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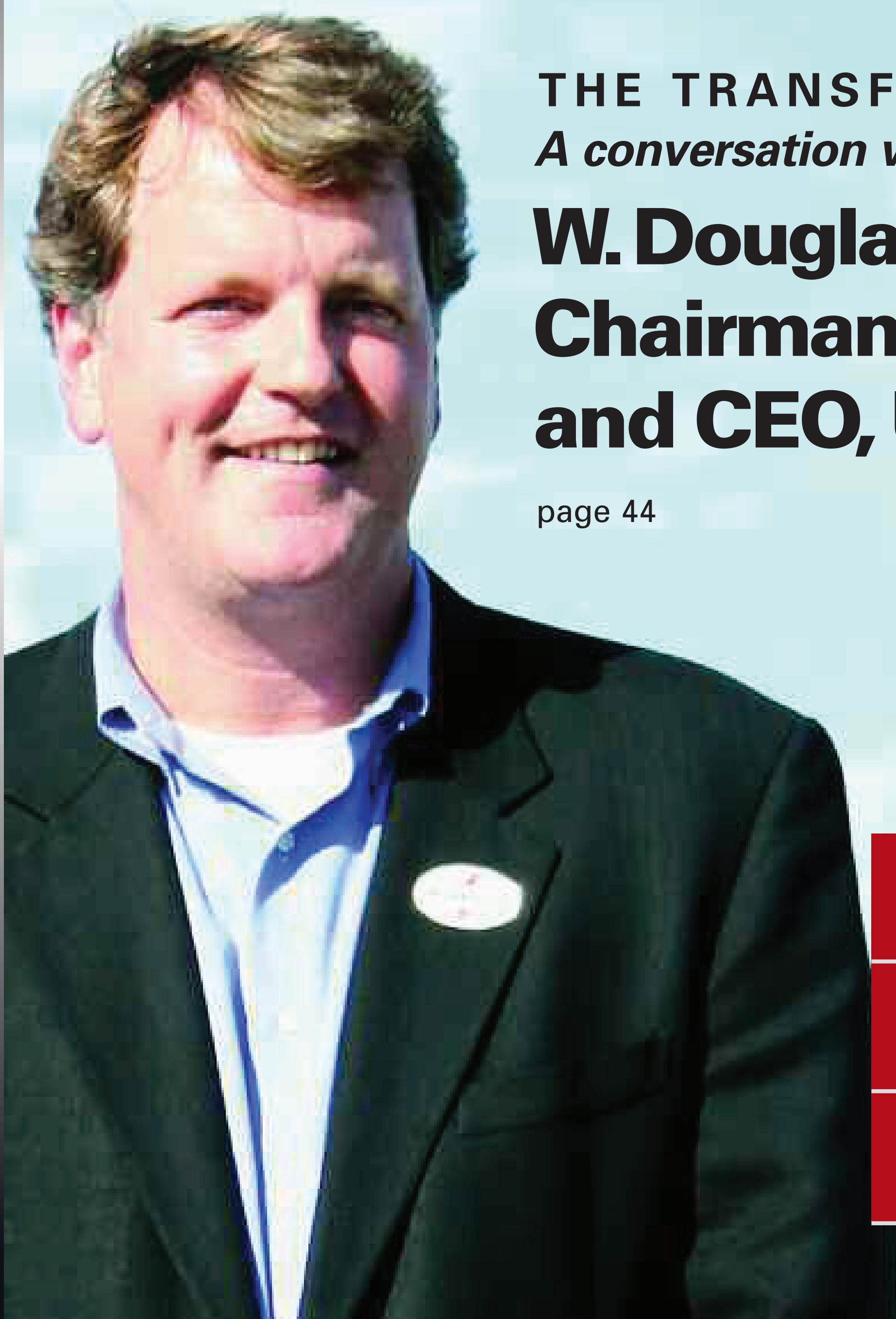
ascend

