121 North Henry Street
Alexandria, VA 22314-2903
T: 703 739 9543 F: 703 739 9488
arsa@arsa.org www.arsa.org

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BY E-MAIL

Gay Bastian, President
C.A.S.E. Inc.
Skywest Airlines, Inc.
444 South River Road
St. George, UT 84790-2085

E: gbastian@skywest.com

George Worley, Chairman
C.A.S.E. Air Carrier Section
American Airlines, Inc.
1616 West 21st Street
MD 1122
Dallas-Fort Worth Airport, TX 75261

E: george.worley@aa.com

RE: Application of C.A.S.E. Policies and Procedures

Dear Gay and George:

Thank you for the visit on March 6, 2007. The Aeronautical Repair Station Association (ARSA) is pleased to work with C.A.S.E. on resolving the apparent conflict and inconsistency between the goals of your organization and how the C.A.S.E. processes are applied to our repair station members. We are confident that the cooperative efforts of our two organizations will eliminate the conflicts. I am looking forward to further discussions and to the presentations at the C.A.S.E. conference in April.

The feedback from my members indicates that a major review of the C.A.S.E. Policies and Procedures (P&P) as well as training of the C.A.S.E. auditors is needed to ensure consistency of application. It is imperative that this take place so that C.A.S.E. can avoid facing serious legal challenges. We recognize that the organization has faced lawsuits before and has succeeded in avoiding long drawn out battles. However, the times have changed; the airlines now are more dependent upon contract maintenance and that tide is going to be difficult if not impossible to reverse. As that dependency grows, C.A.S.E.'s role becomes more dramatic with respect to its effect on the business relationships between carriers and their vendors. Canceling a vendor creates a ripple effect that cannot be ignored. The review of the C.A.S.E. P&P and training methodology will relieve unnecessary consternation for all parties.

During the review the following needs to be considered:

- Due Process. C.A.S.E. is chartered to carry-out the surveillance obligations of its members and is specifically approved by the Federal Aviation Administration (FAA) for this purpose. In essence, this puts C.A.S.E. in the position of performing quasi-regulatory functions on behalf of its members and the FAA. Accordingly, before C.A.S.E. deprives an entity of any legal interest, including an economic interest, it

must do so in a manner that complies with minimal due process and standards that are clearly stated, clearly understood by the C.A.S.E. members and their suppliers, and adhered to by the auditors. C.A.S.E. and its auditors may not act capriciously or arbitrarily. As we discussed during your visit, I believe that the management of the current C.A.S.E. P&P does not afford my members the required "due process."

Despite a specific section in the P&P setting forth the criteria for delisting a supplier (i.e., finding a "safety of flight" issue and notice to the FAA), repair stations have consistently been told that delisting from the registry can occur for any deviation from the P&P or the C.A.S.E. standard. When vendors are delisted significant economic harm can result to both the carriers and the repair station.

Ironically, when a vendor is delisted from the C.A.S.E. registry it may not be removed from the auditing airline's approved supplier list. The C.A.S.E. auditor (or at least the airline represented) may decide that the supplier was good enough to be on the approved supplier list of the auditor's airline, but not good enough to be listed in the C.A.S.E. registry.

Finally, if the vendor appeals, C.A.S.E does not consistently respond in accordance with its clearly established procedures. When a supplier is improperly treated, the ultimate purpose of C.A.S.E. (i.e., the efficient use of air carrier and vendor audit resources) is not achieved.

- Antitrust – Group Boycott. Under Section 1 of the Sherman Act, industry self-regulation of the type performed by C.A.S.E. can be challenged as an unlawful group boycott if its actions result in a refusal to deal as an unreasonable restraint of trade. This type of legal challenge becomes relevant as the application and/or interpretation of the P&P and standard by your auditors becomes more and more arbitrary, unreasonable and/or moves further away from the valid goals of the organization.

  The refusal by your members to deal with a delisted supplier, or to deal with the delisted supplier only on more onerous terms than other suppliers, may affect price and output in the relevant airline market. If this result is based on invalid criteria or results from inconsistent application of the P&P and/or C.A.S.E. standard, it could amount to an unreasonable restraint of trade.

  To make certain such a challenge is invalid, C.A.S.E. must ensure:
  √ An unambiguous standard;
  √ With requirements relevant only to valid C.A.S.E. goals;
  √ Which are clearly documented and understood by all concerned;
  √ Enforced by consistent industry-wide application with trained auditors.

- Tortious Interference. While liability for a claim of tortious interference with contractual or other business relationships may be only a limited concern to C.A.S.E., it cannot be ignored. C.A.S.E., rather than its individual members, must control the C.A.S.E. auditors when performing C.A.S.E. sanctioned audits. To that end, C.A.S.E. must constantly strive for consistent understanding and application of the P&P and the C.A.S.E. standards to the vendor base.

Liability for tortious interference would be established if C.A.S.E. (through a C.A.S.E. member and/or a C.A.S.E. sanctioned auditor) improperly uses the P&P or the C.A.S.E. standard to injure a supplier by inducing someone else from entering into or continuing a contractual or business relationship with that supplier. This claim can certainly be made if an arbitrary and capricious act by a C.A.S.E. sanctioned auditor causes someone to be pulled from the registry and, as a result, others refuse to do further business with that entity. This should be particularly troublesome to your organization when C.A.S.E. trained auditors use non-C.A.S.E. sanctioned audits to impose C.A.S.E sanctions. An example would be when an airline audit turns into a C.A.S.E. "sanctioned" audit and because of a failure to meet a C.A.S.E. standard the vendor is pulled from the registry.

While the foregoing is not exhaustive of the possible legal issues that the organization must consider whenever it reviews or changes its policies and procedures or trains its auditors, these are the most serious.

By working together for the benefit of the airlines and their vendors, ARSA believes it will be able to resolve the deficiencies recognized with respect to the application of the P&P and standard to the vendors.

We would further suggest that C.A.S.E. seriously consider reviewing recent de-registrations to ensure they were taken pursuant to the plain language of the P&P in effect at the time of each delisting. If the vendor was pulled from the registry as a result of an airline induced audit and not a C.A.S.E. scheduled audit, the vendor should be re-listed pending a review of the current P&P for fairness, even-handedness and legal consequences. As we specifically discussed during your visit, there must be a clear delineation between a C.A.S.E. sanctioned/scheduled audit and an airline induced or scheduled audit. The two cannot be mixed or cross-wired or C.A.S.E.'s credibility, usefulness and lawfulness will definitely be questioned.

Your Servant,

Sarah MacLeod
Executive Director