

**Remarks of
Dave Siegel
President and CEO, US Airways
to the International Aviation Club of Washington
September 17, 2002**

The Airline Industry Recovery Process

Thank you, Rich. I appreciate the invitation to speak with the International Aviation Club and to allow this forum to be my Washington, DC, debut, so to speak. We are proud that we are the hometown airline of this great city. Our plan is to revitalize our position as the hometown airline so that we are a more important player moving forward. But since Leo Mullin has expressed his desire to deploy an armada to attack us and since my guess is that Continental, Delta and Northwest representatives, better known as the Nina, the Pinta and the Santa Maria, are here in the audience – I will take a pass on discussing the details.

Let me take this opportunity to say one thing, however. It is clear to us that every major network airline is struggling with how to be successful in this new operating environment. Delta's strategy is built on one basic element: US Airways' failure. Since that strategy appears not to be coming together as the folks in Atlanta would like, they are now scrambling to find alternatives, as they should. But it seems to me that adding Delta to the Continental-Northwest alliance introduces a whole new set of issues and complexities that will take regulators quite some time to deal with, unlike our alliance with United, which is essentially like the Continental-Northwest agreement already in place.

In any event, I want to thank Rich for reserving for me the introduction of a special guest here at the dais. I appreciate Duane Woerth and Pat Friend being here today. And as you may have noticed, many of my US Airways colleagues who are the respective leaders of our labor unions are with us as well. But the gentleman up here at the head table outranks them all in a special way.

Lou Damiano is a fleet service worker at our Orlando station. Lou joined the company on January 5, 1949 – when my mother was still in high school! He has 53 years of service and is number one on the company's seniority list. I am very pleased that Lou could be with us here today so that I could publicly and proudly thank him for his dedicated service to US Airways. He epitomizes the loyal and talented workforce that makes up the US Airways family. And he also symbolizes the challenge that the new management team has confronted in trying to make sure that our airline is around for another 50 years, to provide career and retirement opportunities for thousands of other employees. So Lou, thanks for coming up here today. And thanks for your dedication.

You know, it seems like every speech I have made over the past three months has involved my asking for something. Wage and benefit cuts from employees. Lower lease costs from aircraft lessors. Better financing rates from creditors. Since I am here in front of the International Aviation Club, I figure to carry on in that tradition. So on behalf of all the carriers that want access to Heathrow, let me just say to the British government:



Give us some slots. If our employees can make sacrifices, so can you!

There. I feel much better...

As I sketched out my remarks today, it became clear that the most logical topic was "Steps for an Airline Recovery." Now, all of us in the industry have been through a lot this past year. We have hit bottom, both emotionally and financially. We have taken verbal and physical abuse. So when I walk into a gathering of recovering airline industry people like this one today, it's almost like going to a support group meeting. I feel like I should walk up to the microphone and simply say:

"Hi. I'm Dave. I'm an airline executive, and I've got a problem..."

But I think I've got a more constructive and productive opening line:

"Hi. I'm Dave. I'm an airline executive, and I've got a solution."

The only hitch is that it's not a 12-step recovery process, because we don't have enough time. So I've shortened it up to reflect the need for speed. I'll call it the Siegel 5-step recovery process. And this clearly has applicability beyond the U.S. airline industry. While we are several years ahead of the rest of the world in dealing with the cycles associated with deregulation, our international counterparts are eventually going to be confronted with the same challenges that beset U.S. carriers.

Step #1: Recognize Reality.

And the reality is that if we don't do something to dramatically turn this industry around, many of us are going to go out of business. The reality is NOT that we are going to get smaller, or our stock price is going to remain depressed. Or that we can only give small raises next year. It's that we are going out of business.

Mature, network airlines have been reporting record-breaking unsustainable losses. The key word here is "unsustainable," as in: "the inability to keep in existence."

And the evidence is pretty compelling:

- Most major carriers are burning cash at rates that were once unthinkable.
- The market share for low cost competitors has grown from 3 percent to 20 percent over the past ten years.
- Labor costs have grown from 44 percent of passenger revenue in 1991 to 56 percent of passenger revenue in 2001.
- While labor costs at the majors are growing, employment is migrating to the low cost carriers, where employees are willing to take jobs at drastically lower wages, with little if any pension, and fewer benefits.
- Full fare passenger revenue has declined an alarming 59 percent over the last two years.

I think US Airways completed Step #1 pretty quickly, along with our unions' leadership. It helped us tremendously that we were not debating reality, or the need to do something industry-leading. We were forced to think big thoughts, and our unions thought along with us. It wasn't easy. In fact, it was downright painful. And we had some difficult negotiations. But ultimately, we were able to get there because all parties had a common definition of reality, and all parties wanted to see US Airways survive.

Step #2: Accept the Implications and Limitations.

