



US Airways from a Different Perspective

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Chairman, Negotiating Committee

Recently, there has been a lot of speculation about our company's future, as United and US Airways have recently announced that they are in discussions to terminate the merger agreement. Only time will tell for sure what will happen, but in the meantime, we can learn a little about the structure of the Company by looking at it from an ownership and control perspective. From that, we may be able to gain some insight into what has happened and some indication of what is likely to happen. To determine what is likely to happen, we must first look at some fundamental questions.

What is US Airways and who owns it?

To answer this question, look at the most recent annual report, the US Airways 10-K SEC filing for the fiscal year ending December 31, 2000. That report will serve as the source document for this article, unless otherwise noted. I will use that information to explore our corporate structure, stock structure, employees and ownership, as well as some of the relationships between these subjects.

US Airways consists of several companies under common ownership. The parent company, US Airways Group (which I'll refer to as Group), incorporated in Delaware, has its corporate offices in Arlington, VA. Group's function is to own the common stock of US Airways, Inc. (its primary subsidiary), and also to own other smaller airlines and support subsidiaries.

Corporate structure

Under the Group umbrella, there are several organizations. The Company's operations consist of two segments: US Airways, Inc. and US Airways Express.

- Scheduled passenger service transportation accounts for 90 percent of Group's 2000 operating revenues. US Airways, Inc. is the airline operation, which generated 88 percent of Group's 2000 operating revenues. (The additional two percent of revenue comes from the Company's commuter airlines.) It operates 417 jet aircraft (as of January, but fewer now) at 104 airports throughout North America, the Caribbean, and Europe. US Airways has 82 percent of its departures and 52 percent of its capacity deployed within the Eastern U.S.
- US Airways Express is made up of nine different commuter airlines. Allegheny Airlines, Piedmont Airlines, Potomac Air, and PSA are Group's wholly owned commuter aircraft operators. Five independent commuter carriers (of which US Airways has no ownership) also operate under the US Airways name with a contractual code sharing relationship. All of these commuter carriers feed traffic into US Airways' route system, primarily at its connecting hubs. These carriers are referred to by the Company as regional airlines, and operate under the US Airways Express banner.

Other subsidiaries perform specific services for Group and their unique operations. A brief summary of these follows:

- US Airways Leasing and Sales, Materials Service Company, and Airways Assurance Limited support the Company's five airline subsidiaries. They procure aviation fuel,

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assist with maintenance contracts and insurance, and market surplus assets.

- USLM Corporation manages the Company’s post retirement medical and life insurance benefits. Group created this subsidiary to save money in retirement benefits.
- As the name suggests, US Airways Investment Management Company handles many of the Company’s investment activities. US Airways Finance Corporation arranges financing and leases for all of Group’s new aircraft acquisitions.
- US Airways Investment Management Company is a wholly owned subsidiary of US Airways, Inc. This company owned a portion of the Galileo Computer Reservations System. The Company, however, sold its interest in Galileo in June 1999.

Stock structure

Common stock. As of December 31, 2000, US Airways Group had 150 million authorized shares of common stock, of which 101.2 million shares were issued. The Company holds 34.2 million issued shares as Treasury Stock. Of this Treasury Stock, 21.3 million shares were reserved for stock options, stock incentive and employee retirement plans, and non-employee director stock purchase plans. Approximately 67,029,000 shares (101.2 million issued shares minus 34.2 million Treasury stock) are outstanding. Multiplying the outstanding shares by the recent stock price in the \$30 range results in a market capitalization of \$2,010,870,000.

There are 1,000 shares of common stock outstanding in US Airways, Inc. all owned by Group.

Preferred stock. As of December 31, 2000, the Company had 5 million authorized shares of Preferred Stock and 3 million shares of authorized Senior Preferred Stock. The Company has not issued any shares under these plans. Therefore, there are no outstanding shares of preferred stock.

Employees. US Airways employs 43,467 or full-time equivalents. (Two employees working 20 hours per week would count as one full-time equivalent.) Of these employees, 42,700 have union representation. (See table.)

