

NATIONAL PRESS CLUB LUNCHEON WITH DOUG PARKER

SUBJECT: MERGING U.S. AIRWAYS WITH AMERICAN AIRLINES

MODERATOR: THERESA WERNER, PRESIDENT, NATIONAL PRESS CLUB

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THERESA WERNER: (Sounds gavel.) Good afternoon, and welcome to the National Press Club. My name is Theresa Werner, and I am the 105th President of the National Press Club. We are the world's leading professional organization for journalists committed to our profession's future through programming events such as this while fostering a free press worldwide. For more information about the National Press Club, please visit our website at www.press.org. To donate to programs offered to the public through our National Press Club Journalism Institute, please visit press.org/institute.

On behalf of our members worldwide, I'd like to welcome our speaker and those of you attending today's event. Our head table includes guests of our speaker, as well as working journalists who are club members. And if you hear applause in our audience, we would note that members of the general public are attending so it isn't necessarily evidence of a lack of journalism objectivity.

I'd also like to welcome our C-SPAN and our Public Radio audiences. Our luncheons are also featured on our member-produced weekly Podcast from the National Press Club available on iTunes. You can also follow the action on Twitter using the hashtag NPCLunch. After our guest's speech concludes, we'll have a Q&A segment, and I will ask as many questions as time permits. Now I would like to introduce our head table guests, and I'd like each of you here to stand up briefly as your name is announced.

From your right, Jeff Eller, Public Strategies, Inc.; Jeff Plungis, Bloomberg News, transportation reporter; Laura Glading, guest of our speaker and President of the Association of Professional Flight Attendants representing close to 17,000 flight

attendants at American Airlines; Maria Recio, *Fort Worth Star Telegram* bureau chief; David Bates, guest of our speaker, President of the Allied Pilots Association representing 10,000 pilots at American Airlines; Marilyn Geewax, National Public Radio, national business editor and Vice Chair of the Speakers Committee.

I'm going to skip our speaker for just a moment. Jamie Horowitz, PR work and the member who organized today's luncheon; John Conley, International Administrative Vice President of TWU, the Transportation Workers Union representing 26,000 ground workers at American Airlines, and a guest of today's speaker; Jim Asker, Executive Editor of *Aviation Week*; Shawn Bullard, Duetto Group and National Press Club board member. (Applause)

U.S. Airways is certainly a big presence here in the nation's capital. The airline, which has long been dominant player at Reagan National Airport expanded its flight offerings to five additional cities just this month. Our speaker today, U.S. Airways CEO Doug Parker is a national presence in the airline industry. He has been the poster child for big changes in the airline business since he first took the helm at America West in 2001. And according to former Southwest CEO Herb Kelleher, he's also a pretty mean poker player. We'll have more on that in a moment.

If Mr. Parker has his way and his most recent gamble pays off, adding five new routes will be peanuts compared to the cards he would like to play. Doug Parker was just 39 when he accepted role of Chief Executive Officer of American West on September 1st, 2001. As one of the youngest CEOs in the industry, Parker had already shown from his earlier tenure serving as CFO that he was a man of insight and quick action. He was well prepared to take the reins.

Of course, no one could have predicted that just ten days after Parker became CEO of America West, the country would be devastated by the attacks of September 11th. In the emotional and financial fallout of that tragic day, the airline industry came close to collapse. But Parker navigated America West through these difficult times. When the company merged with U.S. Airways in 2005, Parker took a new set of challenges on as the CEO of the newly restructured legacy airline. U.S. Airways is a company built on mergers and acquisitions which is fitting for Doug Parker, the industry's main advocate for consolidation. He has argued time and again that airlines can be more flexible, more capable, and more valuable to travelers if they join forces. And the airlines that did so are now operating successfully.

Now back to those high stakes poker. Mr. Parker, as he will no doubt tell you himself in a moment, believes that combining U. S. Airways and American Airlines would create a more competitive industry and a more sustainable airline. So far, his plan has received widespread support including, and perhaps surprisingly from the workers at American Airlines and their unions. He is here today to tell us more about the merger and where it fits into his broader vision for the industry as a whole. Ladies and gentlemen, please join me in welcoming Doug Parker to the National Press Club. (Applause)

MR. PARKER: Thank you, Theresa, and thank you all of you. That was very nice. I will say I'm not a particularly good poker player. Herb is a particularly and uniquely bad one. (Laughter) So, he makes you look good. Thanks again, this is a real honor to be here. I want to express my heartfelt thanks to the members of the National Press Club for their hospitality. This luncheon, I know, is a wonderful tradition and we are honored to be a part of it.

I want to start by thanking Jamie Horowitz, who's here on behalf of the Transport Worker's Union who was instrumental in organizing this event. Thank you very much, Jamie, we appreciate it. And I also want to stop right now and begin by extending my deep gratitude to the American Airlines union leadership that's joining me here today who you already had introduced. But Captain Dave Bates, Laura Glading, and John Conley, are all here. It's been a pleasure working with all of you over the past several months and I'm looking forward to what our future has in store. So thank you guys for being here.