The first implication was the basis for building our restructuring plan. To succeed, we needed to permanently restructure our company. No concessions with snapbacks. No short-term aircraft lease rate cuts that would get us over the hump, only to come back to haunt us later. No putting off the hard decisions for later.

Our choice was stark, yet simple: restructure or liquidate.

Would we become the next Eastern, Pan Am or TWA, or would we become the next Continental?

So as we sought to get our costs under control, we confronted the major issues an airline must face.

On the fleet side, we said we would not pay overmarket rates for aircraft. The world had changed, and paying \$300,000 per month for a 15-year-old 737 was not reasonable. Some lessors didn't believe us and simply refused to negotiate with us on more reasonable rates.

Guess what? They are getting their planes back in the first round of aircraft returns. I think that other lessors now recognize we mean business. The days of hoping we wouldn't notice that we were paying too much for aircraft in a depressed market are over. We are not going to threaten or bluff. We are going to negotiate reasonable rates for aircraft and other services. And if we can't achieve them, we'll look at the alternatives.

On the labor side, we analyzed the financial condition of the company, and shared the data with our unions. We developed targets for each work group. But we pretty much stuck to the target numbers. There was no room to split the difference, as might be the case in a typical negotiation. We asked our union leadership to be creative in how to reach the target, but we tried to clearly define the goals and articulate the implications and limitations.

For example, our health care costs were clearly out of whack. Through the various mergers and acquisitions of our company's history, we had 18 different health care plans on the property. That's right – eighteen! We had tried, but had been unsuccessful in getting unions to eliminate plans in Pittsburgh or Florida or North Carolina that a small group of employees wanted to maintain.

We stated simply and unequivocally that we had to change, and get the benefit of lower costs associated with volume purchasing of health care. Guess what? We are moving to one health insurance provider that will provide options for our employees. The savings are significant. Even so, there was only so far we could push that string. At a typical U.S. corporation, employees pay 17 percent of the monthly premiums toward their medical coverage. Even after we went from 18 plans to one, our employees will pay, on average, 8 percent of the monthly premiums.

I certainly don't want to sound ungrateful – especially with some very important constituents sitting right here in the front – because I am not. But airline employees have typically enjoyed some very rich and rewarding benefits, including highly subsidized health care coverage. There are implications for our industry if we are going to consistently be uncompetitive with the rest of U.S. companies on issues like this.

Retirement programs are another example. Defined pension programs are simply too expensive for most U.S. employers, which is why they are moving to 401K programs with matching contributions. Our competitors like Southwest and Jet Blue are counted among that group. Yet most employees of traditional network carriers are covered by defined benefit pensions that are simply too costly compared to the rest of U.S. industry.

We have defined those stark implications and limitations for our company moving forward. We are not going to pillage the pensions of our employees. But what you saw during our negotiations was a clear message: if your members insist on retaining their defined benefit retirement pensions, they are going to have to carry a larger responsibility to fund these very expensive programs.

Step #3: Define the Terms for “Labor-Friendly” Recovery.

I’ve repeatedly shared with my US Airways colleagues a lesson taught to me by Gordon Bethune: don’t fight with your spouse, and don’t fight with your employees. From Day One, I have expressed my desire to implement a labor-friendly restructuring, where labor was a partner with management, and we work constructively to achieve mutually beneficial results.

If I polled this audience, I imagine I would get multiple – probably even contradictory definitions of “labor friendly.” I know there were multiple opinions within the US Airways family when we started this process. Therefore, it was vital that just as we needed to lay out a vision of where we were trying to take the company, it was also critical that we defined just what “labor friendly” meant within the context of trying to save a company operating in a rather desperate environment.

“Labor friendly” does not mean labor sets the agenda, or management gives employees everything they want in order to achieve labor peace. Frankly, labor peace achieved through acquiescence is a cop-out. Responsible management must develop the plan, articulate the vision, communicate the goals, debate the merits, and hopefully convince the stakeholders – including employees. It may not be easy or fun. But if successful, it will be meaningful.

But “labor friendly” does mean a number of other things that are important to labor – and thus, to the overall success of the company. So we defined a labor friendly restructuring as one that involved:

Insuring the company’s immediate survival

- Providing for long-term success
- Saving as many jobs as possible
- Preserving as much pension and benefit compensation as possible, in combination with competitive wages

To this last point, we took this point of view: Wage cuts are painful, and giving up benefits is hard. But given the economy and the state of the industry, most employees were still going to be better off keeping their current US Airways job with a pay cut, than the alternative.

So we never started any conversation with the goal of “How are we going to save all the existing jobs at US Airways?”

That wasn’t the choice. The choice was between 35,000 jobs and no jobs. And we said emphatically that we would rather choose 35,000. To their credit, union leaders also made that difficult but smart choice. So while our recovery is going to involve furloughs and job reductions, it is clearly designed to provide for the long-term success of the company. In my book, that is “labor friendly.”