Taking your airline to new heights



THE TRANSFORMER

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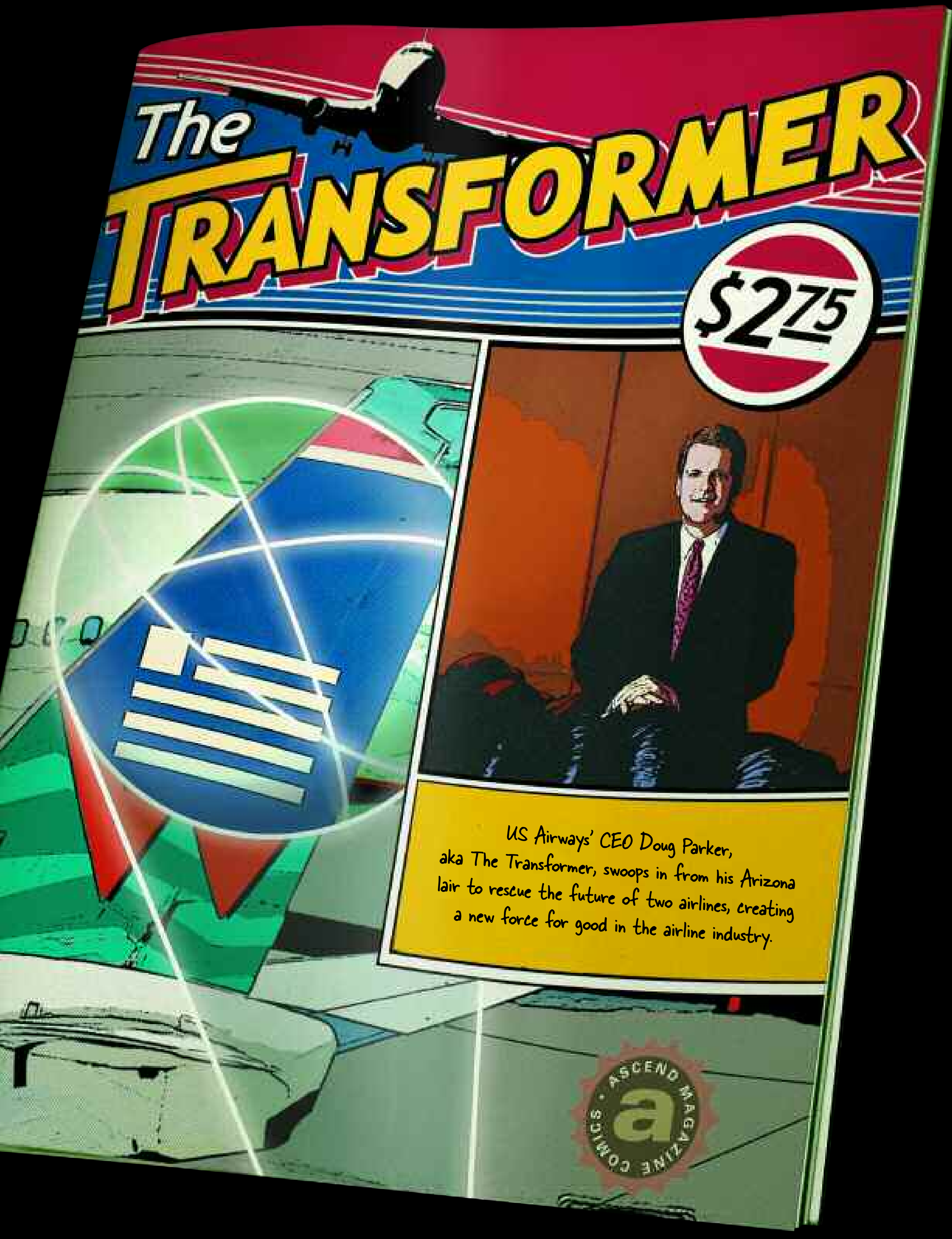

