TESTIMONY OF W. DOUGLAS PARKER, CHAIRMAN AND CEO OF US AIRWAYS GROUP

Before the United States Senate Committee on
Commerce, Science and Transportation
January 24, 2007

Mr. Chairman, Senator Stevens,

Thank you for the opportunity to appear before you today to discuss the issues confronting our industry. I am Doug Parker, Chairman and Chief Executive Officer of US Airways Group. I have spent over twenty years in the airline industry, starting with American Airlines, followed by Northwest Airlines, and then joining America West Airlines in 1995 as Senior Vice President and Chief Financial Officer. I became Chairman and CEO of US Airways after the September 2005 merger of America West and US Airways. I am proud to be here representing the 35,000 employees of US Airways Group. Every day, we operate almost 4,000 flights to nearly 250 communities in the United States, Caribbean and Europe. Our outstanding frontline employees are represented by the following labor unions –ALPA, AFA, IAM, CWA/IBT, and the TWU.

It has been five years since I last appeared before you. Today, I would like to speak to you about three issues –

1) The State of the Industry Since I Last Spoke With You;
2) The Successful Merger of America West and US Airways; and,
3) The Future Prospects for the Airline Industry.

It was shortly after the tragic events of September 11th, when I last addressed the Congress. The airline industry was in a precipitous financial tailspin when Members of this Committee and others in Congress stood with the industry by demonstrating leadership and conviction in enacting legislation to provide much needed liquidity to our industry. The measures passed by Congress – direct cash transfers, the creation of a loan stabilization board, and relief on war risk insurance premiums, among other actions – enabled the industry to cover its basic operating expenses, including paying employees and serving communities at a time when commercial loans and financing were unavailable at any cost.

All of us in the industry were grateful for the help of the nation. And we all knew that the industry, like America, had been changed forever. But none of us could have foreseen the severity and duration of the crisis that faced airlines. Since 2001 there have been:

- 24 domestic Chapter 11 filings and 5 liquidations;
- $35 billion in cumulative losses; and,
- 154,000 airline industry employees laid off or terminated.

The severe impact of multiple shocks to the aviation industry caused the industry to repeatedly come back to Congress for help on a regular basis. While Congress did help, we also heard the message – and appropriately so –that federal support should be the exception, and not the rule – and that it was time, as an industry, that we got our own house in order. At America West – now US Airways – we took that message to heart.

As a result, at America West, we re-doubled our efforts to lower costs and improve our business plan. We simplified our fare structure for the benefit of consumers by lowering many of our everyday walk-up fares, eliminating Saturday-night stay requirements and reducing the number of fare categories that we sold. Not only did we simplify those areas where passengers interacted with the airline, we also internally examined all our business processes and procedures. By eliminating inefficiency and waste, we were able to further lower our costs.

We believed if we aggressively managed our costs and made things easier and simpler for customers they would respond, and we would return to profitability. Consumers responded favorably to our new policies and pricing, so much so that by 2004, through the hard work of all of our employees, we had turned around our airline and returned it to profitability.

As we returned to profitability, we sought strategic opportunities to strengthen our company for the longer term. In 2005, we were presented with an opportunity to join with US Airways, a leading East Coast carrier that was then facing great difficulty. Through its two bankruptcies the carrier had made great strides in lowering its overall cost structure, but given the inroads made by low-cost competitors in its core markets, it was unclear that US Airways would ever emerge from its second bankruptcy. We believed that a merger with US Airways presented an opportunity to strengthen our own company and provide a brighter future for the nearly 35,000 employees of US Airways and America West.

Many experts questioned our strategy. We had named our merger with US Airways "Project Barbell." One industry analyst called it "Project Dumbbell." a national newspaper featured a headline that proclaimed "America West Foolishly Bets the Farm." Yet, despite negative press, we raised over 1.5 billion dollars in equity and partner financing – the most ever raised by a U.S. airline. I am proud to say that for our employees, our shareholders, and our customers that "foolish bet" has paid off handsomely. Indeed, we posted a profit for the first three quarters of 2006, and are one of the only network carriers to forecast a profit for the fourth quarter. The frontline employees of US Airways and America West who sacrificed so much to turn around and then merge our companies will receive 2006 profit sharing payments in March. In fact, year-to-date through September 2006, our total accrual for profit sharing was $48 million. We fully anticipate that amount to increase after we report our fourth quarter results next week.