I'm also thrilled to be here today in our nation's capital. This room, this town, live at the absolute intersection of policy, business, media and the public interest. So I wanted to be here to discuss my view of the state of the industry and U. S. Airways vision for our company's future. Now, the level of media interest focused on our business continues to surprise me from time to time based on the size, certainly the revenue generated by our business, we seem to garner a disproportionate share of coverage.

Although if you think about how many people and communities we impact, perhaps it's not that surprising. The airline business is one of the most dynamic and challenging industries in the world. It's one of the most difficult 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 very large impact. In 2011, for example, the domestic airline industry added 10,000 jobs even though we made less than \$300 million in total. We also served over 780 million passengers traveling to, from and within the United States, accounting for roughly 5 percent of our national GDP and driving \$1 trillion in global economic activity.

Today, our industry provides a framework for 10 million jobs. As economic growth has slowed over the past several years, airlines have adapted and evolved. Beginning in 2008, we focused on efficiently using capacity to meet demand, controlling cost 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. I'm happy to report that the A4A board is working more effectively with Washington to secure safe and secure air transportation and to enable U. S. airlines to thrive while stimulating economic growth.

It is true, though, we need to do more. Our country needs a practical national airline policy to address these hindrances in order to foster sustainable profitable, benefits for consumers 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. And 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.

So now, let me tell you a little bit about what's happening at our company. The team at U. S. Airways, I'm happy to report, is doing a phenomenal job and our results and prospects have never been stronger. We're going to announce our second quarter results next week, but we've already disclosed that we will have a very strong second quarter. And based upon current business conditions, we're expecting a very strong full year 2012. We are producing record revenues, record yields, very strong load factors, and we're keeping our unit costs down and we are flying a great airline. So far this year, we've set new records in nearly every operating metric we measure. And that's in an airline that's led the network carriers over the last five years in the key customer reliability metrics like on time performance and baggage handling.

Now, the credit for all the success goes to the 32,000 hard working people at U. S. Airways and I'm honored to stand here and represent them. They're doing a fantastic job of taking care of our customers, and I can't thank them enough. And it's the responsibility of our management team to insure we're doing everything we can to support those people and make U. S. Airways as strong as it possibly can be.

So you might ask if U. S. Airways is doing so well on its own, why do you spend so much time and energy talking about mergers? Why don't you guys just keep doing what you're doing so well as an independent airline? First of all, from the first time we ever mentioned it, the benefits of mergers, we've always said there is no need for U. S. 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. And that's where mergers come in.

Mergers have been used to great effect by United and Continental, Delta and Northwest, Southwest-Air Tran, and America West-U. S. Airways. 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. U. S. Airways is a prime example of this. The oil prices were the same in 2011 as they were in 2008. Our focus on offering consumers more choices on how and where they travel as well as on our own internal costs helped U. S. Airways turn an \$800 million loss in 2008 to 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 travelers.

American Airlines sat out this wave of mergers and it has left it strategically compromised. I know American Airlines very 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 my friend, 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 have created two airlines with much better developed route networks than American's.

So finally late last year, after watching the airline's revenue share get eroded by these new, more attractive networks, and unable to get its own cost structure in line with this revenue generating capability, American resorted to bankruptcy. While I've never worked for a company in bankruptcy, I've seen enough 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 imposing the worst terms upon their employees. It also allows a debtor to avoid repaying all the people that have loaned it money. Finally, it allows the airline to renegotiate or terminate contracts such as aircraft leases and airport obligations.

All these steps 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 Airlines 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 U. S. Airways.

Let me explain. In the five years before it filed bankruptcy, American Airlines slipped from being one of the top three domestic airlines in the east, west, and central regions of the United States to being ranked no better than fourth in any of those regions today. American's cornerstone strategy which focuses on five large cities rather than creating a comprehensive route 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, a very strong route network. But that leaves a large hole in the network up and down the east coast. That 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 consumers who travel up and down the eastern seaboard.

Now, network gaps like this were acceptable a few years ago when every airline had some gaps. But with the breadth and scale of the new United and the new Delta, that's 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. A combination with U. S. Airways would create such a network. We've taken a long, hard look at American and we know that together we could build the greatest airline in the world; an airline that could compete more effectively with the networks of United, Delta and others. Together, American and U. S. Airways can connect more communities and provide greater benefits for American's creditors and U. S. Airways shareholders than either airline could do on a stand alone basis.

Furthermore, we'd also save thousands of jobs and offer better compensation and long-term opportunities for the employees of both airlines. Our networks are extremely complementary. There's very little overlap and thus no need to scale back the service that either airline currently offers. With U. S. Airways network added to its own, American will 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, which is something customers simply won't do, the new American would be able to connect those passengers through Philadelphia, Washington, D.C., or Charlotte and provide very convenient connecting opportunities up and down the east coast. A more comprehensive route network would provide communities across the United States which have come to rely on major carrier service for their economic well being.

The combined airline would maintain all its hubs in focus cities so inhabitants in 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 U. S. Airways or American would suddenly have many more travel options. American is now in fourth or fifth place in all three major arenas in the United States. A merger with U. S. Airways would vault the combined airline to a much more competitive position in each region. It 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 customers and allow the new American to once again compete for the title of world's leading airline, which is something its employees have been missing and longing for for a very long time.

