



# U·S AIRWAYS

**DOUG PARKER AT THE NATIONAL PRESS CLUB**

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### **INTRODUCTION**

Thank you for the introduction, Theresa, and thank you to everyone for coming today. I'd first like to express my heartfelt thanks to the members of the National Press Club for their hospitality. This luncheon is a wonderful tradition and I am honored to be a part of it.

In addition, I'd like to thank Jamie Horwitz, who is here on behalf of the Transport Workers Union and was instrumental in organizing this event. I'd also like to extend my deep gratitude to American Airlines' union leadership for joining me here today: Captain Dave Bates, President of the Allied Pilots Association; Laura Glading, President of the Association of Professional Flight Attendants; and John Conley, International Vice President and Assistant to President Jim Little of the TWU. It has been a pleasure working with all of you over the past several months, and I look forward to what our future has in store.

I am thrilled to be here today in our nation's capital. This room and this town live at the absolute intersection of policy, business, media and the public interest. So I wanted to be here to discuss, for the first time in detail, my view of the state of the airline industry and US Airways' vision for our company's future.

### **INDUSTRY OVERVIEW**

The level of media interest focused on the airline industry continues to surprise me. Based on our size we garner a disproportionate share of coverage—although if you think about how many people and communities we impact, perhaps it is not surprising. The airline business is one of the most dynamic and challenging industries to navigate, given that so many pieces of our business are out of our control – from the impact of oil prices to weather patterns. Although margins in the industry are known for being slim, small profits have a big impact. In 2011, the domestic airline industry added 10,000 jobs even though we made less than 300 million dollars in total. We also served over 780 million passengers traveling to, from, and within the U.S., accounting for roughly five percent of national GDP and driving one trillion dollars in global economic activity. Today, our industry provides the framework for ten million jobs.

As economic growth has slowed over the past several years, airlines have adapted and evolved. Beginning in 2008, we have focused on efficiently using capacity to meet demand, controlling costs and maximizing service to destinations with the greatest demand. Other airlines have taken similar actions.

At the same time, legislators and regulators have sought to improve and preserve the health of our industry. The A4A Board is working more effectively with Washington to ensure safe and secure air transportation and to enable U.S. airlines to thrive while stimulating economic growth. It's true, though, that we need to do more. Our country needs a practical national airline policy to address these hindrances in order to foster sustainable profitability, benefits for customers and additional jobs. But we have a lot to show for our efforts: policymakers have helped the industry to take great strides in a more active regulatory environment.

On that note, I'd like to thank Congress, Secretary LaHood and FAA Administrator Huerta for their vigilance in making air travel the safest it's ever been. Their steadfast focus on safety is deeply appreciated and shared by all of us in the industry.

## **US AIRWAYS' PERFORMANCE**

Now let me tell you what's happening at our company. The team at US Airways is doing a phenomenal job and our results and our prospects have never been stronger. We have already disclosed that we will have a strong second quarter and based on current business conditions, we are expecting a very strong full year 2012.

We are producing record revenues, record yields, and very strong load factors. We are keeping our unit costs down and we are flying a great airline. So far this year we have set new records in nearly every operating metric we measure. And this is at an airline that has led the network carriers over the past five years in the key customer reliability metrics like on-time performance and baggage handling.

The credit for all of this success goes to the 32,000 hard-working people at US Airways. They are doing an amazing job of taking care of our customers, and I can't thank them enough. It is an honor to represent them here today. And it is the responsibility of our management team to ensure we are doing everything we can to support them and make US Airways as strong as it can possibly be.

## **BENEFITS OF MERGERS**

So, you may ask, if US Airways is doing so well on its own, why do you spend so much time and energy talking about mergers? Why don't you just keep doing what you're doing so well as an independent airline?

First of all, from the first time we ever mentioned the benefits of mergers we have always said there is no need for US Airways to participate – and that is most certainly the case today.

But just because we're doing well independently and have a model that works well, that doesn't mean we shouldn't work to make the model even stronger. We ask each of our team members to continually raise the bar and they should ask the same of us. We owe it to them and our other stakeholders to make our airline not just strong and viable, but as strong and as competitive as it can possibly be.

That's where mergers come in. Mergers have been used to great effect by United and Continental, Delta and Northwest, Southwest and AirTran, and in our own America West-US Airways combination in 2005. All four combined airlines provide better networks and are now profitable. By combining complementary networks to provide more attractive and efficient service, mergers have led to increased traffic, cost reductions, and vigorous competition.

US Airways is a prime example of this. Though oil prices were the same in 2011 as they were in 2008, our focus on offering consumers more choices in how and where they travel, as well as on internal costs, helped US Airways turn an \$800 million loss in 2008 into a \$100 million profit in 2011.