Being labor friendly also means trying to insure employees’ retirement income. Think about this. If we had not found a solution to reduce our labor costs prior to filing for Chapter 11 protection, there was a real possibility that the Pension Benefit Guaranty Corporation might have seized and terminated our pension plans. For a pilot age 50, for example, with spouse and dependents, he or she could have seen their benefit drop from about \$160,000 per year to \$23,000 per year. Furthermore, post restruc-

turing, our employees will own approximately 30 percent of the new company, and more than half of US Airways' cash flow over the next 7 years will go toward funding employee pensions. Solving that problem with our unions is what I call labor friendly.

Step #4: Communicate, Communicate, Communicate.

This isn't rocket science. Stakeholders want to know what is going on. They want to know the company has a plan. They want to know where management is trying to take the organization. They want to know about the progress. They want to know the alternatives.

We have used every possible means to communicate as effectively as possible with internal and external constituencies. And not just one-way communication. It's got to be two-way. Our management team is out there talking to employees and customers. We are answering emails and returning phone calls. We are conducting online chats. We are out in the field at airports. I have held almost 30 employee road show meetings in my six months on the job. Part of the purpose was to inform employees about our restructuring plan and progress. But frankly, it has been just as important for employees to ask questions, vent, express their frustrations, and sometimes even yell at me. They are anxious and angry. They need to yell at someone. Better to come and yell at me than go home and yell at their spouse or child. But in the end, I think they know I didn't create this problem. I am trying to solve it. And I am trying to solve it with their participation.

Step #5: Think Big Thoughts and Explore the Realm of the Possible.

Although we don't like to talk a lot about it, the truth is that we are in the process of implementing the largest employee concession package in the history of the U.S. airline industry. That's not something we boast about. But we are proud to have worked successfully with our labor unions to reach agreement and to successfully implement our restructuring.

Later today, we will find out the outcome of the remaining concession packages. I am very hopeful that the CWA agreement will be ratified by our customer service and reservation agents. Frankly, I simply don't want to guess on the IAM. But no matter what the outcome of the votes today, the company and the employees have been thinking big thoughts these last few months.

Who would have thought we could have accomplished so much in such a short time?

Since May, we have:

- Received the unanimous (but conditional) approval from the ATSB for a \$900 million loan guarantee
- Reached a codeshare deal with United Airlines (with a government review hopefully near completion)
- Successfully negotiated new labor contracts with five unions, representing 7 different work groups (not including CWA and IAM).
- And secured new sources of financing at a time when there is NOT much interest in investing in the airline industry.

Exploring the possible has also allowed us to move forward with our rather unique "jets for jobs" proposal, which will manifest itself in the launch of MidAtlantic Airways next spring. We have been given unprecedented relief from pilot scope clause provisions, to fly over 400 regional jets, including new generation 70-seaters. In exchange for that agreement from ALPA, we are building MidAtlantic

into a US Airways Express carrier, where it will be staffed by furloughed mainline employees in virtually all work groups. Many of those employees furloughed after September 11 know that airline jobs are pretty hard to come by nowadays. I am pleased that they see the company's commitment to provide jobs at MidAtlantic as another attempt at "labor friendly" management. Most of the questions I am getting from furloughed employees about MidAtlantic are basically "when will it be up and running?" But without our union leaders' willingness to think big along with us, we would not have that soft landing option that I hope to soon have available to furloughed employees.

Have you noticed that I have gotten through this entire speech, and haven't uttered the word "bankruptcy" even once? Pretty impressive, huh?

What's even more impressive, however, is that in the midst of having our financial challenges splashed on the front page.... And in the midst of taking pay cuts.... And in the midst of our filing for bankruptcy.... Our employees have simply gone out and run the best airline in the business. In July, we were number one in on-time arrivals and baggage handling. We are likely to be number one in on-time arrivals for August as well. In fact, our August performance was the best in the company's history. And we haven't had a cancellation in our transatlantic operations since May.

All in all, an absolutely amazing operation. Our employees deserve the credit, since they are out there on the frontline, delivering a great product each and every day. But they have refused to let the challenges become a distraction. Perhaps because they recognize our efforts to implement a labor friendly restructuring. Perhaps because they see there is a plan for this company to succeed. In any event, I am going to make the assumption that our efforts on Step #4 to communicate, communicate, communicate are working. For that matter, I feel pretty good that we have covered all five steps, and now we just need to execute.

Our employees have joined with us to save this company and build a foundation for long-term success. We are not finished with the task, and let's not kid ourselves – there are lots of challenges that we must still confront. But with each day, I grow more confident about the future of US Airways. So Lou, if you think you've got a few more years left in you, let's make a date to be back here in 2012 so that you can listen to me talk about our success, rather than our efforts to be successful.

Thank you.