Now, you don't need to take my word for all this. In our industry, there are enormous amounts of data regarding airline performance including routes flown, pricing and profitability, all of which 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's taken the time to

go through that data and learn the facts, has decided that a merger with U. S. Airways is in the best interests of American Airlines, its creditors, and its future shareholders. Moreover, almost all analysts who look at the data and then considered American's cornerstone strategy have concluded that it won't solve American's network problems.

American's employees and their advisors have come to the same conclusion, as evidenced by their presence here today. And evidence of the financial creditors support is found in the trading prices of American's unsecured bonds, which were trading around 20 cents a dollar prior to the news of U. S. Airway's interest, and now are trading at over 60 cents. So if a merger would benefit consumers, create a more competitive industry and do all these nice things for employees and creditors, why is it-- and if everyone who's studied it thinks it's a good idea, the question is why is it not happening?

I can tell you from our 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 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 would provide more benefits to employees.

Furthermore, the employee support in a merger between our two airlines during bankruptcy, and that really matters especially in a customer service business. Lastly, U. S. Airways is here now and we're ready to do this now. There's no guarantee that will be the case forever. American got itself in this situation, in part, because they were singularly focused on fixing their internal issues and assumed the outside world would stand by while they did. That wasn't the case, and it 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're 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 it's more important than ever to insure that the process is indeed fair, transparent and credible. All that we want is a fair chance to present our plan and 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 who are its creditors. We understand there may be as four other airlines included in this merger and 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 U. S. Airways during the bankruptcy process.

Now before I close, I want to take a moment to talk about the American Airlines labor leaders who are here today. They represent over 55,000 American employees. And the story American tells about its bankruptcy filing, the company's three labor unions 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 of these unions, and I can tell you these people have acted in the best interest of their members and also in the best interests of American Airlines over the long-term. They've done so with tremendous foresight, wisdom and professionalism.

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

In the end, they've 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 David, thank you Laura, thank you, John.

So now in closing, some of you may know I'm a big fan of Bob Dylan and I sometimes throw his lyrics at some of my speeches, so I'll do it again. As I think about this process and where we are, 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 a lot of analysis, listening to the pros and cons, waiting for more information. But that just complicates the situation and you get tied up in the process and lose sight of the substance. You don't need it. You don't need all that 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. The employees of American Airlines and U. S. Airways know it. The creditors watching the bond prices know it. The media knows it, now the public needs to know it. And that's where you all come in. By the way, I heard Theresa say that the media can't applaud. Feel free to applaud any time you want. (Laughter) The public has a lot invested in the outcome of American, which means it has a major stake in American's process. So please hold everyone's feet to the fire as the situation unfolds. Ask the tough questions and demand real answers. Cut through the noise and the 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 the floor for questions. I'd be delighted to take tough questions and give real answers. (Applause)

MS. WERNER: How can U. S. Airways enter into another merger when it has yet to integrate the employee groups from the last one in 2005?

MR. PARKER: Can I have a different question? (Laughter) Just kidding. Happy to answer that one. That's actually one of the easy ones. Indeed, we still are working through integration issues with the America West-U. S. Airways pilots. The problem there without boring everyone in the room is seniority integration issue which has unfortunately resulted in litigation that is tied up in the federal court. And once that is resolved, we'll have the seniority list that will allow us to get those pilots to move to a contract. But that's been a long process that I don't think any of us anticipated. But it is what it is. We're running the airline extremely well despite that, and hope to have that resolved and it has to go through a court process.

Now, the nice thing about this merger is since the time we closed the U. S. Airways-America West transaction, there's been some federal legislation passed called McCaskill Bond law and that law now requires if indeed there are unions from two separate airlines in a merger, they need to go to binding arbitration and once that binding arbitration is complete, that's the list. It's federal law, the seniority list. So had that been in place back when we did our merger with U. S. Airways-America West, we wouldn't still have this problem. If we do this merger with American, that will be the process by which we'll be governed and it would actually resolve this problem. So that's not the reason we wanted the merger, we'll get this resolved on our own if we need to. But it's one of the nice benefits of it.

MS. WERNER: Why aren't any of U. S. Airway's union representatives here today?

MR. PARKER: Because they're all hard at work, working to represent U. S. Airways. Look, the situation is this. We, at this point, had to go cut-- had to go work out transactions and agreements with three unions at American that we haven't had to do so with the U. S. Airways unions. I assure you if we get to the point where we are merging the airlines, you'll have the U. S. Airways union leaders standing shoulder to shoulder with these guys in support of the merger.

MS. WERNER: What are you doing to work out other issues with your flight attendants and their contract?

MR. PARKER: Our flight attendants, we did reach with the negotiating committee, reached an agreement that was sent out to the members. The members rejected it, unfortunately, so we're back in negotiations with them. We hope those negotiations to yield a result that can get ratified. Those negotiations actually are happening today and so we're highly optimistic we can get that done before we get this merger done.

MS. WERNER: Will you guarantee U. S. Airways employee seniority?

MR. PARKER: This is a process, as we've well learned in our U. S. Airways-America West merger, there's left to the unions to determine. And indeed, what I know is the labor leaders here understand what a big issue this is and they will make sure the process that takes place is fair to all employees and I'm highly confident about that. So not the least bit concerned about how that process will be managed.