Since the merger, we have worked to instill our customer focused mantra across our larger, combined workforce. We have continued to implement popular fare reductions in diverse markets such as Syracuse, NY, Washington, D.C., Huntsville, AL, Greensboro, NC and Augusta, GA. Most recently, we have lowered fares in Harrisburg, PA. In total, we have lowered fares by as much as 83 percent on over 1,100 markets.

These fare reductions have proven beneficial to consumers and communities, particularly so in smaller communities where they have helped small airports retain their local traffic base, and kept local travelers flying from their hometown airport, instead of driving to other airports.

We are proud to have brought low fares to communities that have never been served by an airline with a low fare mindset. US Airways, however, offers more than just low fares. We offer service to 234 destinations in the United States and 28 countries, including 19 European destinations with new service to Athens, Brussels and Zurich starting this summer. We also offer first-class seating, a generous frequent-flier program and the ability to connect to cities all over the world through our various code sharing agreements.

What we don't offer is the old legacy airline mindset. After September 11th, we recognized the structural changes that were necessary to survive. Our industry is continuing to evolve, but it is clear that the days of high-fare, high-cost airlines are gone, and that low-cost carriers are growing and thriving. At the same time, the low-cost carrier business model of point-to-point flying is limited and cannot serve all passengers, especially those who want to fly to international destinations or the smallest of communities. We believe our hybrid model, drawing upon the best of the traditional airline model and the best of the low-cost model is the right plan for today and for tomorrow. For price sensitive passengers, we offer low fares. For other passengers who want enhanced frequent flier benefits or access to a global network of destinations -- we offer those as well. In a deregulated industry, there is ample room for both point-to-point carriers and healthy network carriers such as US Airways.

Financially, the new US Airways has been a success. Our stock appreciated 45% in 2006, and we made over $400 million in profits (excluding special items) in the first nine months of 2006. This has enabled us to lower our costs further by restructuring our debt to more favorable terms, reducing credit card holdbacks and increasing cash flow. As I mentioned, we've set aside approximately $50 million in profits, to date, to share with our outstanding frontline employees, not management. Finally, one other significant financial accomplishment was the complete and early repayment of both America West's and US Airways' ATSB loans ahead of schedule, with interest

Mr. Chairman, we are proud of our accomplishments, our employees, and our airline in successfully navigating the challenging years since 2001. Despite naysayers and doubters at each and every critical juncture, we have remained loyal to our beliefs that if we managed our business well and gave customers what they wanted, our version of a network carrier would be successful.

While we believe we have done well, we know we can't rest on our laurels. We owe it to our shareholders and employees to constantly look for ways to make our company even more competitive in order to face the future and all that it may hold. With that in mind, we decided to launch a public offer for Delta Air Lines on November 15, 2006, after our private approaches were rebuffed. I would add that this transaction is different than the norm, as Delta is in bankruptcy. In this situation, it is Delta's creditors, not management or shareholders that ultimately are responsible for deciding Delta's future.

One of the key reasons why we believe Delta is an attractive merger partner is that Delta's bankruptcy provides an opportunity for Delta to restructure and lower its costs. US Airways successfully did this in its bankruptcies, and its lower cost structure is one of the reasons for the success of the America West/US Airways merger. We believe this success can be replicated and exceeded by a merger of Delta and US Airways. Allow me to highlight some key metrics and commitments of our proposal:

- $1.65 billion in projected annual cost savings and synergies;
- No furloughs or layoffs of frontline employees of either US Airways or Delta, a promise we made and kept in the US Airways/America West merger;
- All domestic airports that have US Airways or Delta service today will be served by the new Delta after the merger;
- The new Delta also will be one of the most financially stable airlines in the industry. The company will be well-financed to meet its current and long-term obligations, as well as have a comfortable cash reserve to withstand industry downturns;
- Finally, the new Delta will have a management team that understands how to integrate two large, complex airlines. We have been there before, and know we can do a great job with Delta.