The benefits of this trend extend way past the bottom line: there are real advantages to combining airlines for employees, customers and communities. Employees will benefit from greater job security and more long-term opportunities if they're working for a successful airline. Customers will gain more flight options at better times to more places. And whenever two airlines combine, they open the communities that they serve to many more new travelers.

## **AMERICAN AIRLINES BANKRUPTCY**

American Airlines sat out this wave of mergers and it has left it strategically compromised. I know American Airlines well. In fact, I got my start there in the mid-80s. American is still a great airline with a powerful brand and great people, including the senior management team led by Tom Horton. But it is not the largest airline in the world anymore, or anything close to it. The mergers of United-Continental and Delta-Northwest created two airlines with much better developed route networks than American's.

Finally, late last year—after watching as the airline's revenue share was eroded by these new, more attractive networks, and unable to get its own cost structure in line with its revenue-generating capabilities—American resorted to bankruptcy.

While I have never worked for a company in bankruptcy, I've seen enough bankruptcies in this business to know what airlines can and can't accomplish through the process. First, bankruptcy does allow airlines to either negotiate new contracts with their labor unions or impose even worse terms upon their employees. It also allows the debtor to avoid repaying all of the people who have loaned it money. Finally, it allows the airline to renegotiate or terminate contracts, such as aircraft leases and airport obligations.

These steps can have significant financial advantages. Airlines can emerge from bankruptcy with lower operating costs and lower debt and not struggle nearly as much as they had before they filed. But bankruptcy cannot fix a revenue problem. Specifically, the bankruptcy process cannot repair a structural network problem like the one American has today. American cannot fix those network deficiencies through organic growth either. American's network weakness and the consequent revenue challenges can only be fixed through a merger, and only through a merger with US Airways.

## **AMERICAN'S NETWORK CHALLENGES**

Let me explain. In the five years before it filed for bankruptcy, American Airlines slipped from being one of the top three domestic airlines in the East, West and Central regions of the U.S., to being ranked no better than fourth in any of those regions. American's "cornerstone" strategy, which focuses on five large cities instead of creating a comprehensive network, only exacerbates this problem, as it doesn't address the network deficiencies of American versus United and Delta.

Simply put, American has hubs in Dallas, Chicago and Los Angeles to connect people around the United States, and strong international gateways in both JFK and Miami. But that leaves a large hole in the network up and down the East Coast. This means American cannot easily serve the popular and highly lucrative East Coast region, which causes it to miss out on an enormous source of corporate business, as well as all the consumers who travel up and down the Eastern seaboard.

Network gaps like this were acceptable several years ago, when every airline had some gaps, but with the breadth and scale of the new United and Delta, that is no longer the case. American is steadily losing corporate share to their larger competitors and it will never be able to gain it back without a comparable network.

## **US AIRWAYS ANSWERS AMERICAN'S CHALLENGES**

A combination with US Airways would create such a network. We've taken a long, hard look at American, and we know that together we can build the greatest airline in the world—an airline that can compete more effectively with the networks of United, Delta and others. Together, American and US Airways can connect more communities and provide greater benefits for American's creditors and US Airways' shareholders than either airline could on a standalone basis. Furthermore, we would also save thousands of jobs and offer better compensation and long-term opportunities for employees of both airlines.

Our networks are extremely complementary. There would be little overlap, and thus no need to scale back the service that either airline currently offers. With US Airways' network added to its own, American would be able to connect travelers to their destinations using a much more efficient and practical system of routes. For instance, instead of trying to convince travelers in Buffalo to fly anywhere on the East Coast or throughout the Southeast via a connection in Chicago – something customers simply won't do – Philadelphia, Washington D.C. and Charlotte will provide convenient connecting opportunities up and down the East Coast.

A more comprehensive network would protect communities across the U.S., which have come to rely on major-carrier service for their economic well-being. The combined airline would maintain all its hubs and focus cities, so inhabitants of those nine cities would continue to reap the benefits of having a major domestic airline as a next-door neighbor. In addition, those cities throughout the country that have limited connectivity through either US Airways or American would suddenly have many more travel options.

American is now in fourth or fifth place in all three major regions of the U.S. A merger with US Airways would vault the combined airline to a much more competitive position in each region: we would be first on the East Coast, the largest and most lucrative region for air travel in the world, first in the Central Region, and third on the West Coast. Such an outstanding network would appeal to consumers and allow the new American to once again compete for the title of "World's Leading Airline" – something its employees have been missing for a long time.