MS. WERNER: Historically, employee groups and airline mergers have suffered as management and executives have prospered. Why would this proposed merger be any different?

MR. PARKER: Well, I'm not sure I accept the premise. But what I can tell you about this merger is, and again as evidenced by the support of the labor unions here today, is good for the employees of both airlines and one that will provide for both companies the ability to have an airline that has job security, that we cannot, neither airline, can provide today. You create a stronger airline that allows for more job security. The fact that the two networks are able to produce revenues that neither of us can produce together by combining those networks and generating more revenues, allows us to pay more. And all those things are great for the employees of both companies and why we have the employee support.

MS. WERNER: Other than the three largest unions on the creditors committee, who else has committed to your approach to an alternative to an American Airlines stand alone plan?

MR. PARKER: Again, as I noted in my remarks, everyone we've talked to supports this once they take the time to learn the facts. As to the actual creditors committee itself, those that are comprised on it, we haven't had the opportunity yet to present to the creditors committee. When we do, I am certain we'll have a unanimous vote in our favor so long as we have a fair process.

MS. WERNER: According to the *New York Times*, Tom Horton stands to make 60 million if he is CEO of American when it emerges from bankruptcy. Do you think that is why they are fighting a merger with U. S. Airways?

MR. PARKER: I find it noteworthy that the only opposition that seems to exist to this merger is the senior management at American. You know, again, we have full Wall Street support, we have employee support, we have bond holder support, we don't have the support of the American Airlines senior management team. I don't want to guess as to why it is they don't support it, but we are hopeful that we can get their support at some point in the future.

MS. WERNER: Will you seek antitrust approval for a merger before the end of the year?

MR. PARKER: We would like to. That's part of the process that I keep referring to. We've done a tremendous amount of work looking at this combination from a

regulatory perspective, do not anticipate there will be any regulatory issues. But there is a formal process that has to be followed that starts with the filing a Hart-Scott-Rodino filing and we need American's participation in that event. So we are hopeful that the process that we still have not seen yet, but have been told exists, will include filings like that to happen in a timely manner so that we are on equal footing as a stand alone plan in terms of timing.

MS. WERNER: Should the merger proceed, would U. S. Airways object to any possible antitrust review divestiture requirements that might focus on slots at DCA or its other hub in focus cities?

MR. PARKER: Again, we've done an extensive amount of review and don't believe that the combined airlines would require any sort of divestitures in order to receive DOJ approval. But, we'll wait for that process to unfold and see indeed if the DOJ agrees. But certainly the work we've done with our advisors would indicate that no divestitures would be required.

MS. WERNER: The American pilots will soon be voting on a tentative agreement with American. How does a yes vote or a no vote by the pilots impact the situation for U. S. Air?

MR. PARKER: Yeah, this one we struggle with a little bit. The reality is it's up to the pilots of American to decide. But I have found that a lot of them now have my email address and I hear from a lot of them, many of whom are asking just the question. What they want to know is if we ratify, will that get us closer to a merger? Because that's what they're being told. I don't want to speak for David and certainly mess up his process. I'm just telling you what we're being told, what I'm hearing from pilots. And that is that they're hearing from their advisors that it's the right thing to do if they want to get to a merger, which they do, to ratify a contract with American. That has, as you might imagine, some sort of-- a little bit of a cognitive dissonance in it.

It's not maybe that straightforward to understand, but the reality is as we've talked to restructuring advisors, we think the same thing. That is, American and the creditors committee have made it quite clear through the process that the merger process will follow these labor contracts being put in place. So actually agreeing with American and putting a process in place on the stand alone should lead us closer to getting the merger done.

So I believe, again, I should leave this for David to talk about his own members and what they're being told, but that's our understanding. That indeed ratification would be good for the merger. Indeed, that's why most of the American employees are leaning toward ratification if they are because they believe it's best for a merger, which is what they really want.

MS. WERNER: You attribute American's current state of network deficiencies; yet what distinguished American most is the fact that it maintains the highest labor cost

in the industry. Given that fact, what specific facts provide assurance that the cycle won't be repeated via your accommodation of American's union demands?

MR. PARKER: Thanks for the question. I'm glad someone asked it because I should have mentioned this more. In fairness to the people and the people they represent in this room, the people in this room, the people they represent, the U. S. Airways proposal is significantly concessionary versus where the American employees were prior to bankruptcy. So it does a disservice to the people of American to suggest that they aren't giving a lot in this transaction; because indeed, they're giving more than anyone else. The contracts that we have offered to the American employees are only better than the contracts, the even more concessionary contracts, that American has offered

And indeed, as I said in my remarks, they're not that much different now as American has increased their offers. So the fact of all this is when we get done with this, we will have an airline that has the ability to generate revenues like the larger competitors at Northwest and Delta. I believe if you have an airline that can generate the same amount of revenue, you should be able to pay the same amount. And that's what our proposal does. It works to bring these employees up to similar levels as their counterparts at United and Delta. And we think that's fair and there's no doubt that the combined airline can afford to do that, and we're happy to do so.

MS. WERNER: Is U. S. Airways making a profit due to artificially low wages?