Union	Class or Craft	Employees
ALPA	Pilots	5,900
IAMAW	Mechanics/related	8,600
IAMAW	Fleet service	7,000
CWA	Passenger service	10,300
AFA	Flight Attendants	10,900

Ownership. As of February 28, 2001, approximately 23,000 stockholders own US Airways stock. Directors and executive officers of the Company as a group own 5,804,836 shares, or 8.7 percent of the common stock outstanding on January 31, 2001.

The Securities and Exchange Commission (SEC) requires parties owning more than 5 percent of a public company’s common stock to report that ownership on its Schedules 13D and 13G. Two outside parties own in excess of 5 percent of US Airways common stock. They are: Morgan Stanley Dean Witter & Co., New York, who owns 4,019,551 shares, or 6 percent; and Tiger Management LLC, New York, who owns 16,512,700 shares, or 24.64 percent.

The top 10 outside owners of US Airways stock own over 31 million shares, or 46 percent of the total outstanding shares. These top 10 owners are Mutual Funds, with the exception of Morgan Stanley, a brokerage house. The remaining top 10 outside owners and their stakes are:

- Smith Barney Asset Management (3,217,814 shares) 4.8 percent
- Morgan Stanley Dean Witter & Co. (3,053,744 shares) 4.6 percent
- Barclays Global Investors (2,046,146 shares) 3.1 percent
- Mellon Bank Asset Management (1,474,677 shares) 2.2 percent
- State Street Global Advisors (1,306,510 shares) 1.9 percent
- Vanguard Group (1,144,855 shares) 1.7 percent
- Deutsche Asset Management (1,093,436 shares) 1.6 percent
- Water Street Capital (600,979 shares) 0.9 percent
- Miller Anderson & Sheppard (575,500 shares) 0.9 percent

Note: The top 10 owners’ data comes from Lionshares.com, updated as of December 31, 2000. Notice that the US Airways 10-K SEC filing for the year ending December 31, 2000



lists the Morgan Stanley Dean Witter & Co. stake differently than Lionshare.com.

Although there are 23,000 stockholders, when added to the top 10 shareholders, management and the Board of Directors control 54.7 percent of the votes. In fact, management and the Board of Directors need only the top seven shareholders to achieve a majority vote. With 67,029,000 shares outstanding, it takes 33,514,500 votes plus one to achieve a majority. Management and the Board of Directors,

along with the top seven shareholders, control 34,627,089 votes.

Federal law prohibits any non-U.S. citizen from owning or controlling more than 25 percent of the outstanding voting securities of a domestic air carrier. While it has had alliance and ownership agreements with British Airways in the past, US Airways does not now have any major owner relationships with any foreign entity.

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US Airways' executives

Name	Position
Stephen M. Wolf	Chairman of the Board, US Airways Group and US Airways, Inc.
Rakesh Gangwal	President and CEO, US Airways Group and US Airways, Inc.
Lawrence M. Nagin	Executive Vice President-Corporate Affairs and General Counsel, US Airways Group and US Airways, Inc.
N. Bruce Ashby	Senior Vice President-Corporate Development, US Airways, Inc.
B. Ben Baldanza	Senior Vice President-Marketing, US Airways, Inc.
Michelle V. Bryan	Senior Vice President-Human Resources, US Airways, Inc.
Alan W. Crellin	Senior Vice President-Customer Service, US Airways, Inc.
Christopher Doan	Senior Vice President-Maintenance, US Airways, Inc.
Thomas A. Mutryn	Senior Vice President-Finance and CFO, US Airways Group and US Airways, Inc.
Gregory T. Taylor	Senior Vice President-Planning, US Airways, Inc.
Anita P. Beier	Vice President and Controller, Group and US Airways, Inc.

