

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**  
 Washington, D.C. 20549  
**Form 10-K**

(Mark One)

- ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
**For the fiscal year ended December 31, 2008**
- or
- TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
**For the transition period from to**

**US Airways Group, Inc.**

*(Exact name of registrant as specified in its charter)*  
**(Commission File No. 1-8444)**

**Delaware**  
*(State or other Jurisdiction of  
 Incorporation or Organization)*

**54-1194634**  
*(IRS Employer  
 Identification No.)*

**111 West Rio Salado Parkway, Tempe, Arizona 85281**

*(Address of principal executive offices, including zip code)*

**(480) 693-0800**

*(Registrants telephone number, including area code)*

**Securities registered pursuant to Section 12(b) of the Act:**

**Title of Each Class**

Common Stock, \$0.01 par value

New York Stock Exchange

**Securities registered pursuant to Section 12(g) of the Act:**

None

**US Airways, Inc.**

*(Exact name of registrant as specified in its charter)*

**(Commission File No. 1-8442)**

**Delaware**  
*(State or other Jurisdiction of  
 Incorporation or Organization)*

**54-0218143**  
*(IRS Employer  
 Identification No.)*

**111 West Rio Salado Parkway, Tempe, Arizona 85281**

*(Address of principal executive offices, including zip code)*

**(480) 693-0800**

*(Registrants telephone number, including area code)*

**Securities registered pursuant to Section 12(b) of the Act: None**

**Securities registered pursuant to Section 12(g) of the Act: None**

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the proxy statement related to US Airways Group, Inc.'s 2009 Annual Meeting of Stockholders, which proxy statement will be filed under the Securities Exchange Act of 1934 within 120 days of the end of US Airways Group, Inc.'s fiscal year ended December 31, 2008, are incorporated by reference into Part III of this Annual Report on Form 10-K.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined by Rule 405 of the Securities Act.

US Airways Group, Inc. Yes  No   
 US Airways, Inc. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

US Airways Group, Inc. Yes  No   
 US Airways, Inc. Yes  No

Indicate by check mark whether each registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

US Airways Group, Inc. Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company   
 US Airways, Inc. Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

US Airways Group, Inc. Yes  No   
 US Airways, Inc. Yes  No

The aggregate market value of common stock held by non-affiliates of US Airways Group, Inc. as of June 30, 2008 was approximately \$229 million.

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court.

US Airways Group, Inc. Yes  No

US Airways, Inc.

Yes  No

As of February 12, 2009, there were 114,135,100 shares of US Airways Group, Inc. common stock outstanding.

As of February 12, 2009, US Airways, Inc. had 1,000 shares of common stock outstanding, all of which were held by US Airways Group, Inc.

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US Airways Group, Inc.  
US Airways, Inc.  
Form 10-K  
Year Ended December 31, 2008  
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This combined Annual Report on Form 10-K is filed by US Airways Group, Inc. (“US Airways Group”) and its wholly owned subsidiary US Airways, Inc. (“US Airways”). References in this Form 10-K to “we,” “us,” “our” and the “Company” refer to US Airways Group and its consolidated subsidiaries.

#### **Note Concerning Forward-Looking Statements**

Certain of the statements contained in this report should be considered “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements may be identified by words such as “may,” “will,” “expect,” “intend,” “anticipate,” “believe,” “estimate,” “plan,” “project,” “could,” “should,” and “continue” and similar terms used in connection with statements regarding our outlook, expected fuel costs, the revenue environment, and our expected financial performance. These statements include, but are not limited to, statements about the benefits of the business combination transaction involving America West Holdings Corporation (“America West Holdings”) and US Airways Group, including future financial and operating results, our plans, objectives, expectations and intentions and other statements that are not historical facts. These statements are based upon the current beliefs and expectations of management and are subject to significant risks and uncertainties that could cause our actual results and financial position to differ materially from these statements. These risks and uncertainties include, but are not limited to, those described below under Item 1A. “Risk Factors” and the following:

- the impact of future significant operating losses;
- economic conditions;
- changes in prevailing interest rates, a reduction in the availability of financing and increased costs of financing;
- our high level of fixed obligations and our ability to obtain and maintain financing for operations and other purposes and operate pursuant to the terms of our financing facilities (particularly the financial covenants);
- our ability to maintain adequate liquidity;
- labor costs and relations with unionized employees generally and the impact and outcome of labor negotiations, including our ability to complete the integration of the labor groups of US Airways Group and America West Holdings;
- our reliance on vendors and service providers and our ability to obtain and maintain commercially reasonable terms with those vendors and service providers;
- the impact of fuel price volatility, significant disruptions in the supply of aircraft fuel and further significant increases in fuel prices;
- our reliance on automated systems and the impact of any failure or disruption of these systems;
- the impact of the integration of our business units;
- the impact of changes in our business model;
- competitive practices in the industry, including significant fare restructuring activities, capacity reductions and in court or out of court restructuring by major airlines;
- the impact of industry consolidation;
- our ability to attract and retain qualified personnel;
- the impact of global instability, including the current instability in the Middle East, the continuing impact of the military presence in Iraq and Afghanistan and the terrorist attacks of September 11, 2001 and the potential impact of future hostilities, terrorist attacks, infectious disease outbreaks or other global events that affect travel behavior;
- changes in government legislation and regulation;

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- our ability to obtain and maintain adequate facilities and infrastructure to operate and grow our route network;
- the impact of environmental laws and regulations;
- costs of ongoing data security compliance requirements and the impact of any data security breach;
- interruptions or disruptions in service at one or more of our hub airports;
- the impact of any accident involving our aircraft;
- delays in scheduled aircraft deliveries or other loss of anticipated fleet capacity;
- the impact of possible future increases in insurance costs and disruptions to insurance markets;
- weather conditions;
- the cyclical nature of the airline industry;
- the impact of foreign currency exchange rate fluctuations;
- our ability to use pre-merger NOLs and certain other tax attributes;
- our ability to maintain contracts that are critical to our operations;
- our ability to attract and retain customers; and
- other risks and uncertainties listed from time to time in our reports to the Securities and Exchange Commission.

All of the forward-looking statements are qualified in their entirety by reference to the factors discussed below under Item 1A. “Risk Factors.” There may be other factors not identified above, or in Item 1A, of which we are not currently aware that may affect matters discussed in the forward-looking statements and may also cause actual results to differ materially from those discussed. We assume no obligation to publicly update any forward-looking statement to reflect actual results, changes in assumptions or changes in other factors affecting these estimates other than as required by law. Any forward-looking statements speak only as of the date of this Form 10-K.

## PART I

### Item 1. *Business*

#### Overview

US Airways Group, a Delaware corporation, is a holding company whose primary business activity is the operation of a major network air carrier through its wholly owned subsidiaries US Airways, Piedmont Airlines, Inc. (“Piedmont”), PSA Airlines, Inc. (“PSA”), Material Services Company, Inc. (“MSC”) and Airways Assurance Limited (“AAL”). US Airways Group was formed in 1982, and its origins trace back to the formation of All American Aviation in 1939. US Airways Group’s principal executive offices are located at 111 West Rio Salado Parkway, Tempe, Arizona 85281. US Airways Group’s telephone number is (480) 693-0800, and its internet address is [www.usairways.com](http://www.usairways.com).

On May 19, 2005, US Airways Group signed a merger agreement with America West Holdings Corporation (“America West Holdings”) pursuant to which America West Holdings merged with a wholly owned subsidiary of US Airways Group. The merger agreement was amended by a letter of agreement on July 7, 2005. The merger became effective upon US Airways Group’s emergence from bankruptcy on September 27, 2005.

We operate the fifth largest airline in the United States as measured by domestic mainline revenue passenger miles (“RPMs”) and available seat miles (“ASMs”). For the years ended December 31, 2008, 2007 and 2006, passenger revenues accounted for approximately 91%, 93% and 93%, respectively, of our operating revenues. Cargo revenues and other sources accounted for 9%, 7% and 7% of our operating revenues in 2008, 2007 and 2006, respectively. We have primary hubs in Charlotte, Philadelphia and Phoenix and secondary hubs/focus cities in New York, Washington, D.C., Boston and Las Vegas. We offer scheduled passenger service on more than 3,100 flights daily to 200 communities in the United States, Canada, Europe, the Caribbean and Latin America. We also have an established East Coast route network, including the US Airways Shuttle service, with a substantial presence at capacity constrained airports including New York’s LaGuardia Airport and the Washington, D.C. area’s Ronald Reagan Washington National Airport. We had approximately 55 million passengers boarding our mainline flights in 2008. During 2008, our mainline operation provided regularly scheduled service or seasonal service at 135 airports. During 2008, the US Airways Express network served 187 airports in the United States, Canada and Latin America, including 77 airports also served by our mainline operation. During 2008, US Airways Express air carriers had approximately 27 million passengers boarding their planes. As of December 31, 2008, we operated 354 mainline jets and are supported by our regional airline subsidiaries and affiliates operating as US Airways Express either under capacity purchase or prorate agreements, which operate approximately 238 regional jets and 74 turboprops.

Our results are seasonal. Operating results are typically highest in the second and third quarters due to greater demand for air and leisure travel during the summer months and our combination of business traffic and North-South leisure traffic in the eastern and western United States during those periods. For information regarding operating revenue in US Airways Group’s and US Airways’ principal geographic areas, see Notes 13 and 12 to their respective financial statements included in Items 8A and 8B of this Form 10-K.

MSC and AAL operate in support of our airline subsidiaries in areas such as the procurement of aviation fuel and insurance.

#### Available Information

You may read and copy any materials US Airways Group or US Airways files with the Securities and Exchange Commission (“SEC”) at the SEC’s Public Reference Room at 100 F Street, NE, Washington, DC 20549. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. A copy of this Annual Report on Form 10-K, as well as other Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to those reports are accessible free of charge at [www.usairways.com](http://www.usairways.com) and at the SEC’s website at [www.sec.gov](http://www.sec.gov) as soon as reasonably possible after the report is filed with or furnished to the SEC.

## Airline Industry

In 2008, the U.S. airline industry faced an extraordinarily challenging environment. Airlines incurred significant losses as they faced staggering increases in the price of fuel throughout most of 2008. The quarterly average cost per barrel of oil below depicts the runaway nature of fuel prices during 2008:

	<u>First Quarter</u>	<u>Second Quarter</u>	<u>Third Quarter</u>	<u>Fourth Quarter</u>
2008	\$ 98	\$ 124	\$ 118	\$ 59
2007	58	65	75	90
Period over period increase (decrease)	68%	91%	57%	(35%)

Given the industry capacity levels and continued intense competition, U.S. airlines were unable to sufficiently raise ticket prices to cover their largest cost item, jet fuel. As a result, most U.S. airlines were generating sizeable losses. These factors served as a catalyst for some airlines to take the following unprecedented measures to support growth in ticket prices and preserve liquidity:

- Substantial capacity reductions. Domestic ASMs are expected to be down approximately 10% in 2009 as compared to 2008 for the U.S. airline industry. These capacity cuts are expected to minimize the impact of reduced passenger demand on revenue, reduce costs and minimize cash burn.
- Development and implementation of new revenue initiatives to supplement existing sources of revenue.
- Implementation of cost containment strategies to minimize non-essential expenditures and conserve cash.
- Enhancement of near-term liquidity through a number of cash-raising initiatives such as traditional capital market issuances, asset sales, sale and leaseback transactions and prepaid sales of frequent flyer program miles to affinity card issuers.

The then rapid and severe increases in fuel prices, which appeared to have no end as oil hit an all time high of \$147 per barrel in July 2008, prompted some airlines to contain costs by increasing their fuel hedge positions. With the industry facing a liquidity crisis, many airlines' hedge positions took the form of no premium collars and swaps, as the cost of traditional call options to lock in fuel cost became too expensive due to the volatility in oil prices. By the end of the third quarter, the rapid climb in oil prices was quickly replaced by an equally rapid decline in oil prices, driven by a global economic downturn. While the industry welcomed relief in the price of fuel, hedges entered into earlier in the year, ahead of fuel's rapid decline, generated losses and a near term drain on liquidity as airlines were forced to post significant amounts of collateral with their fuel hedging counterparties.

As the industry enters 2009, moderating oil prices are expected to offset at least some of the effects on passenger demand of the corresponding weakening economy. Additionally, we believe the unprecedented industry actions described above to reduce capacity, support ticket prices and implement new sources of revenue will further mitigate the impacts of the economic downturn.

See Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations," for our response to the industry conditions discussed above.

## Airline Operations

We operate a hub-and-spoke network with major hubs in Charlotte, Philadelphia and Phoenix and secondary hubs/focus cities in New York, Washington, D.C., Boston and Las Vegas.

We dramatically improved our on-time performance and mishandled baggage ratio. For the year 2008, our 80.1% on-time performance ranked first among the big six hub and spoke carriers and second among the ten largest U.S. airlines as measured by the DOT's Consumer Air Travel Report. See the "Customer Service" section below for further discussion.

As a result of the challenging 2008 industry environment, we reduced our fourth quarter 2008 total mainline capacity by 5.9% and our Express capacity by 1.3% on a year-over-year basis. In addition, we plan to reduce our total mainline 2009 capacity by four to six percent and our Express capacity by five to seven percent from 2008

levels. We anticipate that these capacity reductions will enable us to minimize the impact of reduced passenger demand on revenue and reduce costs.

Despite the capacity reductions in 2008, we were able to increase service in certain markets. Domestically, we added new non-stop service from our Charlotte hub to Montreal, Quebec; Austin and San Antonio, Texas; Fort Walton Beach and Daytona Beach, Florida; Gulfport, Mississippi and Sacramento, California, and from our Philadelphia hub to Sacramento, California. In January 2009, we began service from Washington National to Akron/Canton, Ohio. In 2008, we also added new transatlantic service from our Philadelphia hub to London's Heathrow Airport and announced three new transatlantic flights to begin in Spring 2009, including service from our Philadelphia hub to Birmingham, U.K. and Oslo, Norway as well as service from our Charlotte hub to Paris, France. We also announced additional non-stop service from Boston's Logan International Airport to eight destinations in Latin America and the Caribbean to operate in January-March 2009. In addition, we received Department of Transportation ("DOT") approval to operate daily non-stop service from our Philadelphia hub to Tel Aviv, Israel. Service, which is awaiting Israeli government approval, is slated to begin in July 2009 utilizing a new A330-200 aircraft.

In 2007, US Airways and Airbus executed definitive purchase agreements for the acquisition of 97 aircraft, including 60 single-aisle A320 family aircraft and 37 widebody aircraft comprised of 22 A350 Xtra Wide Body ("XWB") aircraft and 15 A330-200 aircraft. These were in addition to orders for 37 single-aisle A320 family aircraft from a previous Airbus purchase agreement. The A320 aircraft will be used to replace older narrowbody aircraft in our fleet. In 2008, we took delivery of five A321 aircraft. In 2009, we plan to take delivery of 18 A321 aircraft and two A320 aircraft, with deliveries of the remaining 72 A320 family aircraft to continue from 2010 through 2012. We also plan to take delivery of five A330-200 aircraft in 2009, with the remaining ten A330-200 aircraft to be delivered in 2010-2011. In October 2008, we amended the terms of the A350 XWB Purchase Agreement for deliveries of the 22 firm order A350 XWB aircraft to begin in 2015 rather than 2014 and extending through 2018. We plan to use the A330-200 and A350 XWB aircraft to replace older widebody aircraft in our fleet and to facilitate international growth. In 2008, we also took delivery of the 14 remaining firm Embraer 190 aircraft on order under our Amended and Restated Purchase Agreement with Embraer.

### **Express Operations**

Certain air carriers have code share arrangements with us to operate under the trade name "US Airways Express." Typically, under a code share arrangement, one air carrier places its designator code and sells tickets on the flights of another air carrier, which is referred to generically as its code share partner. US Airways Express carriers are an integral component of our operating network. We rely heavily on feeder traffic from our US Airways Express partners, which carry passengers to our hubs from low-density markets that are uneconomical for us to serve with large jets. In addition, US Airways Express operators offer complementary service in our existing mainline markets by operating flights during off-peak periods between mainline flights. During 2008, the US Airways Express network served 187 airports in the continental United States, Canada and Latin America, including 77 airports also served by our mainline operation. During 2008, approximately 27 million passengers boarded US Airways Express air carriers' planes, approximately 43% of whom connected to mainline flights. Of these 27 million passengers, approximately 8 million were enplaned by our wholly owned regional airlines Piedmont and PSA, approximately 19 million were enplaned by third-party carriers operating under capacity purchase agreements and less than one million were enplaned by carriers operating under prorate agreements, as described below.

The US Airways Express code share arrangements are in the form of either capacity purchase or prorate agreements. The capacity purchase agreements provide that all revenues, including passenger, mail and freight revenues, go to us. In return, we agree to pay predetermined fees to these airlines for operating an agreed-upon number of aircraft, without regard to the number of passengers on board. In addition, these agreements provide that certain variable costs, such as airport landing fees and passenger liability insurance, will be reimbursed 100% by us. We control marketing, scheduling, ticketing, pricing and seat inventories. Under the prorate agreements, the prorate carriers receive a prorated share of ticket revenue and pay certain service fees to us. The prorate carrier is responsible for pricing the local, point to point markets to the extent that we do not have competing existing service in that market. We are responsible for pricing all other prorate carrier tickets. The prorate carrier is also responsible



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for all costs incurred operating the aircraft. All US Airways Express carriers use our reservation systems and have logos, service marks, aircraft paint schemes and uniforms similar to our mainline operation.

The following table sets forth our US Airways Express code share agreements and the number and type of aircraft operated under those agreements at December 31, 2008. On June 30, 2008, Air Midwest, Inc., a US Airways Express prorate carrier for the first six months of 2008, ceased all operations. Air Midwest contributed less than 1% to our total Express ASMs.

Carrier		Number/Type
PSA(1)	Capacity Purchase	49 regional jets
Piedmont(1)	Capacity Purchase	55 turboprops
Air Wisconsin Airlines Corporation	Capacity Purchase	70 regional jets
Mesa Airlines, Inc.	Capacity Purchase	49 regional jets and 6 turboprops
Chautauqua Airlines, Inc.	Capacity Purchase	9 regional jets
Republic Airways	Capacity Purchase	58 regional jets
Colgan Airlines, Inc.	Prorate	13 turboprops
Trans States Airlines, Inc.	Prorate	3 regional jets

(1) PSA and Piedmont are wholly owned subsidiaries of US Airways Group.

### **Marketing and Alliance Agreements with Other Airlines**

We maintain alliance agreements with several leading domestic and international carriers to give customers a greater choice of destinations. Airline alliance agreements provide an array of benefits that vary by partner. By code sharing, each airline is able to offer additional destinations to its customers under its flight designator code without materially increasing operating expenses and capital expenditures. Frequent flyer arrangements provide members with extended networks for earning and redeeming miles on partner carriers. US Airways Club members also have access to certain partner carriers' airport lounges. We also benefit from the distribution strengths of each of our partner carriers.

In May 2004, US Airways joined the Star Alliance, the world's largest airline alliance, which now has 21 member airlines serving approximately 912 destinations in 159 countries. Three additional carriers are scheduled to join the Star Alliance in late 2009 or early 2010. Membership in the Star Alliance further enhances the value of our domestic and international route network by allowing customers wide access to the global marketplace. Expanded benefits for customers include network expansion through code share service, frequent flyer program benefits, airport lounge access, convenient single-ticket pricing with electronic tickets, one-stop check-in and coordinated baggage handling. We also have bilateral marketing/code sharing agreements with Star Alliance members Lufthansa, Spanair, bmi, TAP Portugal, Swiss International, Asiana, Air New Zealand, Air China and Singapore Airlines. Other international code sharing partners include Italy's Air One, Royal Jordanian Airlines, EVA Airways and Virgin Atlantic Airways. Marketing/code sharing agreements are maintained with two smaller regional carriers in the Caribbean that operate collectively as the "GoCaribbean" network. Each of these code share agreements funnel international traffic onto our domestic flights or support specific markets operated by us in Europe and the Caribbean. Domestically, we code share with Hawaiian Airlines on intra-Hawaii flights.

In addition, we have comprehensive marketing and code sharing agreements with United Airlines, a member of the Star Alliance, which began in July 2002. In February 2008, US Airways and United reached final agreement on amendments to the contracts governing their relationship, following each carrier's reorganization through bankruptcy. Following the June 2008 announcement of the United-Continental Airlines marketing agreements and Continental's plans to join the Star Alliance, we reaffirmed our code share agreements with United and our continued participation in the Star Alliance.

## **Competition in the Airline Industry**

Most of the markets in which we operate are highly competitive. Price competition occurs on a market-by-market basis through price discounts, changes in pricing structures, fare matching, target promotions and frequent flyer initiatives. Airlines typically use discount fares and other promotions to stimulate traffic during normally slack travel periods to generate cash flow and to maximize revenue per ASM. Discount and promotional fares are generally non-refundable and may be subject to various restrictions such as minimum stay requirements, advance ticketing, limited seating and change fees. We have often elected to match discount or promotional fares initiated by other air carriers in certain markets in order to compete in those markets. Most airlines will quickly match price reductions in a particular market. Our ability to compete on the basis of price is limited by our fixed costs and depends on our ability to maintain our operating costs. In addition, recent years have seen the entrance and growth of low-fare, low-cost competitors in many of the markets in which we operate. These competitors include Southwest Airlines Co., AirTran Airways, Inc., Frontier Airlines, Inc. and JetBlue Airways. Some of these low cost carriers have lower operating cost structures than US Airways.

We also compete on the basis of scheduling (frequency and flight times), availability of nonstop flights, on-time performance, type of equipment, cabin configuration, amenities provided to passengers, frequent flyer programs, the automation of travel agent reservation systems, on-board products, markets served and other services. We compete with both major full service airlines and low-cost airlines throughout our network of hubs and focus cities.

In addition, because we operate a significant number of flights in the eastern United States, our average trip distance, or stage length, is shorter than those of other major airlines. This makes us more susceptible than other major airlines to competition from surface transportation such as automobiles and trains.