MR. PARKER: No, we make a profit-- let me talk a little bit about U. S. Airways model I referenced in the remarks, but it is different. And I think a fair question is all those things you've said about American and its network deficiencies could be said about U. S. Airways. And that's somewhat true. We indeed at U. S. Airways have a network that's even smaller than American's, and therefore has less revenue generating capabilities than United and Delta. We do two things different. One is we focus on flying on places where we truly have a competitive advantage. We are the number one carrier in each of our hubs; that's Charlotte, Phoenix, D.C., Philadelphia. We are the largest carrier and that gives us an advantage. So we focus on places where we do well and that's point one. Somewhat different from where American is, certainly the cornerstone strategy.

Point two, we do have lower costs. You can't have an airline that has a revenue disadvantage to its competitors have the same cost structure. That's what happened at the old U. S. Airways. That's happened a lot of times in this business. Those airlines go away. We understand that, our people understand that. So what we do instead is we have an airline that has lower cost that can match our revenue generating capabilities. We do indeed do that with lower labor costs. We have to do that. Our employees know that, it requires sometimes contentious labor negotiations. But, always with full information about what we can and can't do. And that model works well and that model could work forever.

The good news is this doesn't mean there isn't a lot of room for increases in U. S. Airways over the long-term standalone, because there is a lot of room for that. Doesn't

mean it can't be a great place to work. Of course it can. We can do all those things. But by merging these two airlines, that argument goes away. And that's why it's so good for the U. S. Airways employees as well, because this allows us, as it is with the American employees, to get to higher wages and more than U. S. Airways can ever do standalone.

MS. WERNER: Is a merger a necessity to stay afloat? Do your employees need this merger for a secure U. S. Airways future?

MR. PARKER: Absolutely not. And again, our results next week will prove this better than I can say it. We are doing extremely well on a standalone basis. We've been the smallest of the four network carriers since our merger in 2005. We're much smaller than United and Delta, but we're producing results that are as good or better than theirs because of the model I just described and we can keep doing that forever.

MS. WERNER: What would a combined U. S. Airways and American fleet look like considering American's massive fleet order last year?

MR. PARKER: Yeah, again since the two route networks are so nicely complementary, we need all the airlines from both fleets. So the combined fleet would look much like American's fleet added with U. S. Airways fleet today, which would be a very nice, very new fleet. The new aircraft order that American has put in place, we would of course honor because we will need those airplanes as American needs them in their standalone.

MS. WERNER: What steps is your airline taking to better compete with foreign competition?

MR. PARKER: Well, our airline being U. S. Airways, doing what I said; sticking to where we have a competitive advantage and doing that well. Flying in and out of our hubs and doing so very well. This combined airline could do much better. This threat from foreign competition is real and one that we all should be worried about in terms of commercial aviation because there are others in other countries that have much bigger advantages than we do. They really do have national aviation policies in their countries, and it should be a concern for all of us. But this new airline would be much better equipped than either American standalone or U. S. Airways standalone would be to compete against those.

MS. WERNER: What are your views on airline consolidation at the regional level?

MR. PARKER: Less strategic certainly can make sense. Frankly, we own a couple of regional airlines so I know a little bit about it. But there are indeed maybe more regional airlines than one would expect there to be at this point in time. But you don't get the same kind of benefits that you do with consolidation of the main line because they're simply-- the regionals for the most part fly in and out of networks supporting the larger

network carriers. So you don't get the kind of network consolidation and benefits that you would, say, out of U. S. Airways and American.

MS. WERNER: What is your view of the 50 seat flying in airways regional feed, and what is the future of 50 seat market?

MR. PARKER: Sounds like one of our pilots sent me this one, who I know are here. Hi, guys. Representing our regional carriers. So anyway, we at U. S. Airways have a couple of contracts with outside suppliers for 50 seat jets. Some of them were done to save the old U. S. Airways and get it through bankruptcy before we arrived. Those are contracts we need to abide by. If we can tear them up and start over, we wouldn't have as many 50 seaters. But we don't have that luxury, nor do we want it. We're quite happy with what we have now, but the reality is we have more 50 seaters than we'd like. We'd like some larger regional jets to offset some of those 50 seaters. And over time, we'll correct that issue. But right now, we're going to keep the ones we have.

MS. WERNER: What would be the impact of a merger on ticket prices?

MR. PARKER: Well, ticket prices are hard to project, but I don't think the merger itself would have any impact positively or negatively for the most part. Both of us price our product to compete with the United and Delta and Southwest and all the others and the combined airline would be competing against that same group of airlines. What I know is it would create a third competitor to United and Delta which doesn't exist today. Those two airlines, again I can't stress enough, how the networks they've created have created two U.S.-based global carriers, and two alliances, frankly, that are stronger than anything else. And this merger would create a third competitor to them that's just as big as them, an alliance that can compete with theirs by taking U. S. Airways out of Star Alliance and putting it into One World, makes One World that much stronger. So it's good for competition to create a third airline that can compete against those two larger airlines.

MS. WERNER: Will that help eliminate luggage fees? Will there be more layoffs? And will there be more seat spacing on planes? We're getting to the meat.

