

# INTERNATIONAL Herald Tribune

## US Airways seeks to become world's biggest carrier

By Jeremy W. Peters  
The New York Times

Say this much about US Airways: Don't write it off.

In the last four years, it has filed for bankruptcy twice, lost business to low-fare airlines that moved aggressively into its backyard and entered a merger that critics said would not work.

Yet there it was on Wednesday, making an \$8 billion offer for a larger carrier, Delta Air Lines. The ever-scrappy US Airways had emerged from its trials scarred but with a different business strategy, now aiming to become the world's largest airline.

"It's an amazing story when you look at where US Airways was over the last three to four years," said the airline consultant Bob Harrell of Harrell Associates. "They've done a lot with a little, and the market has rewarded them for that."

Four years ago, after US Airways filed its first Chapter 11 bankruptcy petition and kicked off a round of downsizing that is still shuddering through the industry, many analysts said it was entirely possible that US Airways would join Eastern, Pan Am, and TWA in the corporate graveyard. But US Airways shed billions of dollars in costs, secured a \$900 million lifeline from the federal government and emerged from bankruptcy after just seven months.

A year and a half later, in September 2004, buffeted by soaring fuel prices and competition from low-fare airlines, US Airways sought bankruptcy protection again. A second trip to bankruptcy court, skeptics were quick to point, rarely has a happy ending.

Not only did US Airways pull itself out of the second bankruptcy after a year, but it came out paired with the low-fare carrier America West Airlines. Yet again, many analysts wrote it off, saying the merger was ill-conceived. The staid corporate culture of US Airways would not mesh with that of a more nimble discount carrier, they argued. The labor unions at each airline would not be able to sort out seniority issues for workers. A merger would do little to consolidate the bloated industry other than removing a name from airline ticket counters.

But US Airways proved the skeptics wrong again. The merger with America West has been, by most accounts, a success thus far.

Still, the US Airways of 2006 is an undeniably different airline than it was in 2005. And analysts now say that the company's path over the last year illustrates how it may succeed in taking on the burden of a wounded airline like Delta, which has sought its own protection from creditors in bankruptcy court.

The strategy of taking on a troubled business like Delta is not a new concept for the US Airways chief executive, W. Douglas Parker. In fact, it is the same tack he used as chief of America West to push for a merger with US Airways. He learned that bankruptcy, which allows airlines to cut costs by reducing airline fleets, jobs and benefits, makes a company like Delta an attractive target for a merger.

Before Wednesday, US Airways' share price had more than doubled since the merger with America West was completed last September. The offer for Delta sent shares soaring 17 percent more.

When America West began consolidating its operations with US Airways, it downsized its jet fleet and closed unneeded gates - a move that sharply reduced costs. Through September of this year, US Airways had an operating profit of \$483 million, compared with an operating loss of \$25 million for the like period last year.

"That kind of performance gets people's attention," said Roger King, a transportation analyst with CreditSights. "It really shows the value of taking overhead out of a very high fixed-cost business. Airlines are basically just fixed costs, and when you merge two airlines you can take a lot of those fixed costs out but retain the same amount of sales."

When the operations of the two airlines are completely fused, which would happen sometime over the next year, the combined company would save \$600 million a year, according to US Airways. Analysts said some of the savings and efficiencies with the America West merger could be repeated with a Delta merger.

"It's been done before, and there's no reason to suspect that, with good management, it couldn't be done again," said John Weber, vice president for information services at Back Aviation Solutions, an airline industry consulting service.

Analysts said that US Airways' new management team and the culture it brought with it from America West could benefit the company after a merger with Delta.

One of the main reasons US Airways has been able to survive, they said, is that its corporate culture has been almost entirely supplanted by the America West approach that Parker brought with him after he moved the company's headquarters from Arlington, Virginia, to Tempe, Arizona.

But a merger with Delta could be more complicated than Parker and his management team expect, analysts said.

"Delta is a monumental task," said William Warlick, an analyst with Fitch Ratings. "It's a much larger carrier. And there's the labor integration issue, which is the ever-present question in airline mergers."

Indeed, the unions from US Airways and America West still have not resolved the seniority issues that arose from that merger. When airlines merge, workers have to reschedule their shifts, routes and vacation time. With workers of varying seniority from two different airlines, this can be a formidable task.

The Air Line Pilots' Association said Wednesday that it planned to picket US Airways hubs in Charlotte, North Carolina, and Phoenix, Arizona, to protest the proposed merger, arguing that such deals have trampled over its members.

Nick Bunkley contributed reporting for this article.