The TRANSFORMER
$2.75
US Airways' CEO Doug Parker, aka The Transformer, swoops in from his Arizona lair to rescue the future of two airlines, creating a new force for good in the airline industry.
ASCEND MAGAZINE COMICS

A Conversation With … W. Douglas Parker, Chairman, President and Chief Executive Officer, US Airways

While more of the world's airlines are adopting elements of the low-cost carrier model to help adapt to a radically changed industry, the new US Airways, formed by the merger of America West Airlines and US Airways, is already enjoying the benefits of making the switch. Several years ago, America West transformed itself from a pure hub-and-spoke carrier to the United States' largest "low-fare, full-service" airline by simplifying pricing, eliminating Saturday overnight stay requirements and pushing more bookings to its Web site.

In 2002, America West became one of the first traditional airlines to implement a simplified pricing structure, dramatically cutting the fares for transcontinental trips by, in some cases, more than 400 percent. Yet the airline still maintained its valuable customer amenities including lounges, an extensive, award-winning frequent flyer program and a first-class cabin. The airline also continued to maintain hubs in Phoenix, Arizona, and Las Vegas, Nevada.

The changes led *Entrepreneur* magazine to name America West the best major airline in 2004. The airline's frequent flyer program, FlightFund, has also received *InsideFlyer* magazine's "Freddie Award" for best elite-level program in the Americas for three consecutive years.

Now, the Tempe, Arizona-based airline is once again poised to take a leading role in reshaping the industry through its recent merger with US Airways, which could be the first step in a much anticipated industry consolidation.

Together, the two airlines will form the first national low-cost, hub-and-spoke network carrier, with service to more than 200 international and domestic destinations. The new airline has become the fifth-largest U.S. airline, operating 361 aircraft. The combination is expected to form a financially strong airline with US$10 billion in annual revenue.

Doug Parker, 43, chief executive officer of the combined airline, was a key driver in the transformation of America West Airlines. Parker, who became the chairman, president and CEO of America West Holdings Corp. and America West Airlines in September 2001, has been with the airline since June 1995. Prior to assuming the top spot, the Farmington Hills, Michigan, native served as the airline's senior vice president and chief financial officer. His duties later expanded to include schedule planning and revenue management, sales and marketing, information systems, and corporate affairs divisions. Before moving to America West, Parker held a variety of financial positions with Northwest Airlines and American Airlines. Parker recently shared his thoughts about the changes in the industry and where he believes they will lead.

Photos courtesy of US Airways

As part of its recent merger with US Airways, the America West Airlines name and livery will soon become a thing of the past. The two airlines, which will operate under the US Airways banner, will soon fly aircraft sporting a fresh, new paint scheme for its aircraft.

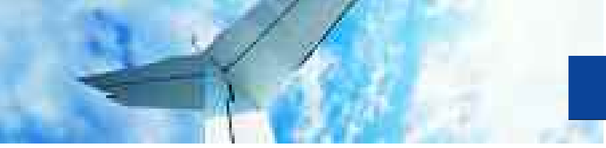
Question: How long ago did you start looking at a possible merger as a strategy for long-term success, and why did you feel this was the right direction?

Answer: I've remarked on several occasions that consolidation in our industry is inevitable, and I always maintained a goal of America West playing an active and positive role in that process. We looked at a possible deal with ATA last year, and although the pieces didn't come together in that case, I'm proud of our team here because that entire process showed we weren't set on growing just for growth's sake or merging just for the sake of merging. In this case, we'd had some early discussions with US Airways folks before their second bankruptcy, but we weren't going to move forward until it made sense for our employees, customers and stockholders. When we felt those conditions were satisfied, we began to move forward on this with more momentum.

Q: When looking at potential merger partners, what was so attractive about combining America West and US Airways?

A: You're going to hear the word "complementary" a lot from us when we talk about this merger, and that explains a major part of why this merger makes sense. America West's western concentration of routes combined well with US Airways' eastern network. The list of cities served by us now totals about 240 — of that 240, less than 40 had service by both US Airways and America West, so there was very little overlap. With similar labor costs already in place, we believe that with additional cost and revenue synergies, this is a win/win.