MR. PARKER: Who turned that one in? The industry today, part of what we have done to get ourselves well is do a better job, I think, of charging for the services some customers want and not charging those who don't want to avail themselves of them. Baggage fees is one of those. That was a huge fundamental change in our business model, one that the industry had never put in place before, but one that makes sense. The reality is those of you that avail yourselves of the service of handing over your bag to us and then having us hand it back to you at the end of the trip require a set of infrastructure that those that carry the bag on don't. Just think about when you check in now today. Because of all the technology advances, the only reason there's only real estate, airline real estate, outside of security is to check in baggage. We wouldn't need any of that space or any of those employees if people didn't check baggage. I'm not suggesting they won't

or they shouldn't. All I'm suggesting is that if you do that, there's a cost to it, and those that do it should.

So, that includes all the bag belts, that includes the people running baggage in between airplanes. All that exists simply for that service, and that service has a large cost, a huge amount of capital, and the baggage fees seek to charge those who want to use it and not charge those who don't. And I think it's a better model. So again, we certainly have had a lot of customer feedback about it. That's not our goal, to end up doing things that alienate our customers. But I do believe we've certainly gotten better customer acceptance of it and we still have some airlines who don't do it and that keeps us all the way it should work, and it's a competitive business where people can choose to do it or not. We've chosen to do it and I think, again, it's the right model for the business today.

MS. WERNER: By charging customers the luggage fee, it drives more of them to bring things onto the airplane creating congestion. What is your solution to that?

MR. PARKER: You didn't even read a card. It was your own question. (Laughter) I can see where this is going. Look, indeed, when you charge for people to check bags, they will try to figure out ways to get bags down to the airplane that maybe don't fit on the airplane. You know, again, we're not going to try and fix that problem other than-- we're only going to try to fix the problem by charging people that get down there, I'll tell you that. That creates just new sets of issues. What we need to do is work very hard to try and make sure people understand that-- to try and check bags that can actually fit in. If they don't, to try and check them in advance and pay the fee. And we work really hard as an airline to make sure when those situations occur, people do get down to the gate with bags that are too large that we accommodate them. But the real goal here would be to figure out a way they don't get down there and people stop at security before they get that far.

MS. WERNER: Well, you could charge them a double fee and it doesn't fit and you have to accommodate them. How much outsourcing of jobs goes into the U.S. airline industry?

MR. PARKER: I don't know that I know the answer to that question. There's certainly some amount of work that is not done entirely by airline employees, I know that. On that note, I'm happy to report we at U. S. Airways in the last year brought in all of our reservations that had been outsourced at the time of the U. S. Airways bankruptcy. We actually, I think, today have some of our reservations agents on The Hill with some members of Congress talking about that event, which we're very proud of. We have now 100 percent of our reservations being done by U. S. Airways employees in the United States and we're really happy about that result. And that happened over the course of the last year.

MS. WERNER: How much inspection of foreign made parts takes place to insure the safety of American carriers? And are U.S.-made parts better?

MR. PARKER: Any work that's done outside the United States is regulated by the FAA and by the same system. So there's no concern nor should anyone have any concern that work done in outside repair stations outside the United States is any standard any lower than what we have in the United States.

MS. WERNER: How has the three hour tarmac delay rule affected airline operations, and do you think it's fair?

MR. PARKER: I think the three hour tarmac rule is a great example of what happens when we in the business don't do a good job taking care of our customers. I could tell you that if we would go through the data, the reality is that the rule probably is worse for customers than better. There probably are cancellations that occur that wouldn't have occurred before because we have to bring the airplane back.

But that's not the point. The point is that is the law and it's a law because we as an industry did a horrible job in several cases of taking care of our customers and there were long delays. And when you do that, you get legislation. And the message to all of us in the business is we should not do things like that or we will get more legislation. So, we are committed to making sure we're taking care of customers and doing things every day with an attitude that is in favor of the customer so that we don't get ourselves in these circumstances again.

So the three hour tarmac rule is something that was forced upon us because we didn't do things right ourselves. And that's what will happen to us in the future if we don't do things right in the future.

MS. WERNER: Should the U.S. relax its restriction on foreign ownership of airlines? Why or why not?

MR. PARKER: Well, we don't have a real strong position on this at U. S. Airways. I don't think it makes any large difference in the business. I mean, from a free market perspective, I think certainly there could be a case made that why do you have these restrictions? They don't seem to make a lot of market sense and I'd be hard pressed to argue that there's some sort of national defense concern of having foreign ownership of U.S. carriers. So from that perspective, I think you could make a strong argument that they shouldn't exist.

But having said that, relaxing them I don't think would have a major impact on our business. It's not as if there's a shortfall of capital in the United States. Anybody with a good business model can get financing, so it's not as though we need financing. And furthermore, the fact is, at least right now, the majority of the labor unions are concerned about it because they're concerned about what it means for jobs. Until we can get that addressed and figured out together that it's something that makes sense, it's probably not going to happen anyway. So, again, it's one that I do believe is hard to argue from a free market perspective, but also one that we have in place now and I suspect will stay in place for quite some time.

MS. WERNER: What is the most important thing the federal government can do or not do to help U. S. Airways or other U.S. airlines today?