Some critics cynically dismiss this merger as an attempt to generate a windfall for US Airways' shareholders and executives on the backs of the sacrifices made by Delta's employees during the bankruptcy. Such criticism misconstrues the philosophy that guides the US Airways' management team and Board of Directors. Our management team is not made up of financiers and other "Wall Street" types who are here for the deal and then move on to some other transaction with no regard for the employees. Rather, we are all airline people. Most members of the senior management team have 10 years or more running airlines. Put simply, we love this industry. That is why we are trying to build a network airline that can compete successfully against all carriers: low-cost, traditional, and international mega-carriers. In order to do that, we need to build an airline that is strong financially and able to withstand the next external shock or economic down-cycle that hits our industry

- For consumers this means their favorite flights and services are there for the long term, as are their frequent flier miles;
- For communities, it means a partner and corporate citizen that also is in the community for the long term, with service stability and certainty; and,
- For our employees, we want a company where their jobs and benefits are stable not just during the industry peaks, but also during the inevitable difficult times that are a fact of life in our industry.

Since this Committee last reviewed an airline merger some six years ago, a lot has changed in the airline industry. Six years ago, although Southwest had a national presence, airlines such as JetBlue, AirTran and Frontier were scarcely known beyond their home bases. Since the industry began to emerge from the depths of the immediate post-9/11 time period, it is low-cost carriers Southwest, JetBlue and AirTran that have led the industry, with both profits and growth. A few examples of this growth include:

- Since 2004, Southwest has started service in 4 major airline hub markets – Denver, Philadelphia and Pittsburgh and Washington Dulles, adding 126 new departures in these markets;

- JetBlue added 16 new markets in 2006 and has already announced new service to San Francisco this year. In addition, JetBlue serves 23 markets from Boston, having only started service there in 2004; and
- AirTran has grown both internally through the delivery of at least one airplane per month since 2005, and also is seeking to grow through an acquisition of Midwest Airlines.

Passengers have responded. Six years ago, low-cost carriers accounted for a small fraction of the market. Today these carriers account for approximately 30 percent of all domestic traffic and an even larger share along the Eastern Seaboard. As traditional carriers have redeployed aircraft from domestic routes to international routes, new entrants have moved to take advantage of the opportunities created. Indeed, these new entrant carriers are no longer afraid to compete head-to-head with traditional carriers. For proof of these carriers' popularity and strength one need only look at Southwest's entry into markets such as Baltimore-Detroit, Philadelphia-Columbus, and Denver-Chicago, or the fact that JetBlue offers a competing shuttle service within the Northeast as an alternative to the Shuttle flights operated by US Airways and Delta.

The low-cost carriers are continuing to grow. Today traditional airlines are only now looking at re-fleeting their mainline operations, with deliveries largely pushed out beyond 2010. By contrast, new entrant carriers have placed firm orders for almost 335 aircraft over the next five years. These new entrants and low-cost carriers provide head to head competition, for they are the price leaders in city pairs where they compete and they influence pricing in nearby markets. Our experience has been that passengers will drive 60, 90 or even 120 minutes for a lower fare. Today, we face low-cost carrier pricing from airlines such as Southwest, JetBlue and

AirTran, whose combined market share currently approaches one-third of the domestic market. After the merger, 81% of US Airways/Delta passengers will have low-cost carrier competition at their local airports. An additional 13% will have access to such service within 100 miles.

We fully expect that, for example, by lowering fares in Harrisburg, PA, US Airways will recapture traffic that has been driving from Central Pennsylvania to Baltimore for lower fares. This phenomenon is repeated in communities big and small throughout the United States. The old US Airways would lose money on every ticket sold were it to have lowered fares in markets where it did not directly face low-cost competition, in places such as Harrisburg, PA, Wilmington, NC or Huntsville, AL. In sharp contrast, the new US Airways has a cost structure that permits it to lower fares and remain profitable, and indeed, we have to in order to competer with the growing low cost carriers.

We believe that through our proposed merger we have the same potential to benefit consumers that we did in the US Airways/America West merger. With the ability to lower costs, gain efficiencies and adjust flying to better align demand and capacity, we believe we can lower fares in dozens of new markets and communities, just as we are doing at US Airways today. Moreover, passengers will benefit from the ability to get to more destinations via more routings; it is far more likely that thanks to the new Delta more passengers will be able to get to their destination at a time convenient for them and at a price that is reasonable, than would be possible under either stand-alone Delta or US Airways.