## **Industry Regulation and Airport Access**

Our airline subsidiaries operate under certificates of public convenience and necessity or certificates of commuter authority, both of which are issued by the DOT. These certificates may be altered, amended, modified or suspended by the DOT if the public convenience and necessity so require, or may be revoked for failure to comply with the terms and conditions of the certificates.

Airlines are also regulated by the Federal Aviation Administration (“FAA”), primarily in the areas of flight operations, maintenance, ground facilities and other operational and safety areas. Pursuant to these regulations, our airline subsidiaries have FAA-approved maintenance programs for each type of aircraft they operate. The programs provide for the ongoing maintenance of such aircraft, ranging from periodic routine inspections to major overhauls. From time to time, the FAA issues airworthiness directives and other regulations affecting our airline subsidiaries or one or more of the aircraft types they operate. In recent years, for example, the FAA has issued or proposed mandates relating to, among other things, enhanced ground proximity warning systems, fuselage pressure bulkhead reinforcement, fuselage lap joint inspection rework, increased inspections and maintenance procedures to be conducted on certain aircraft, increased cockpit security, fuel tank flammability reductions and domestic reduced vertical separation. Regulations of this sort tend to enhance safety and increase operating costs.

The DOT allows local airport authorities to implement procedures designed to abate special noise problems, provided such procedures do not unreasonably interfere with interstate or foreign commerce or the national transportation system. Certain locales, including Boston, Washington, D.C., Chicago, San Diego and San Francisco, among others, have established airport restrictions to limit noise, including restrictions on aircraft types to be used and limits on the number of hourly or daily operations or the time of these operations. In some instances these restrictions have caused curtailments in services or increases in operating costs, and these restrictions could limit the ability of our airline subsidiaries to expand their operations at the affected airports. Authorities at other airports may consider adopting similar noise regulations.

The airline industry is also subject to increasingly stringent federal, state and local laws aimed at protecting the environment. Future regulatory developments and actions could affect operations and increase operating costs for the airline industry, including our airline subsidiaries. For more discussion of environmental regulation, see

Item 1A. “Risk Factors — Risk Factors Relating to the Company and Industry Related Risks — *We are subject to many forms of environmental regulation and may incur substantial costs as a result.*”

Our airline subsidiaries are obligated to collect a federal excise tax, commonly referred to as the “ticket tax,” on domestic and international air transportation. Our airline subsidiaries collect the ticket tax, along with certain other U.S. and foreign taxes and user fees on air transportation, and pass along the collected amounts to the appropriate governmental agencies. Although these taxes are not our operating expenses, they represent an additional cost to our customers. There are a number of efforts in Congress to raise different portions of the various taxes imposed on airlines and their passengers.

The Aviation and Transportation Security Act (the “Aviation Security Act”) was enacted in November 2001. Under the Aviation Security Act, substantially all aspects of civil aviation security screening were federalized, and a new Transportation Security Administration (the “TSA”) under the DOT was created. The TSA was then transferred to the Department of Homeland Security pursuant to the Homeland Security Act of 2002. The Aviation Security Act, among other matters, mandates improved flight deck security; carriage at no charge of federal air marshals; enhanced security screening of passengers, baggage, cargo, mail, employees and vendors; enhanced security training; fingerprint-based background checks of all employees and vendor employees with access to secure areas of airports pursuant to regulations issued in connection with the Aviation Security Act; and the provision of certain passenger data to U.S. Customs and Border Protection.

Funding for the TSA is provided by a combination of air-carrier fees, passenger fees and taxpayer monies. A “passenger security fee,” which is collected by air carriers from their passengers, is currently set at a rate of \$2.50 per flight segment but not more than \$10 per round trip. An air-carrier fee, or Aviation Security Infrastructure Fee (“ASIF”), has also been imposed with an annual cap equivalent to the amount that an individual air carrier paid in calendar year 2000 for the screening of passengers and property. TSA may lift this cap at any time and set a new higher fee for air carriers.

In 2008, we incurred expenses of \$53 million for the ASIF, including amounts paid by US Airways Group’s wholly owned regional subsidiaries and amounts attributable to regional carriers. Implementation of the requirements of the Aviation Security Act have resulted and will continue to result in increased costs for us and our passengers and has and will likely continue to result in service disruptions and delays. As a result of competitive pressure, US Airways and other airlines may be unable to recover all of these additional security costs from passengers through increased fares. In addition, we cannot forecast what new security and safety requirements may be imposed in the future or the costs or financial impact of complying with any such requirements.

Most major U.S. airports impose a passenger facility charge. The ability of airlines to contest increases in this charge is restricted by federal legislation, DOT regulations and judicial decisions. With certain exceptions, air carriers pass these charges on to passengers. However, our ability to pass through passenger facility charges to our customers is subject to various factors, including market conditions and competitive factors. The current cap on the passenger facility charge is \$4.50 per passenger.

At John F. Kennedy International, LaGuardia, Newark Liberty International and Reagan National Airports, which are designated “High Density Airports” by the FAA, there are restrictions that limit the number of departure and arrival slots available to air carriers during peak hours. In April 2000, legislation was enacted that eliminated slot restrictions in January 2007 at LaGuardia and Kennedy. The FAA proposed a comprehensive final rule for LaGuardia in August 2006. The proposed rule would require a minimum number of seats on certain operations to/from LaGuardia. Failure to comply with the minimum seat requirement would lead to the withdrawal of operating authority until compliance is achieved. The proposed rule also introduces a finite lifespan for “operating authorizations” of no more than ten years. The FAA intends to seek Congressional approval for the introduction of market based mechanisms for allocating expiring operating authorizations. We filed extensive comments with the FAA in December 2006 detailing the numerous concerns we have with the proposed rule. Other than making some technical corrections to the current operating restrictions at LaGuardia, no other action concerning the level of operations at LaGuardia was taken by the federal government in 2007. The DOT and FAA convened an Aviation Rulemaking Committee (“ARC”) to address congestion and delays in the New York region.

On October 10, 2008, the FAA finalized new rules governing flight operations at the three major New York airports. The new rules were scheduled to take effect in December 2008. However, on December 8, 2008, at the request of the Air Transport Association (“ATA”) and others, the U.S. Court of Appeals for the Washington D.C. Circuit issued a stay order prohibiting the new rules from taking effect. The litigation surrounding the legality of the final rules will continue forward in 2009. If the new rules are upheld, the FAA will withdraw approximately 15% of the industry slots at LaGuardia. If deemed legal, the rules will reduce the number of flights US Airways can offer at LaGuardia over a five year period. Additionally, the DOT recently finalized a policy change that will permit airports to charge differentiated landing fees during congested periods, which could impact our ability to serve certain markets in the future. This policy change is also the source of pending litigation.

The FAA is now pursuing a voluntary return of slots at LaGuardia in an effort to reduce the current number of scheduled operations from 75 per hour to 71 per hour in order to reduce congestion. In addition, the government capped operations at both Kennedy and Newark starting during the first quarter of 2008. Thus, airlines will not be able to add flights at LaGuardia, Kennedy or Newark without acquiring operating rights from another carrier. In the future, takeoff and landing time restrictions and other restrictions on the use of various airports and their facilities may result in further curtailment of services by, and increased operating costs for, individual airlines, including our airline subsidiaries, particularly in light of the increase in the number of airlines operating at these airports.

The availability of international routes to domestic air carriers is regulated by agreements between the U.S. and foreign governments. Changes in U.S. or foreign government aviation policy could result in the alteration or termination of these agreements and affect our international operations. We could continue to see significant changes in terms of air service between the United States and Europe as a result of the implementation of the U.S. and the EU Air Transport Agreement, generally referred to as the Open Skies Agreement, which took effect in March 2008. The Open Skies Agreement removes bilateral restrictions on the number of flights between the U.S. and EU. One result of the Open Skies Agreement has been the application before the DOT for antitrust immunity between Star Alliance members and Continental, and oneworld members and American Airlines. If granted, antitrust immunity permits carriers to coordinate schedules, pricing and other competitive aspects on international routes to/from the United States. It is possible that the grant of these immunities could have an impact on our international operations.

The DOT has proposed several new initiatives concerning airline obligations toward passengers. During 2008, the DOT finalized rules pertaining to denied boarding compensation requiring additional consumer disclosure and higher payments to passengers. In addition, the DOT established a task force on long on-board delays that resulted in the issuance of a final report suggesting model contingency plans for long on-board delays. Contemporaneous with the end of the task force, the DOT issued additional proposed rules that would place additional requirements on airlines concerning service irregularities, consumer rights and contract of carriage obligations.

The New York State Passenger Bill of Rights law, which requires airlines to provide certain services to passengers on flights within the state that undergo extended on-board ground delays, was overturned in the U.S. Court of Appeals for the 2nd Circuit, but new passenger bill of rights legislation has been introduced in the current session of Congress.

### **Employees and Labor Relations**

Our businesses are labor intensive. In 2008, wages, salaries and benefits represented approximately 18% of our operating expenses. As of December 31, 2008, we employed approximately 37,500 active full-time equivalent employees. Of this amount, US Airways employed approximately 32,700 active full-time equivalent employees including approximately 4,200 pilots, 7,100 flight attendants, 6,800 passenger service personnel, 6,600 fleet service personnel, 3,100 maintenance personnel and 4,900 personnel in administrative and various other job categories. US Airways Group’s remaining subsidiaries employed approximately 4,800 active full-time equivalent employees including approximately 800 pilots, 500 flight attendants, 2,600 passenger service personnel, 500 maintenance personnel and 400 personnel in administrative and various other job categories.

A large majority of the employees of the major airlines in the United States are represented by labor unions. As of December 31, 2008, approximately 87% of our active employees were represented by various labor unions.

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Since the merger, we have been in the process of integrating the labor agreements of US Airways and America West Airlines (“AWA”). Listed below are the integrated labor agreements and the status of the US Airways and AWA labor agreements that remain separate with their major domestic employee groups.

Union		Employees(1)	Contract Amendable
<b>Integrated labor agreements:</b>			
International Association of Machinists & Aerospace Workers (“IAM”)	Fleet Service	6,600	12/31/2011(2)
Airline Customer Service Employee Association — IBT and CWA (the “Association”)	Passenger Service	6,800	12/31/2011
IAM	Mechanics, Stock Clerks and Related	3,100	12/31/2011(3)
IAM	Maintenance Training Instructors	30	12/31/2011(4)
Transport Workers Union (“TWU”)	Dispatch	200	12/31/2009
TWU	Flight Crew Training Instructors	100	12/31/2011
TWU	Flight Simulator Engineers	50	12/31/2011
<b>US Airways:</b>			
Air Line Pilots Association (“ALPA”)	Pilots	2,700	12/31/2009(5)
Association of Flight Attendants-CWA (“AFA”)	Flight Attendants	4,800	12/31/2011(6)
<b>AWA:</b>			
ALPA	Pilots	1,500	12/30/2006(5)
AFA	Flight Attendants	2,300	05/04/2004(6)

- (1) Approximate number of active full-time equivalent employees covered by the contract as of December 31, 2008.
- (2) In May 2008, US Airways and IAM District 141 ratified a new unified agreement that moved all US Airways’ fleet service employees to one labor contract. The new contract moved pre-merger AWA fleet service employees to the terms of the pre-merger US Airways contract and modified the existing US Airways agreement in ways that were mutually beneficial to the employees and US Airways.
- (3) In April 2008, US Airways and IAM District 142 ratified a new unified agreement that moved all US Airways’ maintenance and related employees to one labor contract. The new contract moved pre-merger AWA maintenance, stock clerk and related employees to the higher pay scales of the pre-merger US Airways labor contract and modified the existing US Airways labor agreement in ways that were mutually beneficial to the employees and US Airways.
- (4) In May 2008, US Airways and IAM District 142 ratified a new agreement that moved all US Airways’ maintenance training instructors to one labor contract.
- (5) Pilots continue to work under the terms of their separate US Airways and AWA collective bargaining agreements, as modified by the transition agreements reached in connection with the merger.
- (6) In negotiations for a single labor agreement applicable to both US Airways and AWA. On December 15, 2005, the National Mediation Board recessed AFA’s separate contract negotiations with AWA indefinitely. Flight attendants continue to work under the terms of their separate US Airways and AWA collective bargaining agreements, as modified by the transition agreements reached in connection with the merger.

On April 18, 2008, the National Mediation Board certified the US Airline Pilots Association (“USAPA”) as the collective bargaining representative for the pilots of the combined company, including pilot groups from both pre-merger AWA and US Airways. Since that time, we have been engaged in negotiations with USAPA over the terms of a single labor agreement covering both groups. In the meantime, while those negotiations are underway, each of the pilot groups continues to be covered by the ALPA collective bargaining agreements referenced above.

On November 21, 2008, the National Mediation Board notified us that an application for representation of the Customer Service Training Instructors had been filed by the TWU. We responded that the appropriate craft or class should also include the Fleet Service Training Instructors. The National Mediation Board conducted an investigation and determined that the craft or class includes both Customer Service and Fleet Service Training Instructors. Further, the National Mediation Board ordered a representation election with voting beginning on January 29, 2009 and concluding on February 20, 2009.

There are few remaining unrepresented employee groups that could engage in organization efforts. We cannot predict the outcome of any future efforts to organize those remaining employees or the terms of any future labor agreements or the effect, if any, on US Airways' operations or financial performance. For more discussion, see Item 1A. "Risk Factors — Risk Factors Relating to the Company and Industry Related Risks — *Union disputes, employee strikes and other labor-related disruptions may adversely affect our operations.*"

#### Aviation Fuel

In 2008, aviation fuel was our largest expense. The average cost of a gallon of aviation fuel for our mainline and Express operations increased 44.1% from 2007 to 2008, and our total mainline and Express fuel expense increased \$1.36 billion or 40.1% from 2007 to 2008. We estimate that a one cent per gallon change in fuel prices will result in a \$14 million increase/decrease in annual fuel expense. While there has been recent relief in the price of oil, the cost of fuel remains volatile. Because the operations of our airline are dependent upon aviation fuel, increases in aviation fuel costs could materially and adversely affect liquidity, results of operations and financial condition.

We currently utilize heating-oil based derivative instruments to hedge a portion of our exposure to oil price increases. As of December 31, 2008, we had entered into fuel hedging transactions using no premium collars, which establish an upper and lower limit on heating oil futures prices. These transactions are in place with respect to approximately 14% of our 2009 fuel consumption requirements. Since the third quarter of 2008, we have not entered into any new transactions as part of our fuel hedging program due to the impact collateral requirements could have on our liquidity resulting from the significant decline in the price of oil and counterparty credit risk arising from global economic uncertainty. During 2008, 2007 and 2006, we recognized a net loss of \$356 million, a net gain of \$245 million and a net loss of \$79 million, respectively, related to fuel hedging activities. The 2008 net loss on our fuel hedging derivatives was driven by the significant decline in the price of oil in the latter part of 2008.

The following table shows annual aircraft fuel consumption and costs for our mainline operations for 2006 through 2008 (gallons and aircraft fuel expense in millions):

Year	Gallons	Average Price per Gallon(1)	Aircraft Fuel Expense(1)	Percentage of Total Operating Expenses
2008	1,142	\$ 3.17	\$ 3,618	33.3%
2007	1,195	2.20	2,630	30.7%
2006	1,210	2.08	2,518	29.8%

(1) Includes fuel taxes and excludes the impact of fuel hedges. The impact of fuel hedges is described in Item 7 under "US Airways Group's Results of Operations" and "US Airways' Results of Operations."

In addition, we incur fuel expenses related to our Express operations. For the years ended December 31, 2008, 2007 and 2006, total fuel expenses for US Airways Group's wholly owned regional airlines, affiliate regional airlines operating under capacity purchase agreements as US Airways Express, and US Airways' former MidAtlantic division was \$1.14 billion, \$765 million and \$764 million, respectively.

Prices and availability of all petroleum products are subject to political, economic and market factors that are generally outside of our control. Accordingly, the price and availability of aviation fuel, as well as other petroleum products, can be unpredictable. Prices may be affected by many factors, including:

- the impact of global political instability on crude production;
- unexpected changes to the availability of petroleum products due to disruptions in distribution systems or refineries, as evidenced in the third quarter of 2005 when Hurricane Katrina and Hurricane Rita caused



widespread disruption to oil production, refinery operations and pipeline capacity along certain portions of the U.S. Gulf Coast. As a result of these disruptions, the price of jet fuel increased significantly and the availability of jet fuel supplies was diminished;

- unpredictable increases to oil demand due to weather or the pace of economic growth;
- inventory levels of crude, refined products and natural gas; and
- other factors, such as the relative fluctuation in value between the U.S. dollar and other major currencies and the influence of speculative positions on the futures exchanges.

## **Insurance**

US Airways Group and its subsidiaries maintain insurance of the types and in amounts deemed adequate to protect themselves and their property. Principal coverage includes:

- liability for injury to members of the public, including passengers;
- damage to property of US Airways Group, its subsidiaries and others;
- loss of or damage to flight equipment, whether on the ground or in flight;
- fire and extended coverage;
- directors' and officers' liability;
- travel agents' errors and omissions;
- advertiser and media liability;
- cyber risk liability;
- fiduciary; and
- workers' compensation and employer's liability.

Since September 11, 2001, US Airways Group and other airlines have been unable to obtain coverage for liability to persons other than employees and passengers for claims resulting from acts of terrorism, war or similar events, which coverage is called war risk coverage, at reasonable rates from the commercial insurance market. US Airways, therefore, purchased its war risk coverage through a special program administered by the FAA, as have most other U.S. airlines. The Emergency Wartime Supplemental Appropriations Act extended this insurance protection until August 2005. The program was subsequently extended, with the same conditions and premiums, until March 31, 2009. If the federal insurance program terminates, we would likely face a material increase in the cost of war risk coverage, and because of competitive pressures in the industry, our ability to pass this additional cost to passengers may be limited.

## **Customer Service**

We are committed to running a successful airline. One of the important ways we do this is by taking care of our customers. We believe that our focus on excellent customer service in every aspect of our operations, including personnel, flight equipment, inflight and ancillary amenities, on-time performance, flight completion ratios and baggage handling, will strengthen customer loyalty and attract new customers.

Throughout 2007 and 2008, we implemented several ongoing initiatives to improve operational performance, including lengthening the operating day at our hubs, lowering utilization, increasing the number of designated spare aircraft and implementing new baggage handling software and handheld baggage scanners in order to ensure operational reliability. The implementation of these initiatives along with other performance improvement initiatives resulted in an improved trend in operational performance.

For the year 2008, our 80.1% on-time performance ranked first among the big six hub and spoke carriers and second among the ten largest U.S. airlines as measured by the DOT's Consumer Air Travel Report. In addition, our mishandled baggage ratio per 1,000 passengers improved dramatically to 4.77, representing more than a 40%

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improvement from our 2007 rate of 8.47. Our rate of customer complaints filed with the DOT per 100,000 passengers also improved, decreasing to 2.01 in 2008 from 3.16 in 2007.

We reported the following combined operating statistics to the DOT for mainline operations for the years ended December 31, 2008, 2007 and 2006:

	Full Year		
	2008	2007	2006
On-time performance(a)	80.1	68.7	76.9
Completion factor(b)	98.5	98.2	98.9
Mishandled baggage(c)	4.77	8.47	7.88
Customer complaints(d)	2.01	3.16	1.36

- (a) Percentage of reported flight operations arriving on time as defined by the DOT.
- (b) Percentage of scheduled flight operations completed.
- (c) Rate of mishandled baggage reports per 1,000 passengers.
- (d) Rate of customer complaints filed with the DOT per 100,000 passengers.

### **Frequent Traveler Program**

All major United States airlines offer frequent flyer programs to encourage travel on their respective airlines and customer loyalty. Our Dividend Miles frequent flyer program allows participants to earn mileage credits for each paid flight segment on US Airways, Star Alliance carriers and certain other airlines that participate in the program. Participants flying in first class or Envoy class may receive additional mileage credits. Participants can also receive mileage credits through special promotions that we periodically offer and may also earn mileage credits by utilizing certain credit cards and purchasing services from non-airline partners such as hotels and rental car agencies. We sell mileage credits to credit card companies, telephone companies, hotels, car rental agencies and others that participate in the Dividend Miles program. Mileage credits can be redeemed for a travel award or first class upgrades on US Airways, Star Alliance carriers or other participating airlines.

We and the other participating airline partners limit the number of seats allocated per flight for award recipients by using various inventory management techniques. Award travel for all but the highest-level Dividend Miles participants is generally not permitted on blackout dates, which correspond to certain holiday periods or peak travel dates. We reserve the right to terminate Dividend Miles or portions of the program at any time. Program rules, partners, special offers, blackout dates, awards and requisite mileage levels for awards are subject to change. In 2008, we implemented processing fees for issuing awards ranging from \$25 to \$50 depending on destination, as well as a \$50 to \$75 fee for redeeming awards within 14 days of the travel date depending on booking method.

### **Ticket Distribution**

Passengers can book tickets for travel on US Airways through several distribution channels including our direct website ([www.usairways.com](http://www.usairways.com)), online travel agent sites (e.g., Orbitz, Travelocity, Expedia and others), traditional travel agents, reservations centers and airline ticket offices. Traditional travel agencies use Global Distribution Systems (“GDSs”), such as Sabre Travel Network®, to obtain their fare and inventory data from airlines. Bookings made through these agencies result in a fee, referred to as a “GDS fee,” that is charged to the airline. Bookings made directly with an airline, through its reservation call centers or website, do not generate a GDS fee. Travel agent sites that connect directly to airline host systems, effectively by-passing the traditional connection via GDSs, help us reduce distribution costs. In 2008, we received 57% of our sales from internet sites. Our website accounted for 25% of our sales, while other internet sites accounted for 32% of our sales.

During 2008, electronic tickets represented 99% of all tickets issued to customers flying US Airways. Electronic tickets serve to enhance customer service and control costs for ticketing services supported by the airline and its distribution partners. Our \$50 surcharge to most customers requiring paper tickets has allowed us to continue to support exceptional requests, while offsetting any cost variance associated with the issuance and postal fulfillment of paper tickets.