## **INDEPENDENT ANALYSIS OF PROPOSAL**

You need not take my word for all of this. In our industry, enormous amounts of data regarding airline performance, including routes flown, pricing and profitability, are publicly filed with the DOT and other government agencies. All of this publicly-available data has been exhaustively analyzed by numerous parties seeking to compare and evaluate the different options available to American. Every single independent analyst, on Wall Street and elsewhere, who has taken the time to learn the facts has decided that a merger with US Airways is in the best interests of American Airlines, its creditors and future shareholders. Moreover, almost all analysts who have looked at the data and then considered American's cornerstone strategy have concluded that it won't solve American's network problem.

American's employees and their advisors have come to the same conclusion as evidenced by their presence here today. Evidence of the financial creditors' support is found in the trading prices of American's unsecured bonds, which were trading around 20 cents on the dollar prior to news of US Airways' interest, and are now trading at over 60 cents.

## **TIMING / LEVEL PLAYING FIELD**

So if a merger would benefit consumers, create a more competitive industry and bring about all these great things for American Airlines and US Airways, and if everyone who has studied it thinks it's a good idea, the question then is, "why isn't it happening"?

From US Airways' own experience with mergers, we've learned that timing is everything. We believe the best course for all stakeholders is to effect a merger with American during the bankruptcy process. From a financial perspective, Chapter 11 can shield American from many of the transactional expenses that it would incur in a post-bankruptcy merger scenario. It also offers a better environment to work out details like fleet optimization, IT contracts, credit card arrangements and facility issues. From an internal perspective, effecting a merger during bankruptcy will provide more benefits to employees. Furthermore, employees support a merger between our two airlines during the bankruptcy process and that matters – especially in a customer service business. Lastly, US Airways is here now and ready to get this done and there is no guarantee that will be the case forever. American got itself into this situation in part because they were singularly focused on fixing their internal problems and assumed the outside world would stand still while they did it. That was not the case and very well may not be the case in the future, so we believe the time for action is now.

As part of its earlier commitment to a merger protocol, last week American announced its plan to open merger talks with interested parties in the near future. We are pleased with this development, because we hope it means we'll finally get the chance to present our plan in a fair and balanced process. But we also believe that it's more important than ever to ensure that this process is fair, transparent and credible.

All that we want is a fair chance to present our plan, and to compare it to all others in a process that doesn't disadvantage any of the options, and that determines the best plan based on what is best for the owners of AMR—its creditors. We understand there may be as many as four other airlines included in this merger analysis project, and we welcome the competition. We are certain that any objective analysis will conclude that the best plan for the creditors, employees and customers of American is a merger with US Airways during the bankruptcy process.

## **AMR LABOR**

Before I close, I want to take a moment and talk about the American Airlines labor leaders who are here today representing over 55,000 American employees. In the story American tells about its bankruptcy filing, the company's three labor unions—the Allied Pilots Association, the Association of Professional Flight Attendants and the Transport Workers Union—are the offenders, selfishly obtaining excessive wages and benefits at the expense of the company's long-term prospects. But over the past few months I've had the great fortune to work with the leaders of all three unions, and I can tell you these people have acted in the best interests of their members, and also in the best interests of American Airlines over the long term. They have done so with tremendous foresight, wisdom and professionalism.

The decision by those labor leaders to come out in support of a merger was an unprecedented move on their part, and I think is one of the great untold stories of this process so far. Some people improperly characterize their support as being driven by US Airways' willingness to pay their members more. But as they will tell you, the gap between our proposals and American's is not very large. Their support is not driven by short-term gains, but rather by the fact they have taken the time to study the long term strategic underpinnings of each plan. They have hired advisors to help them and they have listened and led. In the

end, they have supported this merger because they understand the best thing for their members is a strong, competitive merged airline with a long-term strategic advantage.

The employees of American Airlines are lucky to have these forward-thinking leaders representing them and I'm proud to be working with them. Thank you Dave, Laura, and John.

## CONCLUSION

In closing, as some of you may know, I'm a big fan of Bob Dylan and I sometimes use his lyrics in my speeches. So, as I consider where we are in this process the lyric that comes to mind is, "You don't need a weatherman to know which way the wind blows." What he meant was, there are some things you just know. You can spend a lot of time digging through all of the analysis, listening to the pros and cons and waiting for more information, but that just complicates the situation. You don't need it all to tell you what you already know.

This is one of those cases. You already know what the right answer is. Everyone on Wall Street knows it. The employees of American and US Airways know it. The creditors watching the bond prices know it. The media knows it. Now the public needs to know it.

That's where you all come in. The public has a lot invested in the outcome of American, which means it has a major stake in American's process. Please hold everyone's feet to the fire as this situation unfolds. Ask the tough questions and demand real answers. Cut through the noise and process and get to the substance. Don't wait for the weatherman to tell you what you already know.

There are 100,000 jobs at stake here. Their fate should not be decided in the dark.

Thank you very much. I'd now like to open up the floor for questions—and I'd be delighted to take tough questions and give real answers.

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