MR. PARKER: Just let us compete. Ideally, lower taxes. I'm sure you're all aware of this, but about 20 percent or more of what you pay in a ticket goes to taxes and fees. It'd be nice if you all had to pay less than that. But indeed, that's the case today. So I'll give you a two-part answer. The best thing they could do would be to lower that tax burden on the industry. I'll be pragmatic, though, and suggest that probably isn't going to happen in the near term. So, instead what we would ask is just please don't raise those taxes and please don't do things that make it harder for us to compete. This is a business that is hard enough as it is and one that we all struggle to make even modest profits in. But a large part of that problem is because of government regulation and government intervention in not allowing airlines to compete like other businesses. So we just ask for the opportunity to compete. Don't raise our tax burden, lower it if you can and put in place policies that recognize that things like mergers and alliances make sense, as other businesses have done over time and provide airlines that same opportunity.

MS. WERNER: Does U. S. Airways predict any significant political backlash from hub and focus cities like Philadelphia or Pittsburgh?

MR. PARKER: Absolutely not because this is good for all the cities we fly to today. Again, since the route networks are complementary, we would combine the two route networks, fly to all the cities we currently fly, maintain all the hubs we currently maintain. And the citizens and customers in those communities would just have more service to more cities. And that's one of the great things about it.

MS. WERNER: As you said in your speech, you began your airline career at American Airlines working with Tom Horton. Is some of this merger battle personal?

MR. PARKER: What are you laughing about? No, absolutely not, not as personal. Tom and I are friends, have been friends for a long time. Hopefully when this is over, we'll remain friends. Right now, we have a disagreement about what's best for American Airlines and it's a business disagreement, not a personal disagreement. None of this is remotely personal.

What this is about, from my perspective, is about 100,000 jobs and doing the best we can for those 100,000 people. And I don't think any individual or any small group of individuals should get in the way of that. And we certainly don't plan to and we don't think the American Airlines executives should do that, either. I'm not suggesting that's what they're doing, but what I do think we should do is have a fair and open process that allows the best plan to be seen and the best plan to come forward and put in place. And again, I'm highly confident if we do that, what you will find is the best plan for American Airlines is a merger with U. S. Airways and Tom at this point disagrees with that.

MS. WERNER: You are currently in negotiations with the machinist union. How can you bargain in good faith when you are courting other unions from another airline?

MR. PARKER: I'm sorry?

MS. WERNER: How can you bargain in good faith?

MR. PARKER: Well, we are indeed in negotiations with a number of our employees. Those negotiations take place in good faith, as they always will, under the assumption that U. S. Airways will be a standalone airline. And we will get all those contracts done and resolved under those premises and nothing about that has changed. Those negotiations take place under the exact same terms that they would if none of this was going on, as they should. And we'll get to contracts with those people on those terms.

Now, I think the better question is how are those negotiations affected if there's a merger? If they're not done, then we move into the merge entity and we go through another process there. But nothing about the contracts that are being negotiated today are affected by the fact that we happen to be pursuing this merger.

MS. WERNER: If the merger goes through, would you take American headquarters out of Fort Worth?

MR. PARKER: We would not. If indeed the airlines would merge, the headquarters would remain where they are in the metroplex in Fort Worth. We are well aware of the fact that of the two airlines, the stronger brand is the American brand. As I said, I've been there myself, I love that brand. And know it's a great airline and know it can be a great airline again, so we think that's the right brand for the company. And furthermore, happen to believe that any airline named American Airlines should be headquartered in Fort Worth so that's where it'll be.

MS. WERNER: If this merger goes through, will you stay in the Star Alliance?

MR. PARKER: We would not. U. S. Airways would move from the Star Alliance into One World. It's one of the nice things, again, about the merger if it happens. Not that, again, U. S. Airways standalone is extremely happy to be in the Star Alliance. It's a great alliance, we believe the strongest alliance. So we're very happy with our position in Star. But this combined airline would move the U. S. Airways revenues, the \$13 billion in revenues or so, into One World. That would have a nice balancing effect for the three alliances. One World has fallen behind. Much like American's falling behind United and Delta, One World's fallen behind Star and Sky Team.

And so by moving U. S. Airways into One World, it creates three much more balanced alliances, which by the way I think is why Willie Walsh yesterday in this town

made positive comments about the merger as well; because the members of One World know this is the best thing for One World, is for U. S. Airways and American to merge.

MS. WERNER: As you just said, Willie Walsh said it was an aggressive strategy that put this merger on the table. What is your plan B if this doesn't work?

MR. PARKER: Well, we are highly hopeful that the process that's been laid out, which again I will note we haven't seen, but the process we understand exists, is the right process. And there won't need be a plan B. That the process that comes forward out of the creditors committee, out of American, will indeed provide a fair and level playing field for all proposals to be reviewed. And we couldn't be more confident that in that case, our proposal would prevail. So that's where we expect to go. So I don't really like to speculate as to what happens if that doesn't happen, because I'm not sure. All I'll tell you about speculation in this case is from the time we started this, people have been telling us this hasn't been done before, there is no playbook. So, we've been doing a lot of audibling (sic). And indeed, if we find that process doesn't go the way we hope it does, we'll call another audible. I don't know what it is, I'm not going to speculate on it.