In an effort to further reduce distribution costs through internal channels, we have instituted service fees for customer interaction, which were increased in 2008, in the following internal distribution channels: reservation call centers (\$25 per domestic ticket, \$35 per international ticket), airport ticket offices (\$35 per domestic ticket, \$45 per international ticket) and city ticket offices (\$35 per domestic ticket, \$45 per international ticket). Other services provided through these channels remain available with no extra fees. The goals of these service fees are to reduce the cost to us of providing customer service as required by the traveler and to promote the continued goal of shifting customers to our lowest cost distribution channel, [www.usairways.com](http://www.usairways.com). Other airlines have instituted similar fee structures. Internal channels of distribution account for 33% of our sales.

### **US Airways Vacations**

Through US Airways Vacations (“USV”), we sell individual and group travel packages including air transportation on US Airways, US Airways Express and all US Airways codeshare partners, hotel accommodations, car rentals and other travel products. USV packages are marketed directly to consumers and through retail travel agencies in several countries and include travel to destinations throughout the U.S., Latin America, the Caribbean and Europe.

USV is focused on high-volume leisure travel products that have traditionally provided high profit margins. USV has negotiated several strategic partnerships with hotels, internet travel sites and media companies to capitalize on the continued growth in online travel sales. USV sells vacation packages and hotel rooms through its call center; via the internet and its websites, [www.usairwaysvacations.com](http://www.usairwaysvacations.com) and [www.usvtravelagents.com](http://www.usvtravelagents.com); through global distribution systems Sabre Vacations, Amadeus AgentNet and VAX; and through third-party websites on a co-branded or private-label basis. In 2008, approximately 84% of USV’s total bookings were made electronically, compared to 78% in 2007.

During 2008, USV operated co-branded websites for nine partner companies, including Costco Travel, Vegas.com, LasVegas.com and BestFares.com. These co-branded sites provide a retail presence via distribution channels such as Costco wholesale warehouses and other company websites where we and USV may not otherwise be a part of the consumer’s consideration set. USV intends to continue to add new co-branded websites as opportunities present themselves.

### **Pre-merger US Airways Group’s Chapter 11 Bankruptcy Proceedings**

On September 12, 2004, US Airways Group and its domestic subsidiaries, US Airways, Piedmont, PSA and MSC (collectively, the “Debtors”), which at the time accounted for substantially all of the operations of US Airways Group, filed voluntary petitions for relief under Chapter 11 of the U.S. Bankruptcy Code (the “Bankruptcy Code”) in the United States Bankruptcy Court for the Eastern District of Virginia, Alexandria Division (the “Bankruptcy Court”). On September 16, 2005, the Bankruptcy Court issued an order confirming the Debtors’ plan of reorganization. The plan of reorganization, which was based upon the completion of the merger, among other things, set forth a revised capital structure and established the corporate governance for US Airways Group following the merger and subsequent to emergence from bankruptcy. Under the plan of reorganization, the Debtors’ general unsecured creditors received 8.2 million shares of the new common stock of US Airways Group, which represented approximately 10% of our common stock outstanding as of the completion of the merger. The holders of US Airways Group common stock outstanding prior to the merger received no distribution on account of their interests, and their existing stock was canceled.

In accordance with the Bankruptcy Code, the plan of reorganization classified claims into classes according to their relative priority and other criteria and provided for the treatment of each class of claims. Pursuant to the bankruptcy process, the Debtors’ claims agent received timely-filed proofs of claims totaling approximately \$26.4 billion in the aggregate, exclusive of approximately \$13.6 billion in claims filed by governmental entities. The Debtors continue to be responsible for administering and resolving claims related to the bankruptcy process. The administrative claims objection deadline passed on September 15, 2006. As of December 31, 2008, there were approximately \$157 million of unresolved claims. The ultimate resolution of certain of the claims asserted against the Debtors in the Chapter 11 cases will be subject to negotiations, elections and Bankruptcy Court procedures. The recovery to individual creditors ultimately distributed to any particular general unsecured creditor under the plan of reorganization will depend on a number of variables, including the agreed value of any general unsecured claims filed by that creditor, the aggregate value of all resolved general unsecured claims and the value of shares of the new common stock of US Airways Group in

the marketplace at the time of distribution. The effects of these distributions were reflected in US Airways' financial statements upon emergence and will not have any further impact on the results of operations.

**Item 1A. Risk Factors**

Below are a series of risk factors that may affect our results of operations or financial performance. We caution the reader that these risk factors may not be exhaustive. We operate in a continually changing business environment, and new risk factors emerge from time to time. Management cannot predict such new risk factors, nor can it assess the impact, if any, of these risk factors on our business or the extent to which any factor or combination of factors may impact our business.

**Risk Factors Relating to the Company and Industry Related Risks**

***US Airways Group could experience significant operating losses in the future.***

There are several reasons, including those addressed in these risk factors, why US Airways Group might fail to achieve profitability and might in fact experience significant losses. In particular, the weakened condition of the economy and the high volatility of fuel prices have had and continue to have an impact on our operating results, and overall worsening economic conditions increase the risk that we will experience losses.

***Our business may be adversely affected by a downturn in economic conditions.***

Due to the discretionary nature of business and leisure travel spending, airline industry revenues are heavily influenced by the condition of the U.S. economy and the economies in other regions of the world. Unfavorable conditions in these broader economies can result in decreased passenger demand for air travel and changes in booking practices, both of which in turn can have a strong negative effect on our revenues. In addition, during challenging economic times, actions by our competitors to increase their revenues can have an adverse impact on our revenues. See "*The airline industry is intensely competitive and dynamic*" below. Certain contractual obligations limit our ability to shrink the number of aircraft in operation below certain levels. As a result, we may not be able to optimize the number of aircraft in operation compared to a decrease in passenger demand for air travel.

***Increased costs of financing, a reduction in the availability of financing and fluctuations in interest rates could adversely affect our liquidity, operating expenses and results.***

Changes in the domestic and global financial markets may increase our costs and adversely affect our ability to obtain financing needed for the acquisition of aircraft that we have contractual commitments to purchase and for other types of financings we may seek in order to raise capital or fund other types of obligations. Any downgrades to our credit rating may likewise increase the cost and reduce the availability of financings.

Further, a substantial portion of our indebtedness bears interest at fluctuating interest rates. These are primarily based on the London interbank offered rate for deposits of U.S. dollars, or "LIBOR." LIBOR tends to fluctuate based on general economic conditions, general interest rates, federal reserve rates and the supply of and demand for credit in the London interbank market. We have not hedged our interest rate exposure and, accordingly, our interest expense for any particular period may fluctuate based on LIBOR and other variable interest rates. To the extent these interest rates increase, our interest expense will increase, in which event we may have difficulties making interest payments and funding our other fixed costs, and our available cash flow for general corporate requirements may be adversely affected. See also the discussion of interest rate risk in Part II, Item 7A.

***Our high level of fixed obligations limits our ability to fund general corporate requirements and obtain additional financing, limits our flexibility in responding to competitive developments and increases our vulnerability to adverse economic and industry conditions.***

We have a significant amount of fixed obligations, including debt, aircraft leases and financings, aircraft purchase commitments, leases and developments of airport and other facilities and other cash obligations. We also

have certain guaranteed costs associated with our regional alliances. As a result of the substantial fixed costs associated with these obligations:

- A decrease in revenues results in a disproportionately greater percentage decrease in earnings.
- We may not have sufficient liquidity to fund all of these fixed costs if our revenues decline or costs increase.
- We may have to use our working capital to fund these fixed costs instead of funding general corporate requirements, including capital expenditures.
- We may not have sufficient liquidity to respond to competitive developments and adverse economic conditions.

Our obligations also impact our ability to obtain additional financing, if needed, and our flexibility in the conduct of our business. Our existing indebtedness is secured by substantially all of our assets. Moreover, the terms of our Citicorp credit facility and certain of our other financing arrangements require us to maintain consolidated unrestricted cash and cash equivalents of not less than \$850 million, with not less than \$750 million (subject to partial reductions upon certain reductions in the outstanding principal amount of the loan) of that amount held in accounts subject to control agreements.

Our ability to pay the fixed costs associated with our contractual obligations depends on our operating performance and cash flow, which in turn depend on general economic and political conditions. A failure to pay our fixed costs or a breach of the contractual obligations could result in a variety of adverse consequences, including the acceleration of our indebtedness, the withholding of credit card proceeds by the credit card servicers and the exercise of remedies by our creditors and lessors. In such a situation, it is unlikely that we would be able to fulfill our contractual obligations, repay the accelerated indebtedness, make required lease payments or otherwise cover our fixed costs.

***If our financial condition worsens, provisions in our credit card processing and other commercial agreements may adversely affect our liquidity.***

We have agreements with companies that process customer credit card transactions for the sale of air travel and other services. These agreements allow these processing companies, under certain conditions, to hold an amount of our cash (referred to as a “holdback”) equal to a portion of advance ticket sales that have been processed by that company, but for which we have not yet provided the air transportation. These holdback requirements can be modified at the discretion of the processing companies upon the occurrence of specific events, including material adverse changes in our financial condition. An increase in the current holdback balances to higher percentages up to and including 100% of relevant advanced ticket sales could materially reduce our liquidity. Likewise, other of our commercial agreements contain provisions that allow other entities to impose less favorable terms, including an acceleration of amounts due, in the event of material adverse changes in our financial condition.

***Union disputes, employee strikes and other labor-related disruptions may adversely affect our operations.***

Relations between air carriers and labor unions in the United States are governed by the Railway Labor Act (the “RLA”). Under the RLA, collective bargaining agreements generally contain “amendable dates” rather than expiration dates, and the RLA requires that a carrier maintain the existing terms and conditions of employment following the amendable date through a multi-stage and usually lengthy series of bargaining processes overseen by the National Mediation Board. These processes do not apply to our current and ongoing negotiations for post-merger integrated labor agreements, and this means unions may not lawfully engage in concerted refusals to work, such as strikes, slow-downs, sick-outs or other similar activity. Nonetheless, after more than three years of negotiations without a resolution to the bargaining issues that arose from the merger, there is a risk that disgruntled employees, either with or without union involvement, could engage in one or more concerted refusals to work that could individually or collectively harm the operation of the airline and impair its financial performance. Likewise, employees represented by unions that have reached post-merger integrated agreements could engage in improper actions that disrupt our operations.

***If we incur problems with any of our third party service providers, our operations could be adversely affected by a resulting decline in revenue or negative public perception about our services.***

Our reliance upon others to provide essential services on behalf of our operations may result in the relative inability to control the efficiency and timeliness of contract services. We have entered into agreements with contractors to provide various facilities and services required for our operations, including Express flight operations, aircraft maintenance, ground services and facilities, reservations and baggage handling. Similar agreements may be entered into in any new markets we decide to serve. These agreements are generally subject to termination after notice by the third party service provider. We are also at risk should one of these service providers cease operations, and there is no guarantee that we could replace these providers on a timely basis with comparably priced providers. Recent volatility in fuel prices, disruptions to capital markets and the current economic downturn in general have subjected certain of these third party service providers to strong financial pressures. Any material problems with the efficiency and timeliness of contract services, resulting from financial hardships or otherwise, could have a material adverse effect on our business, financial condition and results of operations.

***Our business is dependent on the price and availability of aircraft fuel. Continued periods of high volatility in fuel costs, increased fuel prices and significant disruptions in the supply of aircraft fuel could have a significant negative impact on our operating results and liquidity.***

Our operating results are significantly impacted by changes in the availability, price volatility and the cost of aircraft fuel, which represents the largest single cost item in our business. Fuel prices have fluctuated substantially over the past several years and sharply in the last year.

Because of the amount of fuel needed to operate the airline, even a relatively small increase in the price of fuel can have a significant adverse aggregate effect on our costs. Due to the competitive nature of the airline industry and unpredictability of the market, we can offer no assurance that we may be able to increase our fares or otherwise increase revenues sufficiently to offset fuel prices.

Although we are currently able to obtain adequate supplies of aircraft fuel, we cannot predict the future availability, price volatility or cost of aircraft fuel. Natural disasters, political disruptions or wars involving oil-producing countries, changes in fuel-related governmental policy, changes in aircraft fuel production capacity, environmental concerns and other unpredictable events may result in fuel supply shortages and additional fuel price volatility and cost increases in the future.

From time to time we enter into hedging arrangements to protect against rising fuel costs. Our ability to hedge in the future, however, may be limited, particularly if the financial condition of the airline worsens. Also, our fuel hedging arrangements do not completely protect us against price increases and are limited in both volume of fuel and duration. Finally, a rapid decline in the price of fuel can adversely impact our short-term liquidity as our hedge counterparties require that we post collateral in the form of cash or letters of credit when the projected future market price of fuel drops below the strike price on existing hedging arrangements. See also the discussion in Part II, Item 7A. "Quantitative and Qualitative Disclosures About Market Risk."

***We rely heavily on automated systems to operate our business and any failure or disruption of these systems could harm our business.***

To operate our business, we depend on automated systems, including our computerized airline reservation systems, our flight operations systems, our telecommunication systems, our airport customer self-service kiosks and our websites. Our website and reservation systems must be able to accommodate a high volume of traffic and deliver important flight information on a timely and reliable basis. Substantial or repeated disruptions or failures of any of these automated systems could impair our operations, reduce the attractiveness of our services and could result in lost revenues and increased costs. In addition, these automated systems require periodic maintenance, upgrades and replacements, and our business may be harmed if we fail to properly maintain, upgrade or replace such systems.

***The integration of our business units following the merger continues to present significant challenges.***

We continue to face significant challenges relating to our merger in consolidating functions and integrating diverse organizations, information technology systems, processes, procedures, operations and training and maintenance programs, in a timely and efficient manner. This integration has been and will continue to be costly, complex and time consuming. Failure to successfully complete the integration may adversely affect our business and results from operations.

***Changes to our business model that are designed to increase revenues may not be successful and may cause operational difficulties or decreased demand.***

We have implemented several new measures designed to increase revenue and offset costs. These measures include charging separately for services that had previously been included within the price of a ticket and increasing other pre-existing fees. We may introduce additional initiatives in the future. The implementation of these initiatives creates logistical challenges that could harm the operational performance of the airline. Also, the new and increased fees might reduce the demand for air travel on our airline or across the industry in general, particularly as weakening economic conditions make our customers more sensitive to increased travel costs.

***The airline industry is intensely competitive and dynamic.***

Our competitors include other major domestic airlines as well as foreign, regional and new entrant airlines, some of which have more financial resources or lower cost structures than ours, and other forms of transportation, including rail and private automobiles. In many of our markets we compete with at least one low cost air carrier. Our revenues are sensitive to numerous factors, and the actions of other carriers in the areas of pricing, scheduling and promotions can have a substantial adverse impact on overall industry revenues. These factors may become even more significant in periods when the industry experiences large losses, as airlines under financial stress, or in bankruptcy, may institute pricing structures intended to achieve near-term survival rather than long-term viability. In addition, because a significant portion of our traffic is short-haul travel, we are more susceptible than other major airlines to competition from surface transportation such as automobiles and trains.

Low cost carriers have a profound impact on industry revenues. Using the advantage of low unit costs, these carriers offer lower fares, particularly those targeted at business passengers, in order to shift demand from larger, more-established airlines. Some low cost carriers, which have cost structures lower than ours, have better financial performance and significant numbers of aircraft on order for delivery in the next few years. These low-cost carriers are expected to continue to increase their market share through growth and could continue to have an impact on the overall performance of US Airways Group.

***Industry consolidation could weaken our competitive position.***

If mergers or other forms of industry consolidation including antitrust immunity grants take place, we might or might not be included as a participant. Depending on which carriers combine and which assets, if any, are sold or otherwise transferred to other carriers in connection with such combinations, our competitive position relative to the post-combination carriers or other carriers that obtain assets could be harmed. In addition, as carriers combine through traditional mergers or antitrust immunity grants, their route networks might grow and result in greater overlap with our network, which in turn could result in lower overall market share and revenues for us. Such consolidation is not limited to the U.S., but could include further consolidation among international carriers in Europe and elsewhere.

***The loss of key personnel upon whom we depend to operate our business or the inability to attract additional qualified personnel could adversely affect the results of our operations or our financial performance.***

We believe that our future success will depend in large part on our ability to attract and retain highly qualified management, technical and other personnel, particularly in light of reductions in headcount associated with cost-saving measures implemented during 2008. We may not be successful in retaining key personnel or in attracting and retaining other highly qualified personnel. Any inability to retain or attract significant numbers of qualified management and other personnel could adversely affect our business.

***The travel industry continues to face ongoing security concerns.***

The attacks of September 11, 2001 and continuing terrorist threats materially impacted and continue to impact air travel. The Aviation and Transportation Security Act mandates improved flight deck security; deployment of federal air marshals on board flights; improved airport perimeter access security; airline crew security training; enhanced security screening of passengers, baggage, cargo, mail, employees and vendors; enhanced training and qualifications of security screening personnel; additional provision of passenger data to U.S. Customs and enhanced background checks. These increased security procedures introduced at airports since the attacks and other such measures as may be introduced in the future generate higher operating costs for airlines. A concurrent increase in airport security charges and procedures, such as restrictions on carry-on baggage, has also had and may continue to have a disproportionate impact on short-haul travel, which constitutes a significant portion of our flying and revenue. We would also be materially impacted in the event of further terrorist attacks or perceived terrorist threats.

***Changes in government regulation could increase our operating costs and limit our ability to conduct our business.***

Airlines are subject to extensive regulatory requirements. In the last several years, Congress has passed laws, and the DOT, the FAA, the TSA and the Department of Homeland Security have issued a number of directives and other regulations. These requirements impose substantial costs on airlines. On October 10, 2008, the FAA finalized new rules governing flight operations at the three major New York airports. These rules did not take effect because of a legal challenge, but the FAA has pushed forward with a reduction in the number of flights per hour at LaGuardia. Currently, the FAA is attempting to work with airlines to implement its new operations cap at LaGuardia through voluntary methods. If this is not successful, the FAA may resort to other methods to reduce congestion in New York. Additionally, the DOT recently finalized a policy change that will permit airports to charge differentiated landing fees during congested periods, which could impact our ability to serve certain markets in the future. The new rule is being challenged in court by the industry.

Additional laws, regulations, taxes and policies have been proposed or discussed from time to time, including recently introduced federal legislation on a “passenger bill of rights,” that, if adopted, could significantly increase the cost of airline operations or reduce revenues. The state of New York’s attempt to adopt such a measure has been successfully challenged by the airline industry. Other states, however, are contemplating similar legislation. The DOT also has a rulemaking pending and recently completed a stakeholder task force working on various initiatives that could lead to additional expansion of airline obligations in the customer service area and increase our costs.

Finally, the ability of U.S. carriers to operate international routes is subject to change because the applicable arrangements between the U.S. and foreign governments may be amended from time to time, or because appropriate slots or facilities may not be available. We cannot assure you that laws or regulations enacted in the future will not adversely affect our operating costs. In addition, increased environmental regulation may increase costs or restrict our operations. The EU has been particularly aggressive in this area.

***The inability to maintain labor costs at competitive levels could harm our financial performance.***

Our business plan includes assumptions about labor costs going forward. Currently, our labor costs are very competitive. However, we cannot assure you that labor costs going forward will remain competitive, because some of our agreements are amendable now and others may become amendable, because competitors may significantly reduce their labor costs or because we may agree to higher-cost provisions in our current labor negotiations. Approximately 87% of the employees within US Airways Group are represented for collective bargaining purposes by labor unions, including unionized groups of our employees abroad.

Some of our unions have brought and may continue to bring grievances to binding arbitration. Unions may also bring court actions and may seek to compel us to engage in the bargaining processes where we believe we have no such obligation. If successful, there is a risk these judicial or arbitral avenues could create additional costs that we did not anticipate.



***Our ability to operate and grow our route network in the future is dependent on the availability of adequate facilities and infrastructure throughout our system.***

In order to operate our existing flight schedule and, where appropriate, add service along new or existing routes, we must be able to obtain adequate gates, ticketing facilities, operations areas, slots (where applicable) and office space. For example, at our largest hub airport, we are seeking to increase international service despite challenging airport space constraints. The nation's aging air traffic control infrastructure presents challenges as well. The ability of the air traffic control system to handle traffic in high-density areas where we have a large concentration of flights is critical to our ability to operate our existing schedule. Also, as airports around the world become more congested, we cannot always be sure that our plans for new service can be implemented in a commercially viable manner given operating constraints at airports throughout our network.

***We are subject to many forms of environmental regulation and may incur substantial costs as a result.***

We are subject to increasingly stringent federal, state, local and foreign laws, regulations and ordinances relating to the protection of the environment, including those relating to emissions to the air, discharges to surface and subsurface waters, safe drinking water, and the management of hazardous substances, oils and waste materials. Compliance with all environmental laws and regulations can require significant expenditures.

Several U.S. airport authorities are actively engaged in efforts to limit discharges of de-icing fluid (glycol) to local groundwater, often by requiring airlines to participate in the building or reconfiguring of airport de-icing facilities. Such efforts are likely to impose additional costs and restrictions on airlines using those airports. We do not believe, however, that such environmental developments will have a material impact on our capital expenditures or otherwise adversely affect our operations, operating costs or competitive position.

We are also subject to other environmental laws and regulations, including those that require us to remediate soil or groundwater to meet certain objectives. Under federal law, generators of waste materials, and owners or operators of facilities, can be subject to liability for investigation and remediation costs at locations that have been identified as requiring response actions. We have liability for such costs at various sites, although the future costs associated with the remediation efforts are currently not expected to have a material adverse affect on our business.

We have various leases and agreements with respect to real property, tanks and pipelines with airports and other operators. Under these leases and agreements, we have agreed to standard language indemnifying the lessor or operator against environmental liabilities associated with the real property or operations described under the agreement, even if we are not the party responsible for the initial event that caused the environmental damage. We also participate in leases with other airlines in fuel consortiums and fuel committees at airports, where such indemnities are generally joint and several among the participating airlines.