Executives' histories

Name	History
Wolf	Lazard Freres (investment banking firm), Republic Airlines, United Airlines, and Flying Tigers Airlines
Gangwal	Air France, United Airlines
Nagin	Skadden Arps (law firm), Republic Airlines, United Airlines, and Flying Tigers Airlines
Ashby	Delta, United Airlines
Baldanza	Grupo Taca, Continental Airlines, American Airlines, and Northwest Airlines
Bryan	US Airways
Crellin	Pacific Southwest Airlines
Doan	Northwest Airlines, Trans World Airlines
Mutryn	United Airlines, American Airlines
Taylor	United Airlines
Beier	CSX, American Commercial Lines (transportation)

When listing the executives' prior companies, it becomes obvious that the majority of US Airways' management came from United Airlines—six of the 11 listed executives (55 percent) are former employees of United. All of the individuals who hold strategic positions (Wolf, Gangwal, Nagin, Ashby, Mutryn, and Taylor) worked together at United. This management team sold

United to some of its employees and was asked to leave as part of that buy out. In 1996, Mr. Wolf reassembled that team at US Airways after the Board of Directors hired him to replace Seth Schofield. Prior to that, Wolf and Nagin managed airlines that were sold to competitors. Skadden Arps, Mr. Nagin's former law firm, is now US Airways' lobbying firm in Washington.



Even though this examination is somewhat superficial, it is possible to draw some conclusions here. Mr. Wolf came from United, and hired some of his coworkers from United. For example, Skadden Arps now does work for US Airways. Old relationships certainly seem to lead to future relationships. Further examination reveals that even those executives who did

not come from United (all but Beier) nevertheless came from within the airline industry.

To further examine our company, we should look at our Board of Directors. I've listed their affiliations with other organizations to see how much this group interacts with each other outside of US Airways.

Board of Directors

Name and Shares Owned

Affiliations

Mathias J. Devito 8,000	Rouse Co., Allfirst Financial, Mars Supermarkets, Maryland Institute College of Art, Greater Baltimore Comm
Rakesh Gangwal 2,089,462	Air France, United Airlines, Boise Cascade
Peter M. George 2,538	Hilton Hotels, Magna Entertainment, Bookgolf.com
Robert L. Johnson 4,927	BET, Hilton Hotels, United Negro College Fund, National Cable TV Assoc., American Film Institute, General Mills, Gerald Stevens, the Advertising Council
Robert LeBuhn 26,422	Cambrex, Enzon, Geraldine Dodge Foundation, All Kinds of Minds, Executive Service Corps, Children's Eyecare, National Council of the Aspen Music Festival
John G. Medlin 11,000	Wachovia, Duke Endowment, Kenan Institute for Ethics, National Humanities Center, Wake Forest University, Research Triangle Foundation, Winston-Salem Foundation, NC Judicial Council, BellSouth, Burlington Ind., RJR, Media General
Hanne M. Merriman 7,500	Hanne Merriman Associates, Ameren, Central Illinois Public Service Co., State Farm, Rouse Co., Ann Taylor Stores, T. Rowe Price, Finlay Enterprises, National Women's Forum, Children's Hospital Foundation, Federal Reserve Bank in Richmond, VA
Thomas H. O'Brien 3,482	PNC Financial Services, Verizon Communications, BlackRock, Hilb, Rogal & Hamilton Co., Extra Mile Education Foundation, Carnegie Museums of Pittsburgh, Pittsburgh Opera, University of Pittsburgh, Board of Visitors
Hilda Ochoa-Brillembourg 16,967	Strategic Investment Management, Emerging Markets Management, World Bank, Harvard Management Co., Washington Opera, Rockefeller Center for Latin American Studies at Harvard
Richard B. Priory 2,382	Duke Energy Corp., Dana Corp., Foundation of UNC at Charlotte
Raymond W. Smith 10,189	Arlington Capital Partners, Rothschild North America, Bell Atlantic Ventures, Carnegie Mellon University, Lincoln Center Theater, Carnegie Corp., Stonebridge Technologies
Stephen M. Wolf 2,523,141	Lazard Freres, United, Philip Morris, R.R. Donnelly & Sons Co., Brookings Institution, Georgetown University, Alzheimer's Disease and Related Disorders Assoc., World Wildlife Fund

Are the directors really independent?