Because lots of misinformation and confusion has surrounded our bid for Delta, we want to provide you with the clear facts:

1. Every U.S. city currently served by either airline will continue to have service from the new company.

2. On the labor front, we have made several commitments to the employees and unions of US Airways and Delta. We have committed to moving to the highest common denominator on labor costs for all employee groups. We have committed to not furlough frontline employees of either US Airways or Delta. Instead, we plan to manage the mainline operational employee reductions through attrition and other voluntary means, just as we did successfully in the US Airways/America West merger. We have committed to allowing Delta's employees, the vast majority of whom are not represented by a union, to decide for themselves the question of union representation, and to do so without management opposition. And we have committed to honoring the terms of all labor agreements—including the Delta pilot agreement. Finally, and importantly, we will not close any hubs in either the current Delta or US Airways' networks.

3. We expect that at the appropriate time the Department of Justice (DOJ) will fully investigate the merger. We plan to work cooperatively with DOJ during the investigation and have begun to do so already. We spent a lot of time prior to making our bid for Delta considering the many potential antitrust issues, and we believe that our transaction is beneficial for consumers, communities and a major step toward building a company that will provide stability for its employees over the long-term.

4. This merger is in the best interest of consumers. Our synergies are not predicated on raising fares. They are predicated on gaining efficiencies by cutting duplicative costs in locations served today by both US Airways

> and Delta. If we were planning, as our critics claim, to gain synergies by raising fares, that plan would fail in the long run, because low-cost carriers would come in and undercut the higher fares. The industry is brutally competitive today and will remain so even after this merger. Our model is based on a sustainable plan to serve markets at a lower cost, and thereby be able to compete with low-cost carriers on price.

The decisions that we make will be decisions that we believe are in the best interests of the employees and shareholders of the new Delta and the consumers and communities we will serve. But, they are by no means zero-sum decisions. New entrants and low-cost carriers have hundreds of aircraft deliveries scheduled for the coming months and years. These carriers can and will quickly capitalize on new market or growth opportunities. Indeed, AirTran, JetBlue and Southwest have publicly expressed interest in acquiring divested assets as a result of the merger. In the current environment, the loss of a carrier in a market or a drop in frequencies does not equal a permanent loss of competition. What drives airline expansion decisions is demand, and demand is driven by continued economic growth and expansion. As the national economy continues to grow and regional economies grow even faster, demand for air travel will continue to encourage new market entry by traditional and low-cost carriers alike, as well as by new start-up airlines with business plans that have not yet been born.

Our industry stands at a crossroads. We can continue down the current path of boom and bust uncertainty, or we can chart a new course. The question that legislators and policymakers face is simple; shall we embrace change to better serve our customers, employees and communities, or are we content with a future of continued financial uncertainty and government bailouts? We believe – and our experience has proven – that we have to break with the failed policies of the past in order to provide a more sustainable future for all stakeholders.

Whether or not our industry is on the cusp of a major consolidation period, I don't know. What I do know is that our industry remains extremely fragmented with substantial levels of excess capacity. After the merger, and the announced capacity reductions, our industry will remain highly-competitive, and consumers will continue to enjoy high-service levels and low fares. We have put forth a fair and equitable proposal, which we have enhanced to make even more compelling, to merge with Delta while the carrier is still in bankruptcy, and to make the combination of Delta and US Airways into a stronger, more competitive carrier than either carrier can become on its own. Put simply, in this merger, 1+1 most definitely equals 3, just as it did with our prior merger.

While being a good corporate citizen is important to US Airways, and we know to Delta as well, the most important group of stakeholders are our customers and the frontline employees. Delta's historical reputation for customer service was not developed in the boardroom or the executive offices. It is earned every day on every flight by one of the most dedicated and professional work forces in the industry. I pledge to you today that we will not furlough any frontline employees of Delta or US Airways as part of this merger. We will align the work group cost structures between current US Airways and Delta employees, and going forward we will move to the higher cost scale. In fact, the day after the merger closes Delta employees won't notice any changes—not even a change to the name of the airline. Over time, we will seek to take the best practices from either Delta or US Airways and standardize them across the new combined airline. Our ultimate goal is to build a stronger and more secure future for all of our stakeholders.

Mr. Chairman, Senator Stevens, thank you for this opportunity to visit with you today. I look forward to answering any questions the Committee might have.