

A MAGAZINE FOR AIRLINE EXECUTIVES

OCTOBER 2003

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for the Future

*A conversation with
David Siegel, president and chief
executive officer of US Airways*

It is probably a large understatement to say that the 19 months that David Siegel has led US Airways have been eventful. In March 2002, when he assumed the helm of the airline after leaving his post as chief executive officer of Avis Rent A Car System, Siegel faced a daunting task — reinvigorating an airline seeking to reposition itself to better compete in a radically transformed industry.

Facing continued losses in the aftermath of the events of Sept. 11, 2001, US

“In March, as scheduled, US Airways completed its ‘fast track’ emergence from bankruptcy.”

Airways, the seventh largest airline in the United States, began seeking ways to improve liquidity, increase revenues and reduce its costs, which, at the time, were among the industry’s highest. As the pressure to restructure mounted, the airline in August 2002 filed for Chapter 11 bankruptcy protection, which shielded the airline from creditors, giving it time to reorganize. Through the

bankruptcy process, the airline was able to successfully restructure itself — “we looked at our strengths and weaknesses and devised a way to leverage our strengths and turn our weaknesses into assets,” Siegel said. A US\$240 million equity investment from the Retirement Systems of Alabama Holdings LLC, and a US\$1 billion loan, US\$900 million of which was guaranteed by the U.S. Air Transportation Stabilization Board, gave US Airways the liquidity it needed. Modified labor agreements with the airline’s unionized employees helped significantly reduce costs. Through bankruptcy, the airline also was able to address other key issues, such as achieving the distress termination of the defined benefit pension plan for its pilots, which was underfunded by US\$2.5 billion, and replace it with a defined contribution plan to supplement the Pension Benefit Guaranty Corp. payout.

In March, as scheduled, US Airways completed its “fast track” emergence from bankruptcy. Now, the rejuvenated airline, which earlier this year was ranked first in the annual Airline Quality Rating, is aggressively competing.

Photo by Derek Pedley



US Airways has seen its operations take off after rapidly completing a corporate restructuring.

Under Siegel, the airline announced the ambitious purchase of 170 regional jets from Bombardier and Embraer. US Airways signed codesharing agreements with Lufthansa German Airlines and United Airlines and was approved to join the Star Alliance. These measures significantly impacted the airline’s bottom line. In the second quarter, the airline reported a net income of US\$13 million,

compared to a net loss of US\$248 million for the year-previous period.

Siegel, who also previously served as an executive with Continental Airlines, including president of the Continental Express subsidiary, recently discussed US Airways' successes in preparing for the future.

Question: It appears US Airways was able to successfully use the bankruptcy process to restructure the airline. Would you consider bankruptcy successful for your airline? What were the benefits? Were there any drawbacks?

Answer: When I made the decision to join US Airways, I realized that the company needed to permanently reduce its costs and restructure, ideally outside of bankruptcy. However, the responsible path to take was one that prepared us for the option of reorganization under the protection of Chapter 11. Our plan was well thought-out, and we were committed to a fast-track emergence. As I've said many times before, when we came to the conclusion that we had to execute our plan with a Chapter 11 filing, we jumped into the pool to swim some laps, get in shape and then get out. And while we had some difficult challenges along the way, we remained on track. Bankruptcy reorganization is effective for reducing costs, but there are many gut-wrenching decisions that are part of the process.

Q: If "necessity is the mother of invention," what innovative new thinking has emerged at your airline to overcome perhaps the most challenging conditions in the history of the airline industry?

A: We are focused on proven strategies and tactics. We said we needed marketing alliances, and we have done that. Our alliance with United Airlines is already very successful, and we've begun our new international agreement with Lufthansa. Early in 2004, we will join the world's leading airline partnership, the Star

Alliance. We also needed regional jets to improve our service to the dozens of smaller cities that we serve. We secured financing earlier this year and

Photo courtesy of US Airways



Under the leadership of Siegel, US Airways has formed alliances with Lufthansa and United, been accepted into the Star Alliance and announced the purchase of 170 regional jets from Bombardier and Embraer.

announced an order for almost 200 planes that have started arriving and will continue through 2006.

Q: Speaking of your purchase of regional jets from Bombardier and Embraer, what led to this decision?

A: One of the key elements of our reorganization plan was to generate additional revenue through a substantial increase in regional jet flying. We couldn't afford not to take that step.

Q: What role will these new aircraft play in strengthening your airline? What kind of impacts will adding so many new aircraft have on your airline?

A: The new RJs will serve three main purposes. They will allow us to replace turboprop aircraft that customers prefer less than jet aircraft; initiate service to new "thin" demand markets that eventually could grow to warrant mainline aircraft; and re-deploy current mainline flying that does not need larger aircraft to other markets that do require more capacity, such as the Caribbean. We are

already phasing out turboprops. However, we believe there will continue to be limited uses for turboprops in our system, especially to very small markets.

Q: The current conditions of the industry have led many airlines to "think outside the box." Is this just a reaction to extreme circumstances, or do you believe this will become a vital part of the culture of the industry in the future?

A: We have been thinking outside the box for the last 19 months since I got here, completing a fast-track reorganization under Chapter 11 protection. It has made US Airways a more competitive airline with US\$1.9 billion lower annual costs, reduced debt and a well-regarded business plan. Undoubtedly, the take-away is that any business initiative requires consensual participation by all stakeholders and total commitment by every employee in the organization. With the recent plane orders and expansion plans announced by Southwest, AirTran and jetBlue, it is abundantly clear that low-cost competition will only grow. So now, every mature carrier including US Airways, needs to deal with this new reality.

Q: With all the changes you've made, are there more to come? How different will the US Airways of 2005 be from the airline of today?

A: We have a history as a strong business carrier during the week, and we are now exploring new ways to deploy our fleet for the different kinds of demand we're seeing on weekends. We've nearly doubled our weekend service to the Caribbean, from 40 weekday flights to 75 on Saturdays. Clearly, a reinvigorated economy will ultimately determine when corporate and individual customers change their current buying behavior and, by extension, some of the moves we make. We just need to stay focused and execute our plan. **E**