Recently, climate change issues and greenhouse gas emissions (including carbon) have attracted international and domestic regulatory interest that may result in the imposition of additional regulation on airlines. Any such regulatory activity in the future may adversely affect our business and financial results.

California is in the process of implementing environmental provisions aimed at limiting emissions from off-road diesel-powered vehicles, which may include some airline belt loaders and tugs and require a change of ground service vehicles. The future costs associated with replacing some or all of our ground fleets in California cities are currently not expected to have a material adverse affect on our business.

Governmental authorities in several U.S. and foreign cities are also considering or have already implemented aircraft noise reduction programs, including the imposition of nighttime curfews and limitations on daytime take-offs and landings. We have been able to accommodate local noise restrictions imposed to date, but our operations could be adversely affected if locally-imposed regulations become more restrictive or widespread.

***Ongoing data security compliance requirements could increase our costs, and any significant data breach could harm our business, financial condition or results of operations.***

Our business requires the appropriate and secure utilization of customer and other sensitive information. We cannot be certain that advances in criminal capabilities, discovery of new vulnerabilities, attempts to exploit

existing vulnerabilities in our systems, data thefts, physical system or network break-ins or inappropriate access, or other developments will not compromise or breach the technology protecting the networks that access and store database information. Furthermore, there has been heightened legislative and regulatory focus on data security in the U.S. and abroad (particularly in the EU), including requirements for varying levels of customer notification in the event of a data breach.

Many of our commercial partners, including credit card companies, have imposed certain data security standards that we must meet. In particular, we were required by the Payment Card Industry Security Standards Council, founded by the credit card companies, to comply with their highest level of data security standards. While we currently meet these standards, new and revised standards may be imposed that may be difficult for us to meet.

In addition to the Payment Card Industry Standards discussed above, failure to comply with the other privacy and data use and security requirements of our partners or related laws and regulations to which we are subject may expose us to fines, sanctions or other penalties, which could materially and adversely affect our results of operations and overall business. In addition, failure to address appropriately these issues could also give rise to additional legal risks, which, in turn, could increase the size and number of litigation claims and damages asserted or subject us to enforcement actions, fines and penalties and cause us to incur further related costs and expenses.

***Interruptions or disruptions in service at one of our hub airports could have a material adverse impact on our operations.***

We operate principally through primary hubs in Charlotte, Philadelphia and Phoenix and secondary hubs/focus cities in New York, Washington, D.C., Boston and Las Vegas. A majority of our flights either originate in or fly into one of these locations. A significant interruption or disruption in service at one of our hubs could result in the cancellation or delay of a significant portion of our flights and, as a result, could have a severe impact on our business, operations and financial performance.

***We are at risk of losses and adverse publicity stemming from any accident involving any of our aircraft.***

If one of our aircraft were to be involved in an accident, we could be exposed to significant tort liability. The insurance we carry to cover damages arising from any future accidents may be inadequate. In the event that our insurance is not adequate, we may be forced to bear substantial losses from an accident. In addition, any accident involving an aircraft that we operate could create a public perception that our aircraft are not safe or reliable, which could harm our reputation, result in air travelers being reluctant to fly on our aircraft and adversely impact our financial condition and operations.

***Delays in scheduled aircraft deliveries or other loss of anticipated fleet capacity may adversely impact our operations and financial results.***

The success of our business depends on, among other things, the ability to operate a certain number and type of aircraft. In many cases, the aircraft we intend to operate are not yet in our fleet, but we have contractual commitments to purchase or lease them. If for any reason we were unable to secure deliveries of new aircraft on contractually scheduled delivery dates, this could have a negative impact on our business, operations and financial performance. Our failure to integrate newly purchased aircraft into our fleet as planned might require us to seek extensions of the terms for some leased aircraft. Such unanticipated extensions may require us to operate existing aircraft beyond the point at which it is economically optimal to retire them, resulting in increased maintenance costs. If new aircraft orders are not filled on a timely basis, we could face higher monthly rental rates.

***Increases in insurance costs or reductions in insurance coverage may adversely impact our operations and financial results.***

The terrorist attacks of September 11, 2001 led to a significant increase in insurance premiums and a decrease in the insurance coverage available to commercial air carriers. Accordingly, our insurance costs increased significantly and our ability to continue to obtain insurance even at current prices remains uncertain. In addition, we have obtained third party war risk (terrorism) insurance through a special program administered by the FAA, resulting in lower premiums than if we had obtained this insurance in the commercial insurance market. The



program has been extended, with the same conditions and premiums, until March 31, 2009. If the federal insurance program terminates, we would likely face a material increase in the cost of war risk insurance. The failure of one or more of our insurers could result in a lack of coverage for a period of time. Additionally, severe disruptions in the domestic and global financial markets could adversely impact the ratings and survival of some insurers. Future downgrades in the ratings of enough insurers could adversely impact both the availability of appropriate insurance coverage and its cost. Because of competitive pressures in our industry, our ability to pass additional insurance costs to passengers is limited. As a result, further increases in insurance costs or reductions in available insurance coverage could have an adverse impact on our financial results.

***Our business is subject to weather factors and seasonal variations in airline travel, which cause our results to fluctuate.***

Our operations are vulnerable to severe weather conditions in parts of our network that could disrupt service, create air traffic control problems, decrease revenue and increase costs, such as during hurricane season in the Caribbean and Southeast United States, snow and severe winters in the Northeast United States and thunderstorms in the Eastern United States. In addition, the air travel business historically fluctuates on a seasonal basis. Due to the greater demand for air and leisure travel during the summer months, revenues in the airline industry in the second and third quarters of the year tend to be greater than revenues in the first and fourth quarters of the year. Our results of operations will likely reflect weather factors and seasonality, and therefore quarterly results are not necessarily indicative of those for an entire year, and our prior results are not necessarily indicative of our future results.

***We may be adversely affected by global events that affect travel behavior.***

Our revenue and results of operations may be adversely affected by global events beyond our control. Acts of terrorism, wars or other military conflicts, including the war in Iraq, may depress air travel, particularly on international routes. An outbreak of a contagious disease such as Severe Acute Respiratory Syndrome (“SARS”), avian flu, or any other influenza-type illness, if it were to persist for an extended period, could again materially affect the airline industry and us by reducing revenues and impacting travel behavior.

***We are exposed to foreign currency exchange rate fluctuations.***

As we expand our international operations, we will have significant operating revenues and expenses, as well as assets and liabilities, denominated in foreign currencies. Fluctuations in foreign currencies can significantly affect our operating performance and the value of our assets and liabilities located outside of the United States.

***The use of US Airways Group’s pre-merger NOLs and certain other tax attributes could be limited in the future.***

From the time of the merger until the first half of 2007, a significant portion of US Airways Group’s common stock was beneficially owned by a small number of equity investors. Since the merger, some of the equity investors have sold portions of their holdings and other investors have purchased US Airways Group stock, and, as a result, we believe an “ownership change” as defined in Internal Revenue Code Section 382 occurred for US Airways Group in February 2007. When a company undergoes such an ownership change, Section 382 limits the future ability to utilize any net operating losses, or NOL, generated before the ownership change and certain subsequently recognized “built-in” losses and deductions, if any, existing as of the date of the ownership change. A company’s ability to utilize new NOL arising after the ownership change is not affected. Until US Airways Group has used all of its existing NOL, future significant shifts in ownership of US Airways Group’s common stock could result in a new Section 382 limit on our NOL as of the date of an additional ownership change.

## Risks Related to Our Common Stock

### *Our common stock has limited trading history and its market price may be volatile.*

Our common stock began trading on the NYSE on September 27, 2005 upon the effectiveness of our merger. The market price of our common stock may fluctuate substantially due to a variety of factors, many of which are beyond our control, including:

- our operating results failing to meet the expectations of securities analysts or investors;
- changes in financial estimates or recommendations by securities analysts;
- material announcements by us or our competitors;
- movements in fuel prices;
- new regulatory pronouncements and changes in regulatory guidelines;
- general and industry-specific economic conditions;
- public sales of a substantial number of shares of our common stock; and
- general market conditions.

### *Conversion of our convertible notes will dilute the ownership interest of existing stockholders and could adversely affect the market price of our common stock.*

The conversion of some or all of US Airways Group's 7% senior convertible notes due 2020 will dilute the ownership interests of existing shareholders. Any sales in the public market of the common stock issuable upon such conversion could adversely affect prevailing market prices of our common stock. In addition, the existence of the notes may encourage short selling by market participants because the conversion of the notes could depress the price of our common stock.

### *Certain provisions of the amended and restated certificate of incorporation and amended and restated bylaws of US Airways Group make it difficult for stockholders to change the composition of our board of directors and may discourage takeover attempts that some of our stockholders might consider beneficial.*

Certain provisions of the amended and restated certificate of incorporation and amended and restated bylaws of US Airways Group may have the effect of delaying or preventing changes in control if our board of directors determines that such changes in control are not in the best interests of US Airways Group and its stockholders. These provisions include, among other things, the following:

- a classified board of directors with three-year staggered terms;
- advance notice procedures for stockholder proposals to be considered at stockholders' meetings;
- the ability of US Airways Group's board of directors to fill vacancies on the board;
- a prohibition against stockholders taking action by written consent;
- a prohibition against stockholders calling special meetings of stockholders;
- a requirement that holders of at least 80% of the voting power of the shares entitled to vote in the election of directors approve amendment of the amended and restated bylaws; and
- super-majority voting requirements to modify or amend specified provisions of US Airways Group's amended and restated certificate of incorporation.

These provisions are not intended to prevent a takeover, but are intended to protect and maximize the value of US Airways Group's stockholders' interests. While these provisions have the effect of encouraging persons seeking to acquire control of our company to negotiate with our board of directors, they could enable our board of directors to prevent a transaction that some, or a majority, of our stockholders might believe to be in their best interests and, in that case, may prevent or discourage attempts to remove and replace incumbent directors. In addition, US Airways Group is subject to the provisions of Section 203 of the Delaware General Corporation Law, which prohibits

business combinations with interested stockholders. Interested stockholders do not include stockholders, such as our equity investors at the time of the merger, whose acquisition of US Airways Group's securities is approved by the board of directors prior to the investment under Section 203.

***Our charter documents include provisions limiting voting and ownership by foreign owners.***

Our amended and restated certificate of incorporation provides that shares of capital stock may not be voted by or at the direction of persons who are not citizens of the United States if the number of shares held by such persons would exceed 24.9% of the voting stock of our company. In addition, any attempt to transfer equity securities to a non-U.S. citizen in excess of 49.9% of our outstanding equity securities will be void and of no effect.

**Item 1B. *Unresolved Staff Comments***

None.

**Item 2. *Properties***

**Flight Equipment**

We operated a mainline fleet of 354 aircraft at the end of 2008, down from a total of 356 mainline aircraft at the end of 2007. During 2008, we removed 17 Boeing 737-300 aircraft and four Boeing 757-200 aircraft from our mainline operating fleet and took delivery of 14 Embraer 190 aircraft and five Airbus A321 aircraft. We are also supported by our regional airline subsidiaries and affiliates operating as US Airways Express either under capacity purchase or prorate agreements, which operate approximately 238 regional jets and 74 turboprops.

In 2007, US Airways and Airbus executed definitive purchase agreements for the acquisition of 97 aircraft, including 60 single-aisle A320 family aircraft and 37 widebody aircraft (comprised of 22 A350 XWB and 15 A330-200 aircraft). These are in addition to the 37 single-aisle A320 family aircraft from the previous Airbus purchase agreement. As described above, we took delivery of five A321 aircraft under our Amended and Restated Airbus A320 Family Aircraft Purchase Agreement in 2008.

In 2009, we expect to take delivery of 18 A321 aircraft, five A330-200 aircraft and two A320 aircraft. Between 2010 and 2012, we expect to take delivery of 82 Airbus aircraft, consisting of 72 A320 family and 10 A330-200 aircraft under the purchase agreements. Deliveries of the 22 A350 XWB aircraft are expected to begin in 2015.

We plan to reduce our total mainline capacity in 2009 by four to six percent compared to 2008. This will be accomplished by a combination of lower utilization and returning certain aircraft in 2009 upon lease expiration. At December 31, 2008, we had 91 aircraft with lease expirations prior to the end of 2011. These include lease expirations for 30 Boeing 737-300 and 14 Boeing 737-400 aircraft that are being replaced by Airbus A320 family aircraft to be delivered under the Airbus purchase agreement discussed above. The 47 remaining lease expirations are for Boeing 757, Boeing 767, Airbus A319 and Airbus A320 aircraft.

As of December 31, 2008, our mainline operating fleet consisted of the following aircraft:

Aircraft Type	Avg. Seats	Owned/		Total	Avg. Age
		Mortgaged(1)	Leased(2)		
A330-300	293	4	5	9	8.3
A321	183	20	13	33	6.4
A320	150	8	67	75	10.7
A319	124	3	90	93	8.2
B767-200ER	204	—	10	10	19.4
B757-200	189	3	36	39	18.7
B737-400	144	—	40	40	18.8
B737-300	131	—	30	30	21.0
ERJ 190	99	25	—	25	1.0
<b>Total</b>	<b>150</b>	<b>63</b>	<b>291</b>	<b>354</b>	<b>11.8</b>

(1) All owned aircraft are pledged as collateral for various secured financing agreements.

(2) The terms of the leases expire between 2009 and 2024.

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As of December 31, 2008, our wholly owned regional airline subsidiaries operated the following regional jet and turboprop aircraft:

<u>Aircraft Type</u>	<u>Average Seat Capacity</u>	<u>Owned</u>	<u>Leased(1)</u>	<u>Total</u>	<u>Average Age (years)</u>
CRJ-700	70	7	7	14	4.3
CRJ-200	50	12	23	35	4.8
De Havilland Dash 8-300	50	—	11	11	17.3
De Havilland Dash 8-100	37	33	11	44	18.3
<b>Total</b>	<b>47</b>	<b>52</b>	<b>52</b>	<b>104</b>	<b>11.8</b>

(1) The terms of the leases expire between 2009 and 2022.

We maintain inventories of spare engines, spare parts, accessories and other maintenance supplies sufficient to meet our current operating requirements.

The following table illustrates our committed orders, scheduled lease expirations, and lessor put options at December 31, 2008:

	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>Thereafter</u>
Firm orders remaining	25	25	33	24	—	22
Scheduled mainline lease expirations	25	36	30	25	23	152
Scheduled wholly owned Express subsidiaries lease expirations	15	7	—	—	—	30
Lessor put options	—	—	—	1	—	—

See Notes 9 and 8, “Commitments and Contingencies” in Part II, Items 8A and 8B respectively, for additional information on aircraft purchase commitments.

We are a participant in the Civil Reserve Air Fleet program, which is a voluntary program administered by the U.S. Air Force Air Mobility Command. The General Services Administration of the U.S. Government requires that airlines participate in the Civil Reserve Air Fleet program in order to receive U.S. Government business. We are reimbursed at compensatory rates if aircraft are activated under the Civil Reserve Air Fleet program or when participating in Department of Defense business.

#### Ground Facilities

We lease the majority of our ground facilities, including:

- executive and administrative offices in Tempe, Arizona;
- our principal operating, overhaul and maintenance bases at the Pittsburgh International, Charlotte Douglas International and Phoenix Sky Harbor International Airports;
- training facilities in Phoenix and Charlotte;
- central reservations offices in Winston-Salem, North Carolina, Tempe, Arizona, Reno, Nevada, and Liverpool, U.K.; and
- line maintenance bases and local ticket, cargo and administrative offices throughout our system.

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The following table describes our principal properties:

Principal Properties		Approximate Internal Floor Area (sq. ft.)	
Tempe, AZ Headquarters	Nine story complex housing headquarters for US Airways Group	218,000	Lease expires April 2014.
Tempe, AZ	Administrative office complex	203,000	Lease expires May 2013.
Philadelphia International Airport	68 preferential gates, exclusive ticket counter space, clubs, support space and concourse areas	579,000	Lease expires June 2011.
Mainline Hangar — Philadelphia, PA	Hangar bays, parts storage, ground service equipment shop, employee support areas and administrative office space	399,000	Lease expires April 2030.
Cargo Facility — Philadelphia, PA	Cargo bays, security storage area, staging area, administrative office space and customer service space	206,000	Lease expires December 2029.
Charlotte Douglas International Airport	36 exclusive gates, ticket counter space and concourse areas	226,000	Lease expires June 2016. Airport Use Agreement expires June 2016. Gate use governed by month-to-month rates and charges program.
Phoenix Sky Harbor International Airport	42 exclusive gates, ticket counter space and administrative offices	330,000	
Pittsburgh International Airport	10 exclusive gates, ticket counter space and concourse areas	122,000	Lease expires May 2018. Lease expired June 2008.
Las Vegas McCarran International Airport	19 preferential gates, exclusive club, ticket counter space, support space and concourse areas	115,000	Currently, operating month-to-month and a new lease is under negotiation.
Ronald Reagan Washington National Airport	15 gates, ticket counter space and concourse areas	80,000	Lease expires September 2014.
Maintenance facility — Charlotte, NC	Hangar bays, hangar shops, ground service equipment shops, cargo, catering and warehouse	847,000	Lease expires June 2017.
Maintenance facility — Pittsburgh, PA	Hangar bays, hangar shops, ground service equipment shops, cargo, catering and warehouse	649,000	Lease expires December 2010.

Principal Properties		Approximate Internal Floor Area (sq. ft.)	
Maintenance and technical support facility at Phoenix Sky Harbor International Airport	Four hangar bays, hangar shops, office space, warehouse and commissary facilities	375,000	Lease expires September 2019.
Training facility — Charlotte, NC	Classroom training facilities and twelve full flight simulator bays	159,000	Lease expires June 2017.
Flight Training and Systems Operations Control Center, Phoenix, AZ	Complex accommodates training facilities, systems operation control and crew scheduling functions	164,000	Lease expires February 2031.
Operations Control Center — Pittsburgh, PA	Complex accommodates systems operation control and crew scheduling functions	70,000	Facility owned, land lease expires March 2029.

In addition, we lease an aggregate of approximately 217,000 square feet of data center, office and warehouse space in Tempe and Phoenix, AZ.

Space for ticket counters, gates and back offices has been obtained at each of the other airports in which we operate, either by lease from the airport operator or by sublease or handling agreement from another airline.

### Terminal Construction Projects

We use public airports for our flight operations under lease arrangements with the government entities that own or control these airports. Airport authorities frequently require airlines to execute long-term leases to assist in obtaining financing for terminal and facility construction. Any future requirements for new or improved airport facilities and passenger terminals at airports in which our airline subsidiaries operate could result in additional occupancy costs and long-term commitments.

### Item 3. *Legal Proceedings*

On September 12, 2004, US Airways Group and its domestic subsidiaries (collectively, the “Reorganized Debtors”) filed voluntary petitions for relief under Chapter 11 of the Bankruptcy Code in the United States Bankruptcy Court for the Eastern District of Virginia, Alexandria Division (Case Nos. 04-13819-SSM through 03-13823-SSM) (the “2004 Bankruptcy”). On September 16, 2005, the Bankruptcy Court issued an order confirming the plan of reorganization submitted by the Reorganized Debtors and on September 27, 2005, the Reorganized Debtors emerged from the 2004 Bankruptcy. The Bankruptcy Court’s order confirming the plan included a provision called the plan injunction, which forever bars other parties from pursuing most claims against the Reorganized Debtors that arose prior to September 27, 2005 in any forum other than the Bankruptcy Court. The great majority of these claims are pre-petition claims that, if paid out at all, will be paid out in common stock of the post-bankruptcy US Airways Group at a fraction of the actual claim amount.

### Item 4. *Submission of Matters to a Vote of Security Holders*

No matters were submitted to a vote of security holders during the fourth quarter of 2008.

**PART II****Item 5. Market for US Airways Group's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities****Stock Exchange Listing**

Our common stock trades on the NYSE under the symbol "LCC." As of February 12, 2009, the closing price of our common stock on the NYSE was \$4.73. As of February 12, 2009, there were 2,733 holders of record of our common stock.

**Market Prices of Common Stock**

The following table sets forth, for the periods indicated, the high and low sale prices of our common stock on the NYSE:

Year Ended December 31		High	Low
2008	Fourth Quarter	\$ 11.24	\$ 3.16
	Third Quarter	10.46	1.45
	Second Quarter	9.94	2.30
	First Quarter	16.44	7.24
2007	Fourth Quarter	\$ 33.45	\$ 14.41
	Third Quarter	36.81	24.26
	Second Quarter	48.30	26.78
	First Quarter	62.50	44.01

US Airways Group, organized under the laws of the State of Delaware, is subject to Sections 160 and 170 of the Delaware General Corporation Law, which govern the payment of dividends on or the repurchase or redemption of its capital stock. US Airways Group is restricted from engaging in any of these activities unless it maintains a capital surplus.

US Airways Group has not declared or paid cash or other dividends on its common stock since 1990 and currently does not intend to do so. Under the provisions of certain debt agreements, including our secured loans, our ability to pay dividends on or repurchase our common stock is restricted. Any future determination to pay cash dividends will be at the discretion of our board of directors, subject to applicable limitations under Delaware law, and will depend upon our results of operations, financial condition, contractual restrictions and other factors deemed relevant by our board of directors.