It would appear that this Board is not extensively intertwined. There is some overlap with Rouse Co. and Hilton Hotels, but not so much as to raise suspicion . . . at least at first glance. A deeper look, however, reveals some geographical concentration of Directors' activities. Those concentrations are as follows:

North Carolina

- Rouse Corp.
- Wachovia
- Wake Forest
- Winston-Salem
- Burlington Industries
- RJR
- BellSouth
- Duke University
- Duke Energy
- Dana Corp.
- UNC

Pennsylvania

- PNC
- University of Pittsburgh
- Carnegie Mellon University
- Bell Atlantic, Verizon

Washington, DC

- Maryland College of Art
- BET
- Cable TV Association
- National Women's Forum
- Washington Opera
- Arlington Capital Partners
- Georgetown University
- Brookings Institution
- World Wildlife Fund

There are also areas of concentration other than geographical. The most prevalent are affiliations with boards of universities. Charity foundations are also quite common, as are foundations supporting the arts. It is difficult to believe that this group of directors does not interact frequently in these areas. But even if that is the case, there appears to be no conflict of interest in terms of CEOs serving on each other's boards. Recent developments suggest, however, that insiders make strategic decisions

in their own favor, even though others may also benefit.

Senior management owns (or controls through options) a substantial amount of US Airways stock. Mr. Wolf owns 2,523,141 shares (3.8 percent of outstanding); Mr. Gangwal owns 2,089,462 shares (3.1 percent of outstanding); and Mr. Nagin owns 384,822 shares (less than 1 percent of outstanding). Combined, the group of three controls 4,997,425 shares or 7.45 percent.

Attempted sale of the Company

On May 24, 2000, US Airways Group entered into an agreement to sell the Company to United Airlines for \$60 per share. As part of that transaction, it planned to spin off its Washington, DC, operation to one of its directors, Robert Johnson, who owns 1,500 shares, in an attempt to address competitive issues resulting from the buyout. Mr. Johnson, Chairman and CEO of BET Holdings (which Viacom recently bought), would have then created a new regional airline, DC Air. Mr. Johnson, who had paid \$141 million, would have committed an additional \$28 million for other assets of the airline to be used in the DC Air operation. He also planned to sell a 49 percent stake in DC Air to American Airlines for \$82 million. This second deal also included American's right of first refusal for the remaining 51 percent of DC Air.

Atlantic Coast Airlines Holdings would have purchased Allegheny, Piedmont, and PSA airlines from United Airlines after the proposed merger occurred. Potomac Air would then become DC Air.

Conclusions

Mr. Johnson appeared to have benefited from his relationship with the Company. Senior management and the Board of Directors received substantial money from their stock holdings as a result of their decision to sell the company. Management came from United, became major shareholders, and sold the Company back to United. Despite SEC warnings to the contrary, sometimes past performance does indicate future results.

With the amount of stock ownership outlined above, it is no surprise that US Airways management attempted to sell the Company. The effect would have been to convert their stock ownership into dollars. The buying party also should not come as a surprise.

United and US Airways announced their merger agreement on May 24, 2000. At that

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time, US Airways stock was trading around \$23, which would produce a market capitalization of about \$1.5 billion. Today, with the stock trading around \$20, the market capitalization would have been approximately \$1.3 billion. At the buy out price of \$60, the market capitalization number would have risen to more than \$4 billion. While there are widely varying values of a company, this exercise shows that, even with today's very sophisticated analysis abilities, there is not a single value of a company that fits every situation.

With three senior executives controlling 7.45 percent of US Airways stock, I will speculate that Mr. Wolf, Mr. Gangwal, and Mr. Nagin will still try to find a way to turn their stakes into money. Even if the announced merger with United does not happen, they will continue to pursue a sale of the Company.



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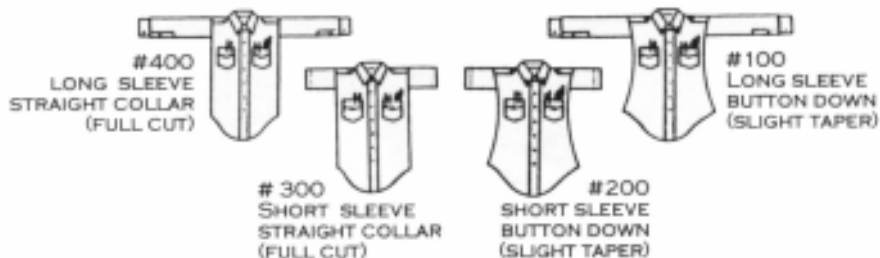
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