Q: Mergers in the airline industry have been notoriously difficult; how can you successfully overcome many of the issues that have plagued prior mergers?



A: The most difficult area has traditionally been integrating two cultures. To address that, we've made it a major priority to engage in honest and open communication with employees, and that's only going to increase as the integration moves forward. I think employees of both companies understand the various levels at which this merger makes sense — chief of which is the fact that the futures for employees from both companies are going to be much brighter and much more stable with the merger than without it.

Q: What reaction have you received to the merger both internally and externally?

A: The external reaction might be best represented by the third-party financial endorsements we've received totaling US$565 million in new equity and the ATSB's approval remarks, in which it noted the merger should improve our competitiveness. On the internal side, I've conducted a series of town hall-style meetings with our employees. The response has overwhelmingly been not just positive but actively supportive.

Q: What do you believe will be the biggest challenge to uniting the two airlines into a single entity?

A: I've always said it will be integrating two workforces and the cultures present in each of them. But most things worth doing right aren't simple tasks, and this is obviously something worth doing the right way. We will take our time and strive to over communicate, although I don't really believe it is possible, in this industry anyway, to over communicate.

Q: You stated that this merger would put both airlines in a position of strength and future growth that neither could achieve separately. How does this merger provide those opportunities?

A: It allows us to grow without dumping capacity on the industry. In fact, our merger will result in the combined fleet totaling about 60 aircraft less than the sum of the two fleets today. That represents a rational merger, and clearly is more efficient than if both airlines attempted to grow to national network scale alone.

Q: What kind of impact will this combined low-cost, full-service international model have on the industry?

A: Our goal for this merger is to form the nation's first nationwide, full-service, low-cost carrier, so I think the largest effect will be that customers will have a new travel choice that will offer them low-cost options on a nationwide network that is tied in to a premier frequent flyer program with partnerships that can offer award travel throughout the world. This merger should raise the bar on what comes with a low-fare travel experience. A customer doesn't typically expect first-class upgrade options, international destinations and clubs, but we will deliver all of that and much more.

Q: If you had not been able to find a suitable merger partner, where do you think America West would have been in five years, and what areas of your operation would have possibly required changing?

A: A lot of that depends on things out of our control, such as runaway oil prices and industry overcapacity, two things we're better able to face as a result of the merger. Absent the merger, we were still doing a great job in a hyper-competitive industry. We earned a modest profit in our second quarter and our employees have worked tirelessly to maintain costs that are among the lowest in the industry. Rather than speculate what might have been, I'd rather reiterate that we will continue to build on those strengths and take advantage of opportunities that make sense for us as the industry evolves.

> "If you are keeping your eye on the ball, externally, the work is never really complete; it is always a process of continuous improvement."
> — Doug Parker

Q: Delta Air Lines recently generated a lot of attention with its simplified pricing scheme — SimpliFares — something America West did more than three years ago. What prompted you to take that step well before most other airlines?

A: It was pretty simple — we understood what customers were demanding from airlines and that the post-Sept. 11 world was not just another "downturn." The landscape had permanently changed. We thought if we simplified and reduced walk-up fares, the response would be overwhelmingly positive from customers, and it was; it was clearly a revenue-positive move for us.

Q: What have been the results of your conversion to a low-cost, full-service model?

A: Again, our bottom line improved when we embraced the low-cost model. By lowering costs in areas that didn't have a large impact on customer service, we were able to maintain perks like an award-winning frequent flyer program, first-class cabins, airport clubs, etc. Customers responded positively, as you'd expect they would.

Q: How long did it take to fully convert from a traditional "legacy" carrier to the low-cost, full-service model?