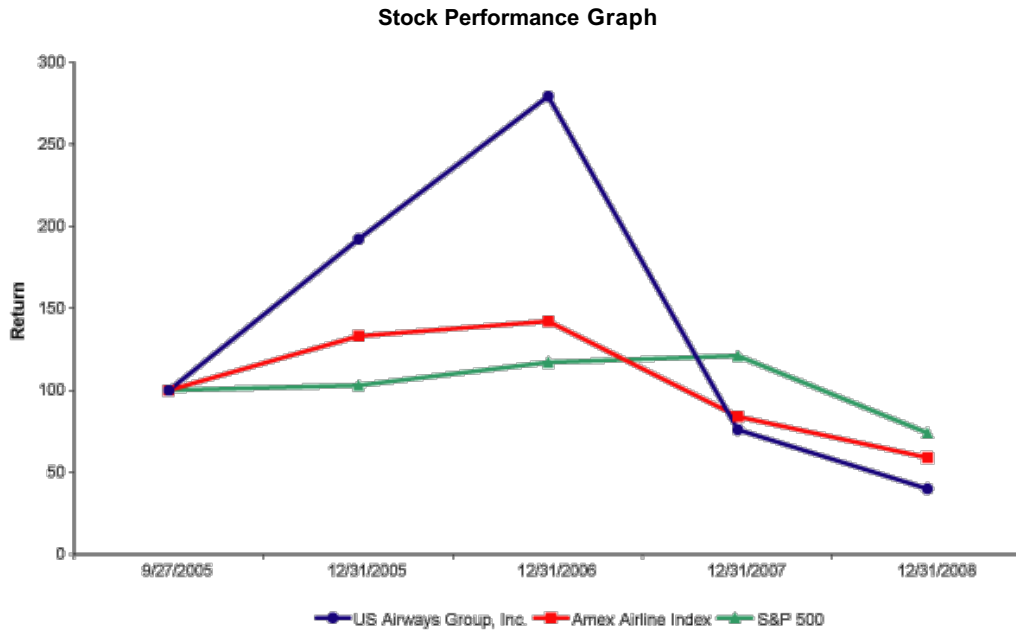
**Foreign Ownership Restrictions**

Under current federal law, non-U.S. citizens cannot own or control more than 25% of the outstanding voting securities of a domestic air carrier. We believe that we were in compliance with this statute during the time period covered by this report.

**Stock Performance Graph**

The following stock performance graph and related information shall not be deemed “soliciting material” or “filed” with the Securities and Exchange Commission, nor shall such information be incorporated by reference into any future filings under the Securities Act of 1933 or Securities Act of 1934, each as amended, except to the extent that we specifically incorporate it by reference into such filing.

The following stock performance graph compares our cumulative total shareholder return on an annual basis on our common stock with the cumulative total return on the Standard and Poor’s 500 Stock Index and the AMEX Airline Index from September 27, 2005 (the date our stock began trading on the NYSE under the symbol LCC after the completion of the merger) through December 31, 2008. The comparison assumes \$100 was invested on September 27, 2005 in US Airways Group’s common stock and in each of the foregoing indices and assumes reinvestment of dividends. The stock performance shown on the graph below represents historical stock performance and is not necessarily indicative of future stock price performance.



	<u>9/27/2005</u>	<u>12/31/2005</u>	<u>12/31/2006</u>	<u>12/31/2007</u>	<u>12/31/2008</u>
US Airways Group, Inc.	\$ 100	\$ 192	\$ 279	\$ 76	\$ 40
Amex Airline Index	100	133	142	84	59
S&P 500	100	103	117	121	74



**Item 6. Selected Financial Data**

**Selected Consolidated Financial Data of US Airways Group**

The selected consolidated financial data presented below under the captions “Consolidated Statements of Operations Data” and “Consolidated Balance Sheet Data” as of and for the years ended December 31, 2008, 2007, 2006, 2005 and 2004 are derived from the audited consolidated financial statements of US Airways Group. The full years 2008, 2007 and 2006 are comprised of the consolidated financial data of US Airways Group. The 2005 consolidated financial data presented includes the consolidated results of America West Holdings for the 269 days through September 27, 2005, the effective date of the merger, and the consolidated results of US Airways Group and its subsidiaries, including US Airways, America West Holdings and AWA, for the 96 days from September 27, 2005 to December 31, 2005. For 2004, the consolidated financial data for US Airways Group reflects only the consolidated results of America West Holdings. The selected consolidated financial data should be read in conjunction with the consolidated financial statements for the respective periods, the related notes and the related reports of US Airways Group’s independent registered public accounting firm.

	Year Ended December 31,				
	2008	2007	2006	2005	2004
	(In millions except share data)				
Consolidated statements of operations data:					
Operating revenues	\$ 12,118	\$ 11,700	\$ 11,557	\$ 5,069	\$ 2,757
Operating expenses(a)	13,918	11,167	10,999	5,286	2,777
Operating income (loss)(a)	(1,800)	533	558	(217)	(20)
Income (loss) before cumulative effect of change in accounting principle(b)	(2,210)	427	303	(335)	(89)
Cumulative effect of change in accounting principle, net(c)	—	—	1	(202)	—
Net income (loss)	\$ (2,210)	\$ 427	\$ 304	\$ (537)	\$ (89)
Earnings (loss) per common share before cumulative effect of change in accounting principle:					
Basic	\$ (22.06)	\$ 4.66	\$ 3.50	\$ (10.65)	\$ (5.99)
Diluted	(22.06)	4.52	3.32	(10.65)	(5.99)
Cumulative effect of change in accounting principle:					
Basic	\$ —	\$ —	\$ 0.01	\$ (6.41)	\$ —
Diluted	—	—	0.01	(6.41)	—
Earnings (loss) per common share:					
Basic	\$ (22.06)	\$ 4.66	\$ 3.51	\$ (17.06)	\$ (5.99)
Diluted	(22.06)	4.52	3.33	(17.06)	(5.99)
Shares used for computation (in thousands):					
Basic	100,168	91,536	86,447	31,488	14,861
Diluted	100,168	95,603	93,821	31,488	14,861
Consolidated balance sheet data (at end of period):					
Total assets	\$ 7,214	\$ 8,040	\$ 7,576	\$ 6,964	\$ 1,475
Long-term obligations, less current maturities(d)	4,352	3,732	3,539	3,481	640
Total stockholders’ equity (deficit)	(505)	1,439	970	420	36

(a) The 2008 period included a \$622 million non-cash charge to write off all of the goodwill created by the merger of US Airways Group and America West Holdings in September 2005, as well as \$496 million of net unrealized losses on fuel hedging instruments. In addition, the 2008 period included \$35 million of merger related

transition expenses, \$18 million in non-cash charges related to the decline in fair value of certain spare parts associated with our Boeing 737 aircraft fleet and as a result of our capacity reductions, \$14 million in lease return costs and penalties related to certain Airbus aircraft and \$9 million in charges related to involuntary furloughs as well as terminations of non-union administrative and management staff.

The 2007 period included \$187 million of net unrealized gains on fuel hedging instruments, \$7 million in tax credits due to an IRS rule change allowing us to recover tax amounts for years 2003-2006 for certain fuel usage, \$9 million of insurance settlement proceeds related to business interruption and property damages incurred as a result of Hurricane Katrina in 2005 and a \$5 million Piedmont pilot pension curtailment gain related to the FAA mandated pilot retirement age change. These credits were offset by \$99 million of merger related transition expenses, a \$99 million charge for an increase to long-term disability obligations for US Airways' pilots as a result of the FAA mandated pilot retirement age change and \$5 million in charges for certain separation packages and lease termination costs related to reduced flying from Pittsburgh.

The 2006 period included \$131 million of merger related transition expenses and \$70 million of net unrealized losses on fuel hedging instruments, offset by a \$90 million gain associated with the return of equipment deposits upon forgiveness of a loan and \$14 million of gains associated with the settlement of bankruptcy claims.

The 2005 period included \$28 million of merger related transition expenses, a \$27 million loss on the sale-leaseback of six Boeing 737-300 aircraft and two Boeing 757 aircraft, \$7 million of power by the hour program penalties associated with the return of certain leased aircraft, \$1 million of severance for terminated employees resulting from the merger, a \$1 million charge related to aircraft removed from service and a \$50 million charge related to an amended Airbus purchase agreement, along with the write off of \$7 million in capitalized interest. The \$50 million charge was paid by means of set-off against existing equipment purchase deposits held by Airbus. The 2005 period also included \$4 million of net unrealized gains on fuel hedging instruments.

The 2004 period included a \$16 million net credit associated with the termination of the rate per engine hour agreement with General Electric Engine Services for overhaul maintenance services on V2500-A1 engines. This credit was partially offset by \$2 million of net charges related to the return of certain Boeing 737-200 aircraft, which included termination payments of \$2 million, the write down of leasehold improvements and deferred rent of \$3 million, offset by the net reversal of maintenance reserves of \$3 million related to the returned aircraft. The 2004 period also included \$2 million of net unrealized losses on fuel hedging instruments.

- (b) The 2008 period included \$214 million in non-cash charges to record other than temporary impairments for our investments in auction rate securities primarily driven by the length of time and extent to which the fair values have been less than cost as well as \$7 million in write offs of debt discount and debt issuance costs in connection with the refinancing of certain aircraft equipment notes and certain loan prepayments in connection with our 2008 financing transactions, offset by \$8 million in gains on forgiveness of debt.

The 2007 period included a non-cash expense for income taxes of \$7 million related to the utilization of net operating loss carryforwards ("NOL") acquired from US Airways. The valuation allowance associated with these acquired NOL was recognized as a reduction of goodwill rather than a reduction in tax expense. In addition, the period also included an \$18 million write off of debt issuance costs in connection with the refinancing of the \$1.25 billion senior secured credit facility with General Electric Capital Corporation ("GECC"), referred to as the GE loan, in March 2007 and a \$10 million non-cash charge to record other than temporary impairment for our investments in auction rate securities, offset by a \$17 million gain recognized on the sale of stock in ARINC Incorporated.

The 2006 period included a non-cash expense for income taxes of \$85 million related to the utilization of NOL acquired from US Airways. In addition, the period included \$6 million of prepayment penalties and \$5 million in accelerated amortization of debt issuance costs in connection with the refinancing of the loan previously guaranteed by the Air Transportation Stabilization Board ("ATSB") and two loans previously provided to AWA by GECC, \$17 million in payments in connection with the inducement to convert \$70 million of US Airways Group's 7% Senior Convertible Notes to common stock and a \$2 million write off of debt issuance costs associated with those converted notes, offset by \$8 million of interest income earned by AWA on certain prior year federal income tax refunds.

The 2005 period included an \$8 million charge related to the write off of the unamortized value of the ATSB warrants upon their repurchase in October 2005 and an aggregate \$2 million write off of debt issuance costs

associated with the exchange of AWA's 7.25% SeniorExchangeable Notes due 2023 and retirement of a portion of the loan formerly guaranteed by the ATSB. In the fourth quarter 2005 period, which was subsequent to the effective date of the merger, US Airways recorded \$4 million of mark-to-market gains attributable to stock options in Sabre Inc. ("Sabre") and warrants in a number of e-commerce companies.

The 2004 period included a \$1 million gain on the disposition of property and equipment due principally to the sale of one Boeing 737-200 aircraft and a \$1 million charge for the write off of debt issuance costs in connection with the refinancing of a term loan.

- (c) The 2006 period included a \$1 million benefit which represents the cumulative effect on the accumulated deficit of the adoption of Statement of Financial Accounting Standards ("SFAS") No. 123R, "Share-Based Payment." The adjustment reflects the impact of estimating future forfeitures for previously recognized compensation expense.

The 2005 period included a \$202 million adjustment which represents the cumulative effect on the accumulated deficit of the adoption of the direct expense method of accounting for major scheduled airframe, engine and certain component overhaul costs as of January 1, 2005.

- (d) Includes debt, capital leases, postretirement benefits other than pensions and employee benefit liabilities and other.

### Selected Consolidated Financial Data of US Airways

The selected consolidated financial data presented below under the captions "Consolidated Statements of Operations Data" and "Consolidated Balance Sheet Data" as of and for the years ended December 31, 2008, 2007, 2006, three months ended December 31, 2005, nine months ended September 30, 2005 and year ended December 31, 2004 are derived from the audited consolidated financial statements of US Airways. In 2007, US Airways Group contributed 100% of its equity interest in America West Holdings, the parent company of AWA, to US Airways in connection with the combination of all mainline operations under one FAA operating certificate. This contribution is reflected in US Airways' consolidated financial statements as though the transfer had occurred at the time of US Airways' emergence from bankruptcy at the end of September 2005. Thus, the full years 2008, 2007 and 2006 and three months ended December 31, 2005 are comprised of the consolidated financial data of US Airways and America West Holdings. The nine months ended September 30, 2005 and full year 2004 consolidated financial data presented include the results of only US Airways. The selected consolidated financial data should be read in conjunction with the consolidated financial statements for the respective periods, the related notes and the related reports of US Airways' independent registered public accounting firm.

	Successor Company(a)			Three Months Ended December 31, 2005	Predecessor Company(a)	
	Year Ended December 31, 2008	Year Ended December 31, 2007	Year Ended December 31, 2006		Nine Months Ended September 30, 2005	Year Ended December 31, 2004
	(In millions)					
Consolidated statements of operations data:						
Operating revenues	\$ 12,244	\$ 11,813	\$ 11,692	\$ 2,589	\$ 5,452	\$ 7,068
Operating expenses(b)	14,017	11,289	11,135	2,772	5,594	7,416
Operating income (loss)(b)	(1,773)	524	557	(183)	(142)	(348)
Income (loss) before cumulative effect of change in accounting principle(c)	(2,148)	478	348	(256)	280	(578)
Cumulative effect of change in accounting principle, net(d)	—	—	1	—	—	—
Net income (loss)	\$ (2,148)	\$ 478	\$ 349	\$ (256)	\$ 280	\$ (578)

	Successor Company (a)			Predecessor Company(a)	
	December 31,				
	2008	2007	2006	2005	2004
(In millions)					
Consolidated balance sheet data (at end of period):					
Total assets	\$6,954	\$7,787	\$7,351	\$6,763	\$8,250
Long-term obligations, less current maturities(e)	2,925	2,073	2,194	3,306	4,815
Total stockholder's equity (deficit)	(221)	1,850	(461)	(810)	(501)

- (a) In connection with emergence from bankruptcy in September 2005, US Airways adopted fresh-start reporting in accordance with AICPA Statement of Position 90-7, "Financial Reporting by Entities in Reorganization Under the Bankruptcy Code." As a result of the application of fresh-start reporting, the financial statements after September 30, 2005 are not comparable with the financial statements from periods prior to September 30, 2005. References to "Successor Company" refer to US Airways on and after September 30, 2005, after the application of fresh-start reporting for the bankruptcy.
- (b) The 2008 period included a \$622 million non-cash charge to write off all of the goodwill created by the merger of US Airways Group and America West Holdings in September 2005, as well as \$496 million of net unrealized losses on fuel hedging instruments. In addition, the 2008 period included \$35 million of merger related transition expenses, \$18 million in non-cash charges related to the decline in fair value of certain spare parts associated with US Airways' Boeing 737 aircraft fleet and as a result of US Airways' capacity reductions, \$14 million in lease return costs and penalties related to certain Airbus aircraft and \$9 million in charges related to involuntary furloughs as well as terminations of non-union administrative and management staff.
- The 2007 period included \$187 million of net unrealized gains on fuel hedging instruments, \$7 million in tax credits due to an IRS rule change allowing US Airways to recover tax amounts for years 2003-2006 for certain fuel usage and \$9 million of insurance settlement proceeds related to business interruption and property damages incurred as a result of Hurricane Katrina in 2005. These credits were offset by \$99 million of merger related transition expenses, a \$99 million charge for an increase to long-term disability obligations for US Airways' pilots as a result of the FAA mandated pilot retirement age change and \$4 million in charges for certain separation packages and lease termination costs related to reduced flying from Pittsburgh.
- The 2006 period included \$131 million of merger related transition expenses and \$70 million of net unrealized losses on fuel hedging instruments, offset by a \$90 million gain associated with the return of equipment deposits upon forgiveness of a loan and \$3 million of gains associated with the settlement of bankruptcy claims.
- The period for the three months ended December 31, 2005 included \$69 million of net unrealized losses on fuel hedging instruments, \$28 million of merger related transition expenses, \$7 million of power by the hour program penalties associated with the return of certain leased aircraft and \$1 million of severance costs for terminated employees resulting from the merger.
- (c) The 2008 period included \$214 million in non-cash charges to record other than temporary impairments for US Airways' investments in auction rate securities primarily driven by the length of time and extent to which the fair values have been less than cost as well as \$6 million in write offs of debt discount and debt issuance costs in connection with the refinancing of certain aircraft equipment notes and a loan prepayment in connection with US Airways' 2008 financing transactions, offset by \$8 million in gains on forgiveness of debt.
- The 2007 period included a non-cash expense for income taxes of \$7 million related to the utilization of NOL that was generated prior to the merger. The decrease in the corresponding valuation allowance was recognized as a reduction of goodwill rather than a reduction in tax expense. In addition, the period also included a \$17 million gain recognized on the sale of stock in ARINC Incorporated, offset by a \$10 million non-cash charge to record other than temporary impairment for US Airways' investments in auction rate securities.
- The 2006 period included a non-cash expense for income taxes of \$85 million related to the utilization of NOL that was generated prior to the merger. In addition, the period included \$6 million of prepayment penalties and \$5 million in accelerated amortization of debt issuance costs in connection with the refinancing of the loan

previously guaranteed by the ATSB and two loans previously provided to AWA by GECC, offset by \$8 million of interest income earned by AWA on certain prior year federal income tax refunds.

The period for the three months ended December 31, 2005 included an \$8 million charge related to the write off of the unamortized value of the ATSB warrants upon their repurchase in October 2005 and an aggregate \$2 million write off of debt issuance costs associated with the exchange of AWA's 7.25% Senior Exchangeable Notes due 2023 and retirement of a portion of the loan formerly guaranteed by the ATSB. US Airways also recorded in this period \$4 million of mark-to-market gains attributable to stock options in Sabre and warrants in a number of e-commerce companies.

The nine months ended September 30, 2005 and the year ended December 31, 2004 included reorganization items which amounted to a \$636 million net gain and a \$32 million expense, respectively.

- (d) The 2006 period included a \$1 million benefit which represents the cumulative effect on the accumulated deficit of the adoption of SFAS No. 123R. The adjustment reflects the impact of estimating future forfeitures for previously recognized compensation expense.
- (e) Includes debt, capital leases, postretirement benefits other than pensions and employee benefit liabilities and other. Also includes liabilities subject to compromise at December 31, 2004.

**Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations**

**Background**

US Airways Group, a Delaware corporation, is a holding company whose primary business activity is the operation of a major network air carrier through its wholly owned subsidiaries US Airways, Piedmont, PSA, MSC and AAL. On May 19, 2005, US Airways Group signed a merger agreement with America West Holdings pursuant to which America West Holdings merged with a wholly owned subsidiary of US Airways Group. The merger agreement was amended by a letter of agreement on July 7, 2005. The merger became effective upon US Airways Group's emergence from bankruptcy on September 27, 2005.

We operate the fifth largest airline in the United States as measured by domestic mainline RPMs and ASMs. We have primary hubs in Charlotte, Philadelphia and Phoenix and secondary hubs/focus cities in New York, Washington, D.C., Boston and Las Vegas. We offer scheduled passenger service on more than 3,100 flights daily to 200 communities in the United States, Canada, Europe, the Caribbean and Latin America. We also have an established East Coast route network, including the US Airways Shuttle service, with a substantial presence at capacity constrained airports including New York's LaGuardia Airport and the Washington, D.C. area's Ronald Reagan Washington National Airport. We had approximately 55 million passengers boarding our mainline flights in 2008. As of December 31, 2008, we operated 354 mainline jets and are supported by our regional airline subsidiaries and affiliates operating as US Airways Express either under capacity purchase or prorate agreements, which operate approximately 238 regional jets and 74 turboprops.

**2008 Overview**

**Industry Environment**

In 2008, the U.S. airline industry faced an extraordinarily challenging environment. Airlines incurred significant losses as they faced staggering increases in the price of fuel throughout most of 2008. The quarterly average cost per barrel of oil below depicts the runaway nature of fuel prices during 2008:

	<u>First Quarter</u>	<u>Second Quarter</u>	<u>Third Quarter</u>	<u>Fourth Quarter</u>
2008	\$ 98	\$ 124	\$ 118	\$ 59
2007	58	65	75	90
Period over period increase (decrease)	68%	91%	57%	(35%)

Given the industry capacity levels and continued intense competition, U.S. airlines were unable to sufficiently raise ticket prices to cover their largest cost item, jet fuel. As a result, most U.S. airlines were generating sizeable

losses. These factors served as a catalyst for some airlines to take the following unprecedented measures to support growth in ticket prices and preserve liquidity:

- Substantial capacity reductions. Domestic ASMs are expected to be down approximately 10% in 2009 as compared to 2008 for the U.S. airline industry. These capacity cuts are expected to minimize the impact of reduced passenger demand on revenue, reduce costs and minimize cash burn.
- Development and implementation of new revenue initiatives to supplement existing sources of revenue.
- Implementation of cost containment strategies to minimize non-essential expenditures and conserve cash.
- Enhancement of near-term liquidity through a number of cash-raising initiatives such as traditional capital market issuances, asset sales, sale and leaseback transactions and prepaid sales of miles to affinity card issuers.

The then rapid and severe increases in fuel prices, which appeared to have no end as oil hit an all time high of \$147 per barrel in July 2008, prompted some airlines to contain costs by increasing their fuel hedge positions. With the industry facing a liquidity crisis, many airlines' hedge positions took the form of no premium collars and swaps, as the cost of traditional call options to lock in fuel cost became too expensive due to the volatility in oil prices. By the end of the third quarter, the rapid climb in oil prices was quickly replaced by an equally rapid decline in oil prices, driven by a global economic downturn. While the industry welcomed relief in the price of fuel, hedges entered into earlier in the year, ahead of fuel's rapid decline, generated losses and a near term drain on liquidity as airlines were forced to post significant amounts of collateral with their fuel hedging counterparties.

As the industry enters 2009, moderating oil prices are expected to offset at least some of the effects on passenger demand of the corresponding weakening economy. Additionally, we believe the unprecedented industry actions described above to reduce capacity, support ticket prices and implement new sources of revenue will further mitigate the impacts of the economic downturn.

### **US Airways' Response**

As described above, the industry was profoundly challenged by the economic environment in 2008. We participated in the industry's response to the then record high fuel prices and took action to operate a strong and competitive airline by implementing initiatives as discussed below.