But again, 100,000 jobs at stake here and that's too important to let a small group of people decide it shouldn't happen. So we'll do what we need to to get it done.

MS. WERNER: And so if American Airlines emerges as a standalone, you think 100,000 people's jobs will be at stake?

MR. PARKER: That's not what that card says.

MS. WERNER: It was.

MR. PARKER: I'm reading these cards over her shoulder. It said nothing like that. (Laughter) Okay. But I'm happy to answer that question. Look, here's what I believe. That between the two companies-- here's what I know-- there are 100,000 employees between U. S. Airways and American. And I believe what's best for those 100,000 people is to work for the strongest airline they can and one that can compete with Northwest and Delta. I'm not suggesting that if American goes standalone all those hundred thousand jobs go away. I certainly don't think that would be the case. But what I know is those 100,000 people will be working much as they have since 2001, with less security about their airline, less security about their future, less ability for progression in their careers, less ability to be paid as much as the people at United and Delta. All those things are going to happen to those people, and indeed over time there will be fewer jobs.

Again, I'm not trying to suggest 100,000 would go away, but 100,000 people's lives are worse off if we don't do this merger than if we do. Okay, you want me to read it?

MS. WERNER: You spoke of the airlines as a customer service business. Have you ever tried to reach a live person by calling U. S. Airways on your company's number? And if you don't have it, I've got it right here. (Laughter)

MR. PARKER: Let's try it. I'm not going to call it in fear it may not work. I'm certain I'd get a live person. Here's the answer to this question, Theresa, which is the large number of phone calls that go into any airline's reservation system do not require talking to a live person. So, the system is set up in a very friendly way, we believe, with a lot of research done by a lot of people, to navigate those callers who do not need to talk to a person, to an individual, to have their problem taken care of through an automated process. That allows us to keep our costs down, that allows us to actually provide better customer service to those who actually do need to talk to an agent.

And that's why when you first call in, yeah, you will find yourself talking to someone who's not a live human being. Although they sound pretty much like one. But that's the reason that program exists and it works really very extremely well.

MS. WERNER: Is there a press zero option for a live person?

MR. PARKER: It's hard to find.

MS. WERNER: Before we get to the last question and we're almost out of time, I know you're disappointed about that, and before we ask the last question, I have a couple of announcements to make. I want to let you know about our upcoming speakers. On July 20th, we have Dr. Delos "Toby" Cosgrove, President and CEO of the Cleveland Clinic, will discuss healthcare policy in the wake of the Supreme Court's historic Affordable Care Act Ruling.

On July 24th, Judy Woodruff and Gwen Ifill, co-anchors at PBS News Hour 2012 election coverage will discuss the complex issues that are in play into the run of the November 6 general election. On August the 28th, General James Amos, Commandant of the U.S. Marine Corps will discuss the roles of the Marines as America's crisis response force.

Secondly, and most importantly, I would like to present our guest with our traditional NPC mug.

MR. PARKER: Oh, I thank you very much. (Applause)

MS. WERNER: When will we get peanuts back on U. S. Airways flights, and when will we get to see movies again on U. S. Airways domestic flights?

MR. PARKER: You can watch any movie you want on your iPad or other personal devices, which most of our customers prefer to the movie that I watched on a competitor's flight last night.

MS. WERNER: Was that research?

MR. PARKER: What's that?

MS. WERNER: Was that research, when you were flying on a competitor's flight?

MR. PARKER: Yeah, and convenience. It was research. But anyway, the fact of the matter is this. There's a lot of fuel tied up in everything that goes in to having movies on board, the movies that are on board the vast majority of customers don't watch anymore. People do indeed bring their own personal entertainment on, it's better than what the airlines provide. So it's just a complete waste of your fare to give you a movie you don't want to watch and charge you for it, which is what would have to happen. So we're not planning on doing that.

MS. WERNER: So we should bring our own peanuts?

MR. PARKER: Peanuts. I don't know the peanut answer, to tell you the truth. There's a problem with peanut allergies, so we have to manage that enough that we found pretzels easier.

MS. WERNER: The Olympics are coming up. Is this event good for the airlines even if it's not for Ralph Lauren? (Laughter) Which was on there

MR. PARKER: Yeah, I see that. I don't know, it depends on who wins. Look, the Olympics we find is one of these events that drives a lot of traffic in and out of the Olympic city, but generally not a lot of trips. As people come in, they stay a very long time, they leave. And people that were going to be traveling on business decide there's no way they're going during the Olympics. So, it's not necessarily the best thing for an airline to have the Olympics, or even a convention in your hub. We're happy to be having the Democratic Convention in the Charlotte hub, but please don't update your models to assume we're going to make a lot more money because that's what happens. People fly and stay for a long time and others avoid it. So we're not complaining about that, but it does not have a huge impact on airline revenues if that's the question.

MS. WERNER: How about a round of applause for our speaker today?
(Applause) Thank you for coming. I'd also like to thank the National Press Club staff including its Journalism Institute and Broadcast Center for organizing today's event. And finally, here's a reminder that you can find more information about the National Press Club at our website at www.press.org. Thank you, and we are adjourned. (Sounds gavel.)

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