A: Well, we were never really a traditional "legacy" carrier in that we were formed after the industry was deregulated. In fact, we were the first founded after deregulation to achieve major-carrier status. But the period of time in which we transitioned to a simpler, customer-friendly pricing structure really began in the aftermath of 9-11. I would even say that it continues today. With our merger, we now have another challenge and that is to continue to evolve the merged airline into a successful low-cost carrier. If you are keeping your eye on the ball, externally, the work is never really complete; it is always a process of continuous improvement.

Q: Why did you choose to keep some of the features of the traditional carrier, such as a first-class cabin, assigned seating and a hub structure? Would you ever consider moving more to a pure low-cost model?

A: We understand customers fly for a variety of different reasons. Leisure travelers aren't the only ones who enjoy low fares. First-class cabins and the industry's best elite-level frequent flyer program are naturally attractive to business travelers, and that provides us with an important source of revenue. As for the hub structure, we still think that, by a large margin, it's still the most efficient way to transport passengers across a network that includes major business centers, smaller communities and international destinations.

Q: What primary challenges did you encounter during the changeover, and how were they overcome?

A: It took place during a very trying time in the industry. We needed to communicate clearly with employees about the direction we were going. Without their buy in, we could not have

been successful. With all the negative developments going on in the industry at that time, it was a challenge to ensure a positive message got out to not only employees, but to our customers as well.

Q: What was the overall response from your shareholders, employees and customers to your new business model?

A: In general terms, most people realized changes had to be made. The industry had never faced an environment like the one that began in 2001. Lower fares were required to stimulate demand, but we recognized that anyone could publish low fares, but maintaining the low costs necessary to support them was the real key. Once we were able to establish we could do that successfully, we generated the much-needed momentum that prompted external audiences to continue to tell our story in a positive way.

Photos courtesy of US Airways

The union between US Airways and America West Airlines formed the fifth-largest U.S. airline, serving more than 200 domestic and international destinations with 361 aircraft. The combined carrier, which will be based in Tempe, Arizona, combines US Airways' strength in the eastern United States with America West's strong presence in the western United States.

Q: If you were going through this transformation again, what would you do differently?

A: Looking back now, I wouldn't change much about the transformation. In fact, our ability to act quickly and effectively is something I'm very proud of. But, looking back to 2001, I think every airline would say they wish they'd hedged more fuel; however at that point, we could never have known that we'd be faced with fuel costs north of US$60 per barrel. In addition, no one, including us, had the credit rating of Southwest that provided that hedging ability. We were in survival mode in '01 and, frankly, we had to be. Fuel hedging wasn't at the top of our mind at that point.

Q: How did technology help you through the conversion process?

A: Technology continues to play an important role. We've struck a balance between offering our fares through traditional outlets and also coming up with innovative distribution methods, such as bill me later, gift cards and Web bookings, including travel packages that integrate hotel and air in vacation packages. Technology has also been a good partner in our internal communication efforts; we webcast meetings for our employees, and we have a robust employee Web site that is used by our internal customers (employees) to keep them up to date on where the company is going and what role they play.

Q: How do you feel the transformation to a low-cost, full-service airline has prepared you for the merger with US Airways?

A: We got our costs down to the level they need to be to support consistent low fares. In fact, US Airways mentioned our cost structure as a target during its own restructuring. We couldn't expect to run the combined airline effectively if we didn't have our own house in order first. Also, we have learned how to analyze large amounts of data and make decisions quickly. In this business, those are also positives.

Q: What other changes do you anticipate once the merger is complete?

A: You'll see a new livery, which is the aircraft paint scheme, and you'll see the typical signs of integration as we combine operations at various airports. What's most exciting is customers of both airlines are going to see new destinations available to them — from Hawaii to Europe to the Caribbean. For customers, this is a huge positive.

Q: Do you feel your merger with US Airways is the first step of a major industry restructuring? Do you expect there to be additional mergers in the airline industry?

A: I don't think our merger is necessarily a step in the process. The industry will do what it has to do to address the problems that are out there. Capacity will be rationalized one way or another. Some ways of accomplishing that go smoother than others. How it will unfold remains to be seen, and we'll be watching along with everyone else.