#### ***Capacity and Fleet Reductions***

We reduced our fourth quarter 2008 total mainline capacity by 5.9% and our Express capacity by 1.3% on a year-over-year basis. In addition, we plan to reduce our total mainline 2009 capacity by four to six percent and our Express capacity by five to seven percent from 2008 levels. We anticipate that these capacity reductions will enable us to minimize the impact of reduced passenger demand on revenue and reduce costs.

We have taken the following steps to achieve our capacity reduction goals:

- Fleet Reduction: We announced the return of ten aircraft to lessors, which included six Boeing 737-300 aircraft returned in 2008 and early 2009 as well as four Airbus A320 aircraft to be returned in the first half of 2009. We have also cancelled the leases of two A330-200 wide-body aircraft that had been scheduled for delivery in the second half of 2009. Further, we plan to reduce additional aircraft in 2009 and 2010.
- Las Vegas Flight Reduction: We closed our Las Vegas night operation, except for limited night service to the East Coast, in early September 2008. In the current environment, the revenue generated from the Las Vegas night operation no longer exceeded the incremental cost of that flying. Overall, daily departures from Las Vegas, which were as high as 141 during September 2007, have been reduced to 77 as of the end of 2008.

#### ***New Revenue Initiatives***

We implemented several new revenue initiatives in 2008 in order to generate additional revenue. These include a first and second checked bag service fee, a new beverage purchase program, processing fees for travel awards issued through our Dividend Miles frequent traveler program, our new Choice Seats program, increases to the cost



of call center/airport ticketing fees and increases to certain preexisting service fees. We anticipate that these new services and fees will generate in excess of \$400 million annually in additional revenue.

### ***Cost Control***

We remain committed to maintaining a low cost structure, which we believe is necessary in an industry whose economic prospects are heavily dependent upon two variables we cannot control: the health of the economy and the price of fuel. As a result of our capacity reductions and our commitment to exercise tight cost controls, the following cost initiatives were completed in 2008:

- **Employee Reduction:** As a result of the reduced flying, we required approximately 2,200 fewer positions across the system, including approximately 300 pilots, 400 flight attendants, 800 airport employees and 700 non-union administrative management and staff. These headcount reductions were implemented through a combination of voluntary and involuntary furloughs and attrition.
- **Reduced Capital Expenditures:** We reduced our 2008 planned non-aircraft capital expenditures by \$80 million, while maintaining critical operational projects such as our Reliability, Convenience and Appearance (“RCA”) initiative, which includes cabin refurbishments, improved and additional check-in kiosks, airport club refurbishments, facility upgrades, new gate reading technology and the completion of our next generation website.
- **Closed Certain Facilities:** The US Airways Club in the Baltimore/Washington International Airport, arrivals lounges in Munich, Rome and Zurich, and cargo stations in Burbank, Colorado Springs and Reno were closed during 2008.
- **Reduced Partner Costs:** We have revised our wholesale programs for cruise lines, tour operators and consolidators, which included the reduction of the number of agency partners, decreased discounts, tighter restrictions on travel rules, and a reduction in commissions.

Most importantly, we controlled costs by running a good operation. We dramatically improved our on-time performance and mishandled baggage ratio. For the year 2008, our 80.1% on-time performance ranked first among the big six hub and spoke carriers and second among the ten largest U.S. airlines as measured by the DOT’s Consumer Air Travel Report. See the “Customer Service” section below for further discussion.

### ***Liquidity***

In 2008, we took the following actions to improve our liquidity position:

- In August 2008, we completed an underwritten public stock offering of 19 million common shares, as well as the full exercise of 2.85 million common shares included in an overallotment option, at an offering price of \$8.50 per share. Net proceeds from the offering, after underwriting discounts and commissions, were \$179 million. We used the proceeds from the offering for general corporate purposes.
- On October 20, 2008, we completed a series of financial transactions which raised approximately \$810 million in gross proceeds and included a \$400 million paydown at par of our \$1.6 billion credit facility administered by Citicorp North America. In exchange for this prepayment, the unrestricted cash covenant contained in the Citicorp credit facility was reduced from \$1.25 billion to \$850 million. The credit facility’s term remained the same at seven years with substantially all of the remaining principal amount payable at maturity in March 2014. Our net proceeds after transaction fees were approximately \$370 million.
- On December 5, 2008, we prepaid \$100 million of the indebtedness incurred in October 2008 related to a loan secured by certain spare parts. On January 16, 2009, we exercised our right to obtain new loan commitments under the same agreement and raised \$50 million.

In addition, to plan for a highly cyclical and volatile industry, we had already refinanced \$1.6 billion of debt during 2007. This improved our liquidity by extending the due dates of principal payments.

As of December 31, 2008, our cash, cash equivalents, investments in marketable securities and restricted cash were \$1.97 billion, of which \$1.24 billion was unrestricted. This compares to December 31, 2007, when we had

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cash, cash equivalents, investments in marketable securities and restricted cash of \$3 billion, of which \$2.53 billion was unrestricted. The components of our cash and investments balances as of December 31, 2008 and 2007 are as follows (in millions):

	<u>2008</u>	<u>2007</u>
Cash, cash equivalents and short-term investments in marketable securities	\$ 1,054	\$ 2,174
Short and long-term restricted cash	726	468
Long-term investments in marketable securities	187	353
Total cash, cash equivalents, investments in marketable securities and restricted cash	<u>\$1,967</u>	<u>\$2,995</u>

The 2008 financing transactions described above, which, net of paydowns, contributed \$450 million to our unrestricted liquidity position, were more than offset by the following:

- Cash used in operations to fund losses resulting from record high fuel costs in 2008.
- \$461 million that we posted in collateral in the form of \$276 million of cash deposits and \$185 million in restricted cash related to letters of credit collateralizing certain counterparties to our fuel hedging transactions.
- \$430 million in cash, net of debt financings, for the acquisition of new aircraft along with non-aircraft capital expenditures to support our RCA initiatives.
- Additional holdback requirements, reflected in the increase in restricted cash, by certain credit card processors for advance ticket sales for which we have not yet provided air transportation.

Our long-term investments in marketable securities consist of investments in auction rate securities. During 2008, we recorded a decline in the fair value of our auction rate securities of \$166 million due to the significant deterioration in the financial markets in 2008. See “Liquidity and Capital Resources” for further discussion of our investments in auction rate securities.

### **Current Financial Results and Outlook**

The net loss for 2008 was \$2.21 billion or a loss of \$22.06 per share. The average mainline and Express price per gallon of fuel increased 44.1% to \$3.18 in 2008 from \$2.21 in 2007. As a result, our mainline and Express fuel expense in 2008 was \$4.76 billion, an increase of \$1.36 billion or 40.1% higher than 2007 on 1% lower capacity. Our mainline and Express fuel costs during 2008 represented 34% of our total operating expenses.

The 2008 results included \$356 million of net losses associated with fuel hedging transactions. This included \$496 million of net unrealized losses resulting from the application of mark-to-market accounting for changes in the fair value of fuel hedging instruments, offset by \$140 million of net realized gains on settled fuel hedge transactions. At December 31, 2008, we have no premium collar fuel hedge transactions in place with respect to 14% of our 2009 projected mainline and Express fuel requirements at a weighted average collar range of \$3.41 to \$3.61 per gallon of heating oil or \$131.15 to \$139.55 per barrel of estimated crude oil equivalent. Since the third quarter of 2008, we have not entered into any new transactions as part of our fuel hedging program due to the impact collateral requirements could have on our liquidity resulting from the significant decline in the price of oil and counterparty credit risk arising from global economic uncertainty.

The 2008 results also included a non-cash charge of \$622 million to write off all of the goodwill created by the merger of US Airways Group and America West Holdings in September 2005. The goodwill impairment charge is discussed in more detail under “Critical Accounting Policies and Estimates.” We also recorded a \$214 million non-cash charge for the other than temporary impairment of our investments in auction rate securities due to the extended period of time that the fair values have been less than cost, which included the \$166 million decline in 2008 discussed above as well as \$48 million of previously deemed temporary declines recorded to other comprehensive income now deemed other than temporary. See “Liquidity and Capital Resources” for further discussion of our investments in marketable securities.



While the impact of the weakening economic environment on future passenger demand remains uncertain, we believe that the current decline in aviation fuel prices will offset at least some of the potential impacts. We estimate that a one cent per gallon decrease in fuel prices results in a \$14 million decrease in our annual fuel expense. As discussed above, we have taken numerous actions to increase revenue, reduce costs and preserve liquidity. We believe these actions have positioned us well for a difficult global economy in 2009.

### Customer Service

We are committed to running a successful airline. One of the important ways we do this is by taking care of our customers. We believe that our focus on excellent customer service in every aspect of our operations, including personnel, flight equipment, inflight and ancillary amenities, on-time performance, flight completion ratios and baggage handling, will strengthen customer loyalty and attract new customers.

Throughout 2007 and 2008, we implemented several ongoing initiatives to improve operational performance, including lengthening the operating day at our hubs, lowering utilization, increasing the number of designated spare aircraft in order to ensure operational reliability and implementing new baggage handling software and handheld baggage scanners. The implementation of these initiatives along with other performance improvement initiatives resulted in an improved trend in operational performance.

For the year 2008, our 80.1% on-time performance ranked first among the big six hub and spoke carriers and second among the ten largest U.S. airlines as measured by the DOT's Consumer Air Travel Report. In addition, our mishandled baggage ratio per 1,000 passengers improved dramatically to 4.77, representing more than a 40% improvement from our 2007 rate of 8.47. Our rate of customer complaints filed with the DOT per 100,000 passengers also improved, decreasing to 2.01 in 2008 from 3.16 in 2007.

We reported the following combined operating statistics to the DOT for mainline operations for the years ended December 31, 2008, 2007 and 2006:

	Full Year		
	2008	2007	2006
On-time performance(a)	80.1	68.7	76.9
Completion factor(b)	98.5	98.2	98.9
Mishandled baggage(c)	4.77	8.47	7.88
Customer complaints(d)	2.01	3.16	1.36

(a) Percentage of reported flight operations arriving on time as defined by the DOT.

(b) Percentage of scheduled flight operations completed.

(c) Rate of mishandled baggage reports per 1,000 passengers.

(d) Rate of customer complaints filed with the DOT per 100,000 passengers.

### US Airways Group's Results of Operations

In 2008, we realized an operating loss of \$1.8 billion and a loss before income taxes of \$2.21 billion. The 2008 loss was driven by record high fuel prices as the average mainline and Express price per gallon of fuel was 44.1% higher in 2008 as compared to 2007. Our 2008 results were also impacted by recognition of the following items:

- a \$622 million non-cash charge to write off all of the goodwill created by the merger of US Airways Group and America West Holdings in September 2005.
- \$214 million in other than temporary non-cash impairment charges included in nonoperating expense for our investments in auction rate securities primarily driven by the length of time and extent to which the fair value has been less than cost for these securities.
- \$496 million of net unrealized losses resulting from the application of mark-to-market accounting for changes in the fair value of fuel hedging instruments, offset by \$140 million of net realized gains on settled fuel hedge transactions. The net unrealized losses were primarily driven by the significant decrease in the

price of oil in the latter part of 2008. We are required to use mark-to-market accounting as our existing fuel hedging instruments do not meet the requirements for hedge accounting established by SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." If these instruments had qualified for hedge accounting treatment, any unrealized gains or losses, including the \$496 million discussed above, would have been deferred in other comprehensive income, a component of stockholders' equity, until the jet fuel is purchased and the underlying fuel hedging instrument is settled. Given the market volatility of jet fuel, the fair value of these fuel hedging instruments is expected to change until settled.

- \$76 million of net special charges, consisting of \$35 million of merger related transition expenses, \$18 million in non-cash charges related to the decline in fair value of certain spare parts associated with our Boeing 737 aircraft fleet and as a result of our capacity reductions, \$14 million in lease return costs and penalties related to certain Airbus aircraft and \$9 million in severance charges.
- \$8 million in gains on forgiveness of debt, offset by \$7 million in write offs of debt discount and debt issuance costs due to the refinancing of certain aircraft equipment notes and certain loan prepayments in connection with our 2008 financing transactions, all included in nonoperating expense.

In 2007, we realized operating income of \$533 million and income before income taxes of \$434 million. Our 2007 results were impacted by recognition of the following items:

- \$187 million of net unrealized gains resulting from the application of mark-to-market accounting for changes in the fair value of fuel hedging instruments as well as \$58 million of net realized gains on settled fuel hedge transactions.
- \$99 million of net special charges due to merger related transition expenses.
- a \$99 million charge for an increase to long-term disability obligations for US Airways' pilots as a result of a change in the FAA mandated retirement age for pilots from 60 to 65.
- \$7 million in tax credits due to an IRS rule change allowing us to recover certain fuel usage tax amounts for years 2003-2006, \$9 million of insurance settlement proceeds related to business interruption and property damages incurred as a result of Hurricane Katrina in 2005 and a \$5 million Piedmont pilot pension curtailment gain related to the FAA mandated pilot retirement age change discussed above. These gains were offset in part by \$5 million in charges related to reduced flying from Pittsburgh.
- an \$18 million write off of debt issuance costs in connection with the refinancing of the \$1.25 billion GE loan in March 2007 and \$10 million in other than temporary impairment charges for our investments in auction rate securities, offset by a \$17 million gain recognized on the sale of stock in ARINC Incorporated, all included in nonoperating expense.

In 2006, we realized operating income of \$558 million and income before income taxes and cumulative effect of change in accounting principle of \$404 million. Our 2006 results were impacted by recognition of the following items:

- \$70 million of net unrealized losses resulting from the application of mark-to-market accounting for changes in the fair value of fuel hedging instruments as well as \$9 million of net realized losses on settled fuel hedge transactions.
- \$27 million of net special charges, consisting of \$131 million of merger related transition expenses, offset by a \$90 million credit related to the restructuring of the then existing Airbus aircraft order and \$14 million of credits related to the settlement of certain bankruptcy-related claims.
- \$6 million of expense related to prepayment penalties and \$5 million in accelerated amortization of debt issuance costs in connection with the refinancing of the loan previously guaranteed by the ATSB and two loans previously provided to AWA by GECC, \$17 million in payments in connection with the inducement to convert \$70 million of the 7% Senior Convertible Notes to common stock and a \$2 million write off of debt issuance costs associated with those converted notes, offset by \$8 million of interest income earned by AWA on certain prior year federal income tax refunds, all included in nonoperating expense.

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We reported a loss in 2008, which increased our net operating loss carryforwards (“NOL”), and have not recorded a tax provision for 2008. As of December 31, 2008, we have approximately \$1.49 billion of gross NOL to reduce future federal taxable income. Of this amount, approximately \$1.44 billion is available to reduce federal taxable income in the calendar year 2009. The NOL expires during the years 2022 through 2028. Our deferred tax asset, which includes \$1.41 billion of the NOL discussed above, has been subject to a full valuation allowance. We also have approximately \$77 million of tax-effected state NOL at December 31, 2008.

At December 31, 2008, the federal valuation allowance is \$568 million, all of which will reduce future tax expense when recognized. The state valuation allowance is \$82 million, of which \$58 million was established through the recognition of tax expense. The remaining \$24 million was established in purchase accounting. Effective January 1, 2009, we adopted SFAS No. 141R, “Business Combinations.” In accordance with SFAS No. 141R, all future decreases in the valuation allowance established in purchase accounting will be recognized as a reduction in tax expense. In addition, we have \$23 million and \$2 million, respectively, of unrealized federal and state tax benefit related to amounts recorded in other comprehensive income.

For the year ended December 31, 2007, we utilized NOL to reduce our income tax obligation. Utilization of this NOL results in a corresponding decrease in the valuation allowance. As this valuation allowance was established through the recognition of tax expense, the decrease in valuation allowance offsets our tax provision dollar for dollar. We recognized \$7 million of non-cash state income tax expense for the year ended December 31, 2007, as we utilized NOL that was generated by US Airways prior to the merger. As this was acquired NOL, the decrease in the valuation allowance associated with this NOL reduced goodwill instead of the provision for income taxes.

For the year ended December 31, 2006, we recognized \$85 million of non-cash income tax expense, as we utilized NOL that was generated by US Airways prior to the merger. We also recorded Alternative Minimum Tax liability (“AMT”) tax expense of \$10 million. In most cases, the recognition of AMT does not result in tax expense. However, as discussed above, since our NOL was subject to a full valuation allowance, any liability for AMT is recorded as tax expense. We also recorded \$2 million of state income tax provision in 2006 related to certain states where NOL was not available to be used.

The table below sets forth our selected mainline operating data:

	Year Ended December 31,			Percent Change 2008-2007	Percent Change 2007-2006
	2008	2007	2006		
Revenue passenger miles (millions)(a)	60,570	61,262	60,689	(1.1)	0.9
Available seat miles (millions)(b)	74,151	75,842	76,983	(2.2)	(1.5)
Passenger load factor (percent)(c)	81.7	80.8	78.8	0.9 pts	2.0 pts
Yield (cents)(d)	13.51	13.28	13.13	1.7	1.2
Passenger revenue per available seat mile (cents)(e)	11.04	10.73	10.35	2.9	3.7
Operating cost per available seat mile (cents)(f)	14.66	11.30	10.96	29.7	3.1
Passenger enplanements (thousands)(g)	54,820	57,871	57,345	(5.3)	0.9
Departures (thousands)	496	525	542	(5.5)	(3.1)
Aircraft at end of period	354	356	359	(0.6)	(0.8)
Block hours (thousands)(h)	1,300	1,343	1,365	(3.3)	(1.6)
Average stage length (miles)(i)	955	925	927	3.3	(0.3)
Average passenger journey (miles)(j)	1,554	1,489	1,478	4.4	0.7
Fuel consumption (gallons in millions)	1,142	1,195	1,210	(4.4)	(1.3)
Average aircraft fuel price including related taxes (dollars per gallon)	3.17	2.20	2.08	43.9	5.8
Full-time equivalent employees at end of period	32,671	34,437	34,077	(5.1)	1.1

(a) Revenue passenger mile (“RPM”) — A basic measure of sales volume. A RPM represents one passenger flown one mile.

(b) Available seat mile (“ASM”) — A basic measure of production. An ASM represents one seat flown one mile.

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- (c) Passenger load factor — The percentage of available seats that are filled with revenue passengers.
- (d) Yield — A measure of airline revenue derived by dividing passenger revenue by revenue passenger miles and expressed in cents per mile.
- (e) Passenger revenue per available seat mile (“PRASM”) — Total passenger revenues divided by total available seat miles.
- (f) Operating cost per available seat mile (“CASM”) — Total mainline operating expenses divided by total available seat miles.
- (g) Passenger enplanements — The number of passengers on board an aircraft including local, connecting and through passengers.
- (h) Block hours — The hours measured from the moment an aircraft first moves under its own power, including taxi time, for the purposes of flight until the aircraft is docked at the next point of landing and its power is shut down.
- (i) Average stage length — The average of the distances flown on each segment of every route.
- (j) Average passenger journey — The average one-way trip measured in statute miles for one passenger origination.

**2008 Compared With 2007**

*Operating Revenues:*

	<u>2008</u>	<u>2007</u>	<u>Percent</u>
	(In millions)		<u>Change</u>
Operating revenues:			
Mainline passenger	\$ 8,183	\$ 8,135	0.6
Express passenger	2,879	2,698	6.7
Cargo	144	138	3.7
Other	912	729	25.3
Total operating revenues	<u>\$12,118</u>	<u>\$11,700</u>	3.6

Total operating revenues in 2008 were \$12.12 billion as compared to \$11.7 billion in 2007. Mainline passenger revenues were \$8.18 billion in 2008, as compared to \$8.14 billion in 2007. RPMs decreased 1.1% as mainline capacity, as measured by ASMs, decreased 2.2%, resulting in a 0.9 point increase in load factor to 81.7%. Passenger yield increased 1.7% to 13.51 cents in 2008 from 13.28 cents in 2007. PRASM increased 2.9% to 11.04 cents in 2008 from 10.73 cents in 2007. Yield and PRASM increased in 2008 due principally to strong passenger demand, continued capacity and pricing discipline and fare increases in substantially all markets during 2008.

Express passenger revenues were \$2.88 billion in 2008, an increase of \$181 million from the 2007 period. Express capacity, as measured by ASMs, increased 5.6% in 2008 due principally to the year-over-year increase in capacity purchased from an affiliate Express carrier. Express RPMs increased by 5.1% on this higher capacity resulting in a 0.4 point decrease in load factor to 72.6%. Passenger yield increased by 1.6% to 26.52 cents in 2008 from 26.12 cents in 2007. PRASM increased 1% to 19.26 cents in 2008 from 19.06 cents in 2007. The increase in Express yield and PRASM are the result of the same favorable industry pricing environment discussed in the mainline operations above.

Other revenues were \$912 million in 2008, an increase of \$183 million from 2007 due primarily to our new revenue initiatives, principally our first and second checked bag fees, which were implemented in the third quarter of 2008.

*Operating Expenses:*

	<u>2008</u>	<u>2007</u>	<u>Percent</u> <u>Change</u>
	(In millions)		
Operating expenses:			
Aircraft fuel and related taxes	\$ 3,618	\$ 2,630	37.6
Loss (gain) on fuel hedging instruments, net:			
Realized	(140)	(58)	nm
Unrealized	496	(187)	nm
Salaries and related costs	2,231	2,302	(3.1)
Aircraft rent	724	727	(0.4)
Aircraft maintenance	783	635	23.2
Other rent and landing fees	562	536	4.9
Selling expenses	439	453	(3.2)
Special items, net	76	99	(23.2)
Depreciation and amortization	215	189	13.7
Goodwill impairment	622	—	nm
Other	1,243	1,247	(0.2)
Total mainline operating expenses	<u>10,869</u>	<u>8,573</u>	26.8
Express expenses:			
Fuel	1,137	765	48.6
Other	1,912	1,829	4.5
Total Express operating expense	<u>3,049</u>	<u>2,594</u>	17.5
Total operating expenses	<u>\$ 13,918</u>	<u>\$ 11,167</u>	24.6

Total operating expenses were \$13.92 billion in 2008, an increase of \$2.75 billion or 24.6% compared to 2007. Mainline operating expenses were \$10.87 billion in 2008, an increase of \$2.3 billion or 26.8% from 2007, while ASMs decreased 2.2%. Mainline CASM increased 29.7% to 14.66 cents in 2008 from 11.3 cents in 2007. The 2008 period included a \$622 million non-cash charge to write off all of the goodwill created by the merger of US Airways Group and America West Holdings in September 2005, which contributed 0.84 cents to our mainline CASM for 2008. The remaining period over period increase in CASM was driven principally by increases in aircraft fuel costs (\$988 million or 1.41 cents per ASM) and a net loss on fuel hedging instruments (\$356 million) in 2008 compared to a net gain (\$245 million) in 2007, which accounted for 0.8 cents per ASM. The net unrealized losses during 2008 were driven by the significant decline in the price of oil in the latter part of 2008.

