Team during which time he was a member of the Marketing Board for the Royal Tournament and was responsible for negotiating sponsorship contracts. He also has experience in the public relations role having been the Public Relations Officer for a Royal Navy air base.

Focus Aviation announced its appointment to manage and remarket a McDonnell Douglas MD82 aircraft and a MD83 aircraft on behalf of Win-Wing Corporation. Win-Wing is a wholly-owned subsidiary of SinoPac Leasing Corp of the Bank SinoPac Group, one of Taiwan's leading banking conglomerates. Far Eastern Air Transport, an airline also located in Taiwan, currently operates the aircraft on a short-term lease basis. www.banksinopac.com.tw .

Focus Aviation announced the sale of one China Airlines B747-200 Freighter aircraft to Kalitta Air. This transaction represents the third B747 Freighter sold by Focus Aviation on behalf of China Airlines in less than nine months. China Airlines is the most prominent airline in Taiwan. The sale of this aircraft is part of the airline's plan to phase out the B747-200Fs in order to operate its air cargo services with an all B747-400F fleet. Kalitta Air is an all-cargo airline based in Michigan, USA. It provides scheduled services and airfreight charters on either contract or on-demand basis. This latest acquisition will increase Kalitta Air's fleet of B747 Freighter aircraft to eleven since it began operations in November 2000. More information on China Airlines, Kalitta Air and Focus Aviation can be obtained at: www.china-airlines.com, www.kalittaair.com and www.focus-aviation.cc

Focus Aviation announced that it has agreed the lease of three McDonnell Douglas MD-11 aircraft formerly operated by Swiss International to VARIG Airlines of Brasil. The operating leases were successfully negotiated and agreed in a time-critical manner, as the aircraft have come off lease from Swiss International, in a fiercely competitive environment. ABN-Amro is the lead agent bank in a syndicate of banks which controls the ownership of the aircraft, part of a fleet of 15 MD-11 aircraft. Focus Aviation was appointed in late 2001 as exclusive aviation advisor, asset management provider and re-marketer of the MD11 fleet.

Singapore Aircraft Leasing Enterprise (SALE) has added US low-cost carrier Frontier Airlines (Nasdaq: FRNT) to its customer list, following the signature of contracts covering the lease of two new Airbus A319 aircraft. The first A319 was delivered from Airbus under a purchase and leaseback agreement between SALE and Frontier. The second aircraft, one of SALE's direct orders from Airbus, will join the Frontier fleet early next year. Both aircraft are powered by CFM-56 engines and will be leased to the carrier for a period of 12 years.

Robert Martin, Managing Director of SALE, said that the addition of Frontier to its customer list was an important step in the development of the company's presence in the North American market. "Despite the recent difficulties facing the US airline industry, Frontier Airlines has continued to operate successfully," he said. "We are therefore pleased to be able to play a role in the carrier's fleet modernisation programme and to include Frontier in our global customer base.

Sigma Aircraft Management, LLC ("SIGMA"): Rico Linhas Aereas (http://www.voerico.com.br), has taken

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delivery of one B737-241 (S/n 21009) from PLM Worldwide Leasing. The aircraft was formerly leased to Varig S.S, Brazil. The sale was arranged by SIGMA.

SIGMA: Eagle Aviation, France (www.eagle-aviation.net) has purchased one 737-200A (s/n 22264) from Wells Fargo Bank Northwest N.A., as trustee for PLM Equipment Growth Fund V. The aircraft was ferried from Mojave, CA to Nimes, France to undergo a C-check at TAT Industries. The transaction was arranged by SIGMA".
SIGMA: TAF Linhas Aereas, (http://www.secrel.com.br), has taken delivery of one B737-200A (S/n 21007) from PLM Worldwide Leasing. The aircraft was formerly leased to Varig S.S, Brazil. The sale was arranged by SIGMA.

SIGMA: Allegiant Air, Fresno, CA (http://www.allegiantair.com) took delivery of one MD82 (S/n 49423) from Scandinavian Airlines System ("SAS"), the Scandinavian flag carrier. The sale from SAS to Allegiant was arranged by Sigma Aircraft Management, LLC ("SIGMA"). This is the third of three aircraft Allegiant has purchased from SAS.

SIGMA provides a turn-key solution for aircraft investors and airlines including sourcing/structuring of investments; asset management; financing advisory and lease management. SIGMA manages a portfolio of over 60 commercial jet aircraft valued at more than $700 million and provides service to its investor and airline customers out of its offices in New York and London. For further information about SIGMA, www.sigma.aero.

Skyways Aviation UK, acting on behalf of Khors Air Company of the Ukraine, Ltd has arranged the purchase of two DC-9-51 aircraft from Finnair of Finland. Serial numbers 47772 and 47773 were delivered on 29 June and 15 July 2003 respectively. A third aircraft is due for delivery in mid-September. Khors Air Company was established in 1990 and currently operates a fleet of Antonov and Iluyshin aircraft primarily on cargo routes. The DC-9 aircraft will be utilised in passenger configuration on charter flights. www.skyways.co.uk and www.khors.com.ua

Veteran aircraft industry executive John E. Flynn announced the formation of **World Star Aviation, Ltd.**, a new aircraft leasing company that purchases, sells and leases commercial aircraft for the international aviation industry. The San Francisco-based company begins operations as manager of a fleet of 58 passenger and freight aircraft leased to 26 airlines in 16 countries.

"We formed World Star Aviation to take advantage of the unprecedented opportunities provided by the recent turmoil in the airline industry," Flynn said. "The current supply-demand imbalance enables us to acquire desirable, high quality aircraft at attractive prices and enhance their value by the experienced, efficient management of leasing operations. Our lean corporate structure and depth of industry experience will permit us to operate with an advantageous aircraft-to-personnel ratio."We are also fortunate to begin operations with the management of Triton's fleet, which provides continuity to our customers and enables us to build on our excellent established relationships with international airlines, aircraft manufacturers, suppliers and investors. We are grateful to Triton for the support and confidence they have placed in our new venture," Flynn said.

At World Star Aviation, Flynn will be President and Chief Executive Officer; O'Connor will be Vice President, responsible for leasing and marketing operations; Slevin will be Vice President, responsible for finance activities; and Zimmerman will be Director of Technical Services, responsible for overhauls and maintenance. World Star Aviation, Ltd. is headquartered in San Francisco with offices at One Maritime Plaza, Suite 755, San Francisco, California 94111. The telephone number is 415-956-9453.