The 2008 period also included \$76 million of net special charges, consisting of \$35 million of merger related transition expenses, \$18 million in non-cash charges related to the decline in fair value of certain spare parts associated with our Boeing 737 aircraft fleet and as a result of our capacity reductions, \$14 million in lease return costs and penalties related to certain Airbus aircraft and \$9 million in charges related to involuntary furloughs as well as terminations of non-union administrative and management staff. This compares to net special charges of \$99 million in the 2007 period due to merger related transition expenses.

The table below sets forth the major components of our mainline CASM for the years ended December 31, 2008 and 2007:

	Year Ended December 31,		Percent Change
	2008	2007	
	(In cents)		
<b>Mainline CASM:</b>			
Aircraft fuel and related taxes	4.88	3.47	40.7
Loss (gain) on fuel hedging instruments, net	0.48	(0.32)	nm
Salaries and related costs	3.01	3.03	(0.8)
Aircraft rent	0.98	0.96	2.2
Aircraft maintenance	1.05	0.84	25.4
Other rent and landing fees	0.76	0.70	7.6
Selling expenses	0.59	0.60	(1.2)
Special items, net	0.10	0.13	(23.2)
Depreciation and amortization	0.29	0.25	16.4
Goodwill impairment	0.84	—	nm
Other	1.68	1.64	2.2
<b>Total mainline CASM</b>	<b>14.66</b>	<b>11.30</b>	<b>29.7</b>

Significant changes in the components of mainline operating expense per ASM are as follows:

- Aircraft fuel and related taxes per ASM increased 40.7% due primarily to a 43.9% increase in the average price per gallon of fuel to a record high \$3.17 in 2008 from \$2.20 in 2007, offset by a 4.4% decrease in gallons consumed.
- Loss (gain) on fuel hedging instruments, net per ASM fluctuated from a gain of 0.32 cents in 2007 to a loss of 0.48 cents in 2008. The net loss in the 2008 period is the result of net unrealized losses of \$496 million on open fuel hedge transactions, offset by \$140 million of net realized gains on settled fuel hedge transactions. Our fuel hedging program uses no premium collars, which establish an upper and lower limit on heating oil futures prices, to provide protection from fuel price risks. We use heating oil as it is a commodity with prices that are generally highly correlated with jet fuel prices. We recognized net gains from our fuel hedging program in the first half of 2008 as the price of heating oil exceeded the upper limit on certain of our collar transactions. However, the significant decline in the price of oil in the latter part of 2008 generated unrealized losses on certain open fuel hedge transactions as the price of heating oil fell below the lower limit of those collar transactions.
- Aircraft maintenance expense per ASM increased 25.4% due principally to increases in the number of engine and landing gear overhauls performed in 2008 as compared to 2007.
- Other rent and landing fees per ASM increased 7.6% due primarily to increases in rental rates at certain airports in the 2008 period as compared to the 2007 period.
- Depreciation and amortization per ASM increased 16.4% due to the acquisition of 14 Embraer aircraft and five Airbus aircraft in 2008, which increased depreciation expense on owned aircraft.

Total Express expenses increased 17.5% in 2008 to \$3.05 billion from \$2.59 billion in 2007. Express fuel costs increased \$372 million as the average fuel price per gallon increased 44.8% from \$2.23 in 2007 to a record high \$3.23 in 2008. Other Express operating expenses increased \$83 million year-over-year as a result of the 5.6% increase in Express capacity in 2008.

*Nonoperating Income (Expense):*

	<u>2008</u>	<u>2007</u>	<u>Percent</u>
	(In millions)		<u>Change</u>
<b>Nonoperating income (expense):</b>			
Interest income	\$ 83	\$ 172	(51.6)
Interest expense, net	(253)	(273)	(7.3)
Other, net	(240)	2	nm
Total nonoperating expense, net	<u>\$ (410)</u>	<u>\$ (99)</u>	nm

Net nonoperating expense was \$410 million in 2008 as compared to \$99 million in 2007. Interest income decreased \$89 million in 2008 due to lower average investment balances and lower rates of return. Interest expense, net decreased \$20 million due primarily to reductions in average interest rates associated with variable rate debt, partially offset by an increase in the average debt balance outstanding as compared to the 2007 period.

Other nonoperating expense, net in 2008 included \$214 million in other than temporary impairment charges for our investments in auction rate securities primarily due to the length of time and extent to which the fair value has been less than cost for these securities. We also recognized \$25 million in foreign currency losses related to transactions denominated in foreign currencies and \$7 million in write offs of debt discount and debt issuance costs in connection with the refinancing of certain aircraft equipment notes and certain loan prepayments in connection with our 2008 financing transactions, offset in part by \$8 million in gains on forgiveness of debt. Other nonoperating expense, net in 2007 included an \$18 million write off of debt issuance costs in connection with the refinancing of the GE loan in March 2007 as well as a \$10 million other than temporary impairment charge for our investments in auction rate securities, offset by a \$17 million gain on the sale of stock in ARINC Incorporated and \$7 million in foreign currency gains related to transactions denominated in foreign currencies. The impairment charges on auction rate securities are discussed in more detail under "Liquidity and Capital Resources."

**2007 Compared With 2006**

*Operating Revenues:*

	<u>2007</u>	<u>2006</u>	<u>Percent</u>
	(In millions)		<u>Change</u>
<b>Operating revenues:</b>			
Mainline passenger	\$ 8,135	\$ 7,966	2.1
Express passenger	2,698	2,744	(1.7)
Cargo	138	153	(9.4)
Other	729	694	4.9
Total operating revenues	<u>\$11,700</u>	<u>\$11,557</u>	1.2

Total operating revenues in 2007 were \$11.7 billion as compared to \$11.56 billion in 2006. Mainline passenger revenues were \$8.14 billion in 2007, as compared to \$7.97 billion in 2006. RPMs increased 0.9% as mainline capacity, as measured by ASMs, decreased 1.5%, resulting in a 2.0 point increase in load factor to 80.8%. Passenger yield increased 1.2% to 13.28 cents in 2007 from 13.13 cents in 2006. PRASM increased 3.7% to 10.73 cents in 2007 from 10.35 cents in 2006. The increases in yield and PRASM are due principally to the strong revenue environment in 2007 resulting from reductions in industry capacity and continued capacity and pricing discipline, industry wide fare increases during the 2007 period and higher passenger demand.

Express passenger revenues were \$2.7 billion in 2007, a decrease of \$46 million from the 2006 period. Express capacity, as measured by ASMs, decreased 5% in 2007, due primarily to planned reductions in Express flying during 2007. Express RPMs decreased by 2.6% on lower capacity resulting in a 1.8 point increase in load factor to 73%. Passenger yield increased by 1% to 26.12 cents in 2007 from 25.86 cents in 2006. PRASM increased 3.5% to 19.06 cents in 2007 from 18.42 cents in 2006.



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Cargo revenues were \$138 million in 2007, a decrease of \$15 million from the 2006 period due to decreases in domestic mail and freight volumes. Other revenues were \$729 million in 2007, an increase of \$35 million from the 2006 period. The increase in other revenues was primarily driven by an increase in revenue associated with higher fuel sales to pro-rate carriers through MSC.

*Operating Expenses:*

	<u>2007</u>	<u>2006</u>	<u>Percent</u>
	(In millions)		<u>Change</u>
<b>Operating expenses:</b>			
Aircraft fuel and related taxes	\$ 2,630	\$ 2,518	4.4
<b>Loss (gain) on fuel hedging instruments, net:</b>			
Realized	(58)	9	nm
Unrealized	(187)	70	nm
Salaries and related costs	2,302	2,090	10.1
Aircraft rent	727	732	(0.6)
Aircraft maintenance	635	582	9.1
Other rent and landing fees	536	568	(5.7)
Selling expenses	453	446	1.6
Special items, net	99	27	nm
Depreciation and amortization	189	175	8.2
Other	1,247	1,223	2.0
Total mainline operating expenses	<u>8,573</u>	<u>8,440</u>	1.6
<b>Express expenses:</b>			
Fuel	765	764	0.1
Other	1,829	1,795	1.9
Total Express operating expenses	<u>2,594</u>	<u>2,559</u>	1.4
Total operating expenses	<u>\$11,167</u>	<u>\$10,999</u>	1.5

Total operating expenses were \$11.17 billion in 2007, an increase of \$168 million or 1.5% compared to 2006. Mainline operating expenses were \$8.57 billion in 2007, an increase of \$133 million or 1.6% from 2006, while ASMs decreased 1.5%. Mainline CASM increased 3.1% to 11.3 cents in 2007 from 10.96 cents in 2006. The period over period increase in CASM was driven principally by higher salaries and related costs (\$212 million or 0.32 cents per ASM), due primarily to increased headcount associated with our operational improvement plan and a \$99 million charge to increase our obligation for long-term disability as a result of a change in the FAA mandated retirement age for certain pilots, and an increase in aircraft fuel costs (\$112 million or 0.2 cents per ASM), due to a 5.8% increase in the average price per gallon of fuel in 2007. These increases were offset in part by gains on fuel hedging instruments (\$245 million) in the 2007 period as compared to losses in the 2006 period (\$79 million), which accounted for 0.42 cents per ASM.

The 2007 period also included net charges from special items of \$99 million, primarily due to merger related transition expenses. This compares to net charges from special items of \$27 million in 2006, which included \$131 million of merger related transition expenses, offset by a \$90 million credit related to the restructuring of the then existing Airbus aircraft order and \$14 million of credits related to the settlement of certain bankruptcy-related claims.

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The table below sets forth the major components of our mainline CASM for the years ended December 31, 2007 and 2006:

	Year Ended December 31,		Percent Change
	2007	2006	
(In cents)			
<b>Mainline CASM:</b>			
Aircraft fuel and related taxes	3.47	3.27	6.0
Loss (gain) on fuel hedging instruments, net	(0.32)	0.10	nm
Salaries and related costs	3.03	2.71	11.8
Aircraft rent	0.96	0.95	0.9
Aircraft maintenance	0.84	0.75	10.8
Other rent and landing fees	0.70	0.74	(4.3)
Selling expenses	0.60	0.58	3.1
Special items, net	0.13	0.04	nm
Depreciation and amortization	0.25	0.23	9.9
Other	1.64	1.59	3.5
Total Mainline CASM	<u>11.30</u>	<u>10.96</u>	3.1

Significant changes in the components of mainline operating expense per ASM are as follows:

- Aircraft fuel and related taxes per ASM increased 6% due primarily to a 5.8% increase in the average price per gallon of fuel to \$2.20 in 2007 from \$2.08 in 2006.
- Loss (gain) on fuel hedging instruments, net per ASM fluctuated from a loss of 0.10 cents in 2006 to a gain of 0.32 cents in 2007. The net gain in the 2007 period is the result of net unrealized gains of \$187 million on open fuel hedge transactions as well as \$58 million of net realized gains on settled fuel hedge transactions. We recognized net gains from our fuel hedging program in 2007 as the price of heating oil exceeded the upper limit on certain of our collar transactions.
- Salaries and related costs per ASM increased 11.8% due to a \$99 million charge for an increase to long-term disability obligations for US Airways' pilots as a result of a change in the FAA mandated retirement age for pilots from 60 to 65 as well as a period over period increase in headcount, principally in fleet and passenger service employees as part of our initiative to improve operational performance, and increases in employee benefits as a result of higher medical claims due to general inflationary cost increases.
- Aircraft maintenance expense per ASM increased 10.8% due principally to an increase in the number of overhauls performed on engines not subject to power by the hour maintenance agreements as well as an increase in the volume of seat overhauls and thrust reverser repairs in the 2007 period compared to the 2006 period.
- Depreciation and amortization per ASM increased 9.9% due to the acquisition of nine Embraer 190 aircraft and equipment to support flight operations in 2007, which increased depreciation expense on owned aircraft and equipment.

Total Express expenses increased 1.4% in 2007 to \$2.59 billion from \$2.56 billion in 2006, as other Express operating expenses increased \$34 million. Express fuel costs remained consistent period over period as the average fuel price per gallon increased 4.2% from \$2.14 in the 2006 period to \$2.23 in the 2007 period, which was offset by a 4% decrease in gallons consumed as block hours were down 6.2% in the 2007 period due to planned reductions in Express flying. Other Express operating expenses increased as a result of higher rates paid under certain capacity purchase agreements due to contractually scheduled rate changes.

*Nonoperating Income (Expense):*

	<u>2007</u>	<u>2006</u>	<u>Percent</u>
	(In millions)		<u>Change</u>
Nonoperating income (expense):			
Interest income	\$ 172	\$ 153	12.5
Interest expense, net	(273)	(295)	(7.5)
Other, net	<u>2</u>	<u>(12)</u>	nm
Total nonoperating expense, net	<u>\$ (99)</u>	<u>\$ (154)</u>	(35.7)

Net nonoperating expense was \$99 million in 2007 as compared to \$154 million in 2006. Interest income increased \$19 million in 2007 due to higher average cash balances and higher average rates of return on investments. Interest expense, net decreased \$22 million due to the full year effect in 2007 of refinancing the loan formerly guaranteed by the ATSB at lower average interest rates in March 2006, as well as the refinancing of the GE loan at lower average interest rates and the repayment of the Barclays Bank Delaware prepaid miles loan in March 2007.

Other nonoperating income, net in 2007 of \$2 million included an \$18 million write off of debt issuance costs in connection with the refinancing of the GE loan in March 2007 as well as a \$10 million other than temporary impairment charge for our investments in auction rate securities, offset by a \$17 million gain on the sale of stock in ARINC Incorporated and \$7 million in foreign currency gains related to transactions denominated in foreign currencies. Other nonoperating expense, net in 2006 of \$12 million included \$6 million of nonoperating expense related to prepayment penalties and \$5 million in accelerated amortization of debt issuance costs in connection with the refinancing of the loan formerly guaranteed by the ATSB and two loans previously provided to AWA by GECC as well as \$17 million in payments in connection with the inducement to convert \$70 million of the 7% Senior Convertible Notes to common stock and a \$2 million write off of debt issuance costs associated with those converted notes, offset by \$11 million of derivative gains attributable to stock options in Sabre and warrants in a number of companies and \$2 million in foreign currency gains related to transactions denominated in foreign currencies.

***US Airways' Results of Operations***

On September 26, 2007, as part of the integration efforts following the merger, AWA surrendered its FAA operating certificate. As a result, all mainline airline operations are now being conducted under US Airways' FAA operating certificate. In connection with the combination of all mainline airline operations under one FAA operating certificate, US Airways Group contributed 100% of its equity interest in America West Holdings, the parent company of AWA, to US Airways. As a result, America West Holdings and AWA are now wholly owned subsidiaries of US Airways. In addition, AWA transferred substantially all of its assets and liabilities to US Airways. All off-balance sheet commitments of AWA were also transferred to US Airways.

Transfers of assets between entities under common control are accounted for similar to the pooling of interests method of accounting. Under this method, the carrying amount of net assets recognized in the balance sheets of each combining entity are carried forward to the balance sheet of the combined entity, and no other assets or liabilities are recognized as a result of the contribution of shares. This management's discussion and analysis of financial condition and results of operations is presented as though the transfer had occurred at the time of US Airways' emergence from bankruptcy in September 2005.

In 2008, US Airways realized an operating loss of \$1.77 billion and a loss before income taxes of \$2.15 billion. The 2008 loss was driven by record high fuel prices as the average mainline and Express price per gallon of fuel was 44.1% higher in 2008 as compared to 2007. US Airways' 2008 results were also impacted by recognition of the following items:

- a \$622 million non-cash charge to write off all of the goodwill created by the merger of US Airways Group and America West Holdings in September 2005.

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- \$214 million in other than temporary non-cash impairment charges included in nonoperating expense for its investments in auction rate securities primarily driven by the length of time and extent to which the fair value has been less than cost for these securities.
- \$496 million of net unrealized losses resulting from the application of mark-to-market accounting for changes in the fair value of fuel hedging instruments, offset by \$140 million of net realized gains on settled fuel hedge transactions. The net unrealized losses were primarily driven by the significant decrease in the price of oil in the latter part of 2008. US Airways is required to use mark-to-market accounting as its existing fuel hedging instruments do not meet the requirements for hedge accounting established by SFAS No. 133. If these instruments had qualified for hedge accounting treatment, any unrealized gains or losses, including the \$496 million discussed above, would have been deferred in other comprehensive income, a component of stockholder's equity, until the jet fuel is purchased and the underlying fuel hedging instrument is settled. Given the market volatility of jet fuel, the fair value of these fuel hedging instruments is expected to change until settled.
- \$76 million of net special charges, consisting of \$35 million of merger related transition expenses, \$18 million in non-cash charges related to the decline in fair value of certain spare parts associated with US Airways' Boeing 737 aircraft fleet and as a result of US Airways' capacity reductions, \$14 million in lease return costs and penalties related to certain Airbus aircraft and \$9 million in severance charges.
- \$8 million in gains on forgiveness of debt, offset by \$6 million in write offs of debt discount and debt issuance costs due to the refinancing of certain aircraft equipment notes and a loan prepayment in connection with US Airways' 2008 financing transactions, all included in nonoperating expense.

In 2007, US Airways realized operating income of \$524 million and income before income taxes of \$485 million. US Airways' results were impacted by recognition of the following items:

- \$187 million of net unrealized gains resulting from the application of mark-to-market accounting for changes in the fair value of fuel hedging instruments as well as \$58 million of net realized gains on settled fuel hedge transactions.
- \$99 million of net special charges due to merger related transition expenses.
- a \$99 million charge for an increase to long-term disability obligations for US Airways' pilots as a result of a change in the FAA mandated retirement age for pilots from 60 to 65.
- \$7 million in tax credits due to an IRS rule change allowing US Airways to recover certain fuel usage tax amounts for years 2003-2006 and \$9 million of insurance settlement proceeds related to business interruption and property damages incurred as a result of Hurricane Katrina in 2005. These gains were offset in part by \$4 million in charges related to reduced flying from Pittsburgh.
- a \$17 million gain recognized on the sale of stock in ARINC Incorporated, offset by \$10 million in other than temporary impairment charges for US Airways' investments in auction rate securities, all included in nonoperating expense.

In 2006, US Airways realized operating income of \$557 million and income before income taxes and cumulative effect of change in accounting principle of \$446 million. US Airways' results were impacted by recognition of the following items:

- \$70 million of net unrealized losses resulting from the application of mark-to-market accounting for changes in the fair value of fuel hedging instruments as well as \$9 million of net realized losses on settled fuel hedge transactions.
- \$38 million of net special charges, consisting of \$131 million of merger related transition expenses, offset by a \$90 million credit related to the restructuring of the then existing Airbus aircraft order and \$3 million of credits related to the settlement of certain bankruptcy-related claims.
- \$6 million of expense related to prepayment penalties and \$5 million in accelerated amortization of debt issuance costs in connection with the refinancing of the loan previously guaranteed by the ATSB and two

loans previously provided to AWA by GECC, offset by \$8 million of interest income earned by AWA on certain prior year federal income tax refunds, all included in nonoperating expense.

US Airways reported a loss in 2008, which increased its NOL, and has not recorded a tax provision for 2008. As of December 31, 2008, US Airways has approximately \$1.41 billion of gross NOL to reduce future federal taxable income. Of this amount, approximately \$1.37 billion is available to reduce federal taxable income in the calendar year 2009. The NOL expires during the years 2022 through 2028. US Airways' deferred tax asset, which includes \$1.33 billion of the NOL discussed above, has been subject to a full valuation allowance. US Airways also has approximately \$72 million of tax-effected state NOL at December 31, 2008.

At December 31, 2008, the federal valuation allowance is \$563 million, all of which will reduce future tax expense when recognized. The state valuation allowance is \$80 million, of which \$56 million was established through the recognition of tax expense. The remaining \$24 million was established in purchase accounting. Effective January 1, 2009, US Airways adopted SFAS No. 141R, "Business Combinations." In accordance with SFAS No. 141R, all future decreases in the valuation allowance established in purchase accounting will be recognized as a reduction in tax expense. In addition, US Airways has \$28 million and \$2 million, respectively, of unrealized federal and state tax benefit related to amounts recorded in other comprehensive income.

For the year ended December 31, 2007, US Airways utilized NOL to reduce its income tax obligation. Utilization of this NOL results in a corresponding decrease in the valuation allowance. As this valuation allowance was established through the recognition of tax expense, the decrease in valuation allowance offsets the tax provision dollar for dollar. US Airways recognized \$7 million of non-cash state income tax expense for the year ended December 31, 2007, as it utilized NOL that was generated prior to the merger. As this was acquired NOL, the decrease in the valuation allowance associated with this NOL reduced goodwill instead of the provision for income taxes.

For the year ended December 31, 2006, US Airways recognized \$85 million of non-cash income tax expense, as it utilized NOL that was generated prior to the merger. US Airways also recorded AMT tax expense of \$10 million. In most cases, the recognition of AMT does not result in tax expense. However, as discussed above, since US Airways' NOL was subject to a full valuation allowance, any liability for AMT is recorded as tax expense. US Airways also recorded \$2 million of state income tax provision in 2006 related to certain states where NOL was not available to be used.

The table below sets forth US Airways' selected mainline operating data:

	Year Ended December 31,			Percent Change 2008-2007	Percent Change 2007-2006
	2008	2007	2006		
Revenue passenger miles (millions)(a)	60,570	61,262	60,689	(1.1)	0.9
Available seat miles (millions)(b)	74,151	75,842	76,983	(2.2)	(1.5)
Passenger load factor (percent)(c)	81.7	80.8	78.8	0.9 pts	2.0 pts
Yield (cents)(d)	13.51	13.28	13.13	1.7	1.2
Passenger revenue per available seat mile (cents)(e)	11.04	10.73	10.35	2.9	3.7
Aircraft at end of period	354	356	359	(0.6)	(0.8)

(a) Revenue passenger mile ("RPM") — A basic measure of sales volume. A RPM represents one passenger flown one mile.

(b) Available seat mile ("ASM") — A basic measure of production. An ASM represents one seat flown one mile.

(c) Passenger load factor — The percentage of available seats that are filled with revenue passengers.

(d) Yield — A measure of airline revenue derived by dividing passenger revenue by revenue passenger miles and expressed in cents per mile.

(e) Passenger revenue per available seat mile ("PRASM") — Total passenger revenues divided by total available seat miles.

**2008 Compared With 2007***Operating Revenues:*

	<u>2008</u>	<u>2007</u>	<u>Percent</u>
	(In millions)		<u>Change</u>
Operating revenues:			
Mainline passenger	\$ 8,183	\$ 8,135	0.6
Express passenger	2,879	2,698	6.7
Cargo	144	138	3.7
Other	<u>1,038</u>	<u>842</u>	23.3
Total operating revenues	<u>\$12,244</u>	<u>\$11,813</u>	3.6

Total operating revenues in 2008 were \$12.24 billion as compared to \$11.81 billion in 2007. Mainline passenger revenues were \$8.18 billion in 2008, as compared to \$8.14 billion in 2007. RPMs decreased 1.1% as mainline capacity, as measured by ASMs, decreased 2.2%, resulting in a 0.9 point increase in load factor to 81.7%. Passenger yield increased 1.7% to 13.51 cents in 2008 from 13.28 cents in 2007. PRASM increased 2.9% to 11.04 cents in 2008 from 10.73 cents in 2007. Yield and PRASM increased in 2008 due principally to strong passenger demand, continued capacity and pricing discipline and fare increases in substantially all markets during 2008.

Express passenger revenues were \$2.88 billion in 2008, an increase of \$181 million from the 2007 period. Express capacity, as measured by ASMs, increased 5.6% in 2008 due principally to the year-over-year increase in capacity purchased from an affiliate Express carrier. Express RPMs increased by 5.1% on this higher capacity resulting in a 0.4 point decrease in load factor to 72.6%. Passenger yield increased by 1.6% to 26.52 cents in 2008 from 26.12 cents in 2007. PRASM increased 1% to 19.26 cents in 2008 from 19.06 cents in 2007. The increase in Express yield and PRASM are the result of the same favorable industry pricing environment discussed in the mainline operations above.

Other revenues were \$1.04 billion in 2008, an increase of \$196 million from 2007 due primarily to US Airways' new revenue initiatives, principally its first and second checked bag fees, which were implemented in the third quarter of 2008.

*Operating Expenses:*

	<u>2008</u>	<u>2007</u>	<u>Percent Change</u>
	(In millions)		
Operating expenses:			
Aircraft fuel and related taxes	\$ 3,618	\$ 2,630	37.6
Loss (gain) on fuel hedging instruments, net:			
Realized	(140)	(58)	nm
Unrealized	496	(187)	nm
Salaries and related costs	2,231	2,302	(3.1)
Aircraft rent	724	727	(0.4)
Aircraft maintenance	783	635	23.2
Other rent and landing fees	562	536	4.9
Selling expenses	439	453	(3.2)
Special items, net	76	99	(23.2)
Depreciation and amortization	224	198	13.1
Goodwill impairment	622	—	nm
Other	1,243	1,227	1.5
Total mainline operating expenses	<u>10,878</u>	<u>8,562</u>	27.1
Express expenses:			
Fuel	1,137	765	48.6
Other	2,002	1,962	2.0
Total Express operating expense	<u>3,139</u>	<u>2,727</u>	15.1
Total operating expenses	<u>\$ 14,017</u>	<u>\$ 11,289</u>	24.2

Total operating expenses were \$14.02 billion in 2008, an increase of \$2.73 billion or 24.2% compared to 2007. Mainline operating expenses were \$10.88 billion in 2008, an increase of \$2.32 billion or 27.1% from 2007. The 2008 period included a \$622 million non-cash charge to write off all of the goodwill created by the merger of US Airways Group and America West Holdings in September 2005. The remaining period over period increase in mainline operating expenses was driven principally by increases in aircraft fuel costs (\$988 million) and a net loss on fuel hedging instruments (\$356 million) in 2008 compared to a net gain (\$245 million) in 2007. The net unrealized losses during 2008 were driven by the significant decline in the price of oil in the latter part of 2008.

The 2008 period also included \$76 million of net special charges, consisting of \$35 million of merger related transition expenses, \$18 million in non-cash charges related to the decline in fair value of certain spare parts associated with US Airways' Boeing 737 aircraft fleet and as a result of US Airways' capacity reductions, \$14 million in lease return costs and penalties related to certain Airbus aircraft and \$9 million in charges related to involuntary furloughs as well as terminations of non-union administrative and management staff. This compares to net special charges of \$99 million in the 2007 period due to merger related transition expenses.

Significant changes in the components of mainline operating expenses are as follows:

- Aircraft fuel and related taxes increased 37.6% due primarily to a 43.9% increase in the average price per gallon of fuel to a record high \$3.17 in 2008 from \$2.20 in 2007, offset by a 4.4% decrease in gallons consumed.
- Loss (gain) on fuel hedging instruments, net fluctuated from a net gain of \$245 million in 2007 to a net loss of \$356 million in 2008. The net loss in the 2008 period is the result of net unrealized losses of \$496 million on open fuel hedge transactions, offset by \$140 million of net realized gains on settled fuel hedge transactions. US Airways' fuel hedging program uses no premium collars, which establish an upper and lower limit on heating oil futures prices, to provide protection from fuel price risks. US Airways uses heating



oil as it is a commodity with prices that are generally highly correlated with jet fuel prices. US Airways recognized net gains from its fuel hedging program in the first half of 2008 as the price of heating oil exceeded the upper limit on certain of its collar transactions. However, the significant decline in the price of oil in the latter part of 2008 generated unrealized losses on certain open fuel hedge transactions as the price of heating oil fell below the lower limit of those collar transactions.

- Aircraft maintenance expense increased 23.2% due principally to increases in the number of engine and landing gear overhauls performed in 2008 as compared to 2007.
- Other rent and landing fees increased 4.9% due primarily to increases in rental rates at certain airports in the 2008 period as compared to the 2007 period.
- Depreciation and amortization increased 13.1% due to the acquisition of 14 Embraer aircraft and five Airbus aircraft in 2008, which increased depreciation expense on owned aircraft.

Total Express expenses increased 15.1% in 2008 to \$3.14 billion from \$2.73 billion in 2007. Express fuel costs increased \$372 million as the average fuel price per gallon increased 44.8% from \$2.23 in 2007 to a record high \$3.23 in 2008. Other Express operating expenses increased \$40 million year-over-year as a result of the 5.6% increase in Express capacity in 2008, partially offset by a decrease in amounts paid under capacity purchases with US Airways Group's wholly owned Express carriers.

*Nonoperating Income (Expense):*

	<u>2008</u>	<u>2007</u>	<u>Percent</u>
	(In millions)		<u>Change</u>
Nonoperating income (expense):			
Interest income	\$ 83	\$ 172	(51.6)
Interest expense, net	(218)	(229)	(5.1)
Other, net	(240)	18	nm
Total nonoperating expense, net	<u>\$(375)</u>	<u>\$ (39)</u>	nm

Net nonoperating expense was \$375 million in 2008 as compared to \$39 million in 2007. Interest income decreased \$89 million in 2008 due to lower average investment balances and lower rates of return. Interest expense, net decreased \$11 million due primarily to reductions in average interest rates associated with variable rate debt, partially offset by an increase in the average debt balance outstanding as compared to the 2007 period.

Other nonoperating expense, net in 2008 included \$214 million in other than temporary impairment charges for US Airways' investments in auction rate securities primarily due to the length of time and extent to which the fair value has been less than cost for these securities. US Airways also recognized \$25 million in foreign currency losses related to transactions denominated in foreign currencies and \$6 million in write offs of debt discount and debt issuance costs in connection with the refinancing of certain aircraft equipment notes and a loan prepayment in connection with US Airways' 2008 financing transactions, offset in part by \$8 million in gains on forgiveness of debt. Other nonoperating expense, net in 2007 included a \$17 million gain on the sale of stock in ARINC Incorporated as well as \$7 million in foreign currency gains related to transactions denominated in foreign currencies, offset by a \$10 million other than temporary impairment charge for US Airways' investments in auction rate securities. The impairment charges on auction rate securities are discussed in more detail under "Liquidity and Capital Resources."

**2007 Compared With 2006***Operating Revenues:*

	<u>2007</u>	<u>2006</u>	<u>Percent</u>
	(In millions)		<u>Change</u>
Operating revenues:			
Mainline passenger	\$ 8,135	\$ 7,966	2.1
Express passenger	2,698	2,744	(1.7)
Cargo	138	153	(9.4)
Other	<u>842</u>	<u>829</u>	1.5
Total operating revenues	<u>\$11,813</u>	<u>\$11,692</u>	1.0

Total operating revenues in 2007 were \$11.81 billion as compared to \$11.69 billion in 2006. Mainline passenger revenues were \$8.14 billion in 2007, as compared to \$7.97 billion in 2006. RPMs increased 0.9% as mainline capacity, as measured by ASMs, decreased 1.5%, resulting in a 2.0 point increase in load factor to 80.8%. Passenger yield increased 1.2% to 13.28 cents in 2007 from 13.13 cents in 2006. PRASM increased 3.7% to 10.73 cents in 2007 from 10.35 cents in 2006. The increases in yield and PRASM are due principally to the strong revenue environment in 2007 resulting from reductions in industry capacity and continued capacity and pricing discipline, industry wide fare increases during the 2007 period and higher passenger demand.

Express passenger revenues were \$2.7 billion in 2007, a decrease of \$46 million from the 2006 period. Express capacity, as measured by ASMs, decreased 5% in 2007, due primarily to planned reductions in Express flying during 2007. Express RPMs decreased by 2.6% on lower capacity resulting in a 1.8 point increase in load factor to 73%. Passenger yield increased by 1% to 26.12 cents in 2007 from 25.86 cents in 2006. PRASM increased 3.5% to 19.06 cents in 2007 from 18.42 cents in 2006.

Cargo revenues were \$138 million in 2007, a decrease of \$15 million from the 2006 period due to decreases in domestic mail and freight volumes.

*Operating Expenses:*

	<u>2007</u>	<u>2006</u>	<u>Percent</u> <u>Change</u>
	(In millions)		
<b>Operating expenses:</b>			
Aircraft fuel and related taxes	\$ 2,630	\$ 2,518	4.4
<b>Loss (gain) on fuel hedging instruments, net</b>			
Realized	(58)	9	nm
Unrealized	(187)	70	nm
Salaries and related costs	2,302	2,090	10.1
Aircraft rent	727	732	(0.6)
Aircraft maintenance	635	582	9.1
Other rent and landing fees	536	568	(5.7)
Selling expenses	453	446	1.6
Special items, net	99	38	nm
Depreciation and amortization	198	184	8.1
Other	1,227	1,228	(0.1)
Total mainline operating expenses	<u>8,562</u>	<u>8,465</u>	1.1
<b>Express expenses:</b>			
Fuel	765	764	0.1
Other	1,962	1,906	2.9
Total Express operating expenses	<u>2,727</u>	<u>2,670</u>	2.1
Total operating expenses	<u>\$11,289</u>	<u>\$11,135</u>	1.4

Total operating expenses were \$11.29 billion in 2007, an increase of \$154 million or 1.4% compared to 2006. Mainline operating expenses were \$8.56 billion in 2007, an increase of \$97 million or 1.1% from 2006. The period over period increase in mainline operating expenses was driven principally by higher salaries and related costs (\$212 million), aircraft fuel costs (\$112 million) and aircraft maintenance (\$53 million). These increases were offset in part by gains on fuel hedging instruments (\$245 million) in the 2007 period as compared to losses in the 2006 period (\$79 million).

The 2007 period included net charges from special items of \$99 million, primarily due to merger related transition expenses. This compares to net charges from special items of \$38 million in 2006, which included \$131 million of merger related transition expenses, offset by a \$90 million credit related to the restructuring of the then existing Airbus aircraft order and \$3 million of credits related to the settlement of certain bankruptcy-related claims.

Significant changes in the components of mainline operating expenses are as follows:

- Aircraft fuel and related taxes increased 4.4% due primarily to a 5.8% increase in the average price per gallon of fuel to \$2.20 in 2007 from \$2.08 in 2006.
- Loss (gain) on fuel hedging instruments, net fluctuated from a loss of \$79 million in 2006 to a gain of \$245 million in 2007. The net gain in the 2007 period is the result of net unrealized gains of \$187 million on open fuel hedge transactions as well as \$58 million of net realized gains on settled fuel hedge transactions. US Airways recognized net gains from its fuel hedging program in 2007 as the price of heating oil exceeded the upper limit on certain of its collar transactions.
- Salaries and related costs increased 10.1% due to a \$99 million charge for an increase to long-term disability obligations for US Airways' pilots as a result of a change in the FAA mandated retirement age for pilots from 60 to 65 as well as a period over period increase in headcount, principally in fleet and passenger service

employees as part of US Airways' initiative to improve operational performance, and increases in employee benefits as a result of higher medical claims due to general inflationary cost increases.

- Aircraft maintenance expense increased 9.1% due principally to an increase in the number of overhauls performed on engines not subject to power by the hour maintenance agreements as well as an increase in the volume of seat overhauls and thrust reverser repairs in the 2007 period compared to the 2006 period.
- Depreciation and amortization increased 8.1% due to the acquisition of nine Embraer 190 aircraft and equipment to support flight operations in 2007, which increased depreciation expense on owned aircraft and equipment.

Total Express expenses increased 2.1% in 2007 to \$2.73 billion from \$2.67 billion in 2006, as other Express operating expenses increased \$56 million. Express fuel costs remained consistent period over period as the average fuel price per gallon increased 4.2% from \$2.14 in the 2006 period to \$2.23 in the 2007 period, which was offset by a 4% decrease in gallons consumed as block hours were down 6.2% in the 2007 period due to planned reductions in Express flying. Other Express operating expenses increased as a result of higher rates paid under certain capacity purchase agreements due to contractually scheduled rate changes.

*Nonoperating Income (Expense):*

	<u>2007</u>	<u>2006</u>	<u>Percent</u>
	(In millions)		<u>Change</u>
Nonoperating income (expense):			
Interest income	\$ 172	\$ 153	12.5
Interest expense, net	(229)	(268)	(14.4)
Other, net	18	4	nm
Total nonoperating expense, net	<u>\$ (39)</u>	<u>\$ (111)</u>	(64.7)

Net nonoperating expense was \$39 million in 2007 as compared to \$111 million in 2006. Interest income increased \$19 million in 2007 due to higher average cash balances and higher average rates of returns on investments. Interest expense, net decreased \$39 million due to the full year effect in 2007 of the refinancing by US Airways Group of the loan formerly guaranteed by the ATSB at lower average interest rates in March 2006. The refinanced debt is no longer held by US Airways. Also contributing to lower interest expense was the repayment by US Airways Group of the Barclays Bank Delaware prepaid miles loan in March 2007.

Other nonoperating income, net in 2007 of \$18 million included a \$17 million gain on the sale of stock in ARINC Incorporated as well as \$7 million in foreign currency gains related to transactions denominated in foreign currencies, offset by a \$10 million other than temporary impairment charge for US Airways' investments in auction rate securities. Other nonoperating income, net in 2006 of \$4 million included \$11 million of derivative gains attributable to stock options in Sabre and warrants in a number of companies and \$2 million in foreign currency gains related to transactions denominated in foreign currencies, offset by \$6 million of nonoperating expense related to prepayment penalties and \$5 million in accelerated amortization of debt issuance costs in connection with the refinancing of the loan formerly guaranteed by the ATSB and two loans previously provided to AWA by GECC.

**Liquidity and Capital Resources**

As of December 31, 2008, our cash, cash equivalents, investments in marketable securities and restricted cash were \$1.97 billion, of which \$1.24 billion was unrestricted. Our investments in marketable securities included \$187 million of investments in auction rate securities at fair value (\$411 million par value) that are classified as noncurrent assets on our consolidated balance sheets.

*Investments in Marketable Securities*

As of December 31, 2008, we held auction rate securities totaling \$411 million at par value, which are classified as available for sale securities and noncurrent assets on our consolidated balance sheets. Contractual

maturities for these auction rate securities range from eight to 44 years, with 62% of our portfolio maturing within the next ten years, 10% maturing within the next 20 years, 16% maturing within the next 30 years and 12% maturing thereafter through 2052. The interest rates are reset approximately every 28 days, except one security for which the auction process is currently suspended. Current yields range from 1.76% to 6.08%. With the liquidity issues experienced in the global credit and capital markets, all of our auction rate securities have experienced failed auctions since August 2007. The estimated fair value of these auction rate securities no longer approximates par value. However, we have not experienced any defaults and continue to earn and receive interest at the maximum contractual rates.

We estimated the fair value of these auction rate securities based on the following: (i) the underlying structure of each security; (ii) the present value of future principal and interest payments discounted at rates considered to reflect current market conditions; (iii) consideration of the probabilities of default, passing a future auction, or repurchase at par for each period; and (iv) estimates of the recovery rates in the event of default for each security. These estimated fair values could change significantly based on future market conditions.

At December 31, 2007, the \$411 million par value auction rate securities had a fair value of \$353 million, a \$58 million decline from par. Of this decline in fair value, \$48 million was deemed temporary and an unrealized loss in this amount was recorded to other comprehensive income. We concluded \$10 million of the decline was an other than temporary impairment as a single security with subprime exposure experienced a severe decline in fair value during the period. Accordingly, the \$10 million impairment charge was recorded to other nonoperating expense, net in the fourth quarter of 2007.

At December 31, 2008, the fair value of our auction rate securities was \$187 million, representing a decline in fair value of \$166 million from December 31, 2007. The decline in fair value was caused by the significant deterioration in the financial markets in 2008. We concluded that the 2008 decline in fair value of \$166 million as well as the previously deemed temporary declines recorded to other comprehensive income of \$48 million were now other than temporary. Our conclusion for the other than temporary impairment was due to the length of time and extent to which the fair value has been less than cost for certain securities. All of these securities have experienced failed auctions for a period greater than one year, and there has been no recovery in their fair value. Accordingly, we recorded \$214 million in impairment charges in other nonoperating expense, net related to the other than temporary impairment of our auction rate securities. We continue to monitor the market for auction rate securities and consider its impact (if any) on the fair value of our investments. If the current market conditions deteriorate further, we may be required to record additional impairment charges in other nonoperating expense, net in future periods.

We do not anticipate having to sell these securities in order to operate our business. We believe that, based on our current unrestricted cash, cash equivalents and short-term marketable securities balances of \$1.05 billion as of December 31, 2008, the current lack of liquidity in our investments in auction rate securities will not have a material impact on our liquidity, our cash flow or our ability to fund our operations.

#### ***Aviation Fuel and Derivative Instruments***

Because our operations are dependent upon aviation fuel, significant increases in aviation fuel costs materially and adversely affect our liquidity, results of operations and financial condition. Our 2009 forecasted mainline and Express fuel consumption is approximately 1.44 billion gallons, and a one cent per gallon increase in aviation fuel price results in a \$14 million annual increase in expense, excluding the impact of hedge transactions.

As of December 31, 2008, we have entered into no premium collars, which establish an upper and lower limit on heating oil futures prices, to protect us from fuel price risks. These transactions are in place with respect to approximately 14% of our projected mainline and Express 2009 fuel requirements at a weighted average collar range of \$3.41 to \$3.61 per gallon of heating oil or \$131.15 to \$139.55 per barrel of estimated crude oil equivalent.

The use of such hedging transactions in our fuel hedging program could result in us not fully benefiting from certain declines in heating oil futures prices. As of December 31, 2008, the fair value of our fuel hedging instruments was a net liability of \$375 million. Further, these instruments do not provide protection from future price increases unless heating oil prices exceed the call option price of the no premium collar. Although heating oil

prices are generally highly correlated with those of jet fuel, the prices of jet fuel may change more or less than heating oil, resulting in a change in fuel expense that is not fully offset by the hedge transactions. As of December 31, 2008, we estimate that a 10% increase in heating oil futures prices would increase the fair value of the hedge transactions by approximately \$30 million. We estimate that a 10% decrease in heating oil futures prices would decrease the fair value of the hedge transactions by approximately \$30 million. Since we have not entered into any new fuel hedge transactions since the third quarter of 2008, the impact of changes in heating oil futures prices will decrease as existing hedges are settled.

When our fuel hedging derivative instruments are in a net asset position, we are exposed to credit losses in the event of non-performance by counterparties to our fuel hedging derivatives. The amount of such credit exposure is limited to the unrealized gains, if any, on our fuel hedging derivatives. To manage credit risks, we carefully select counterparties, conduct transactions with multiple counterparties which limits our exposure to any single counterparty, and monitor the market position of the program and our relative market position with each counterparty. We also maintain industry-standard security agreements with all of our counterparties which may require the counterparty to post collateral if the value of the fuel hedging derivatives exceeds specified thresholds related to the counterparty's credit ratings.

When our fuel hedging derivative instruments are in a net liability position, we are exposed to credit risks related to the return of collateral in situations in which we have posted collateral with counterparties for unrealized losses. As of December 31, 2008, we were in a net liability position of \$375 million based on the fair value of our fuel hedging derivative instruments due to the significant decline in the price of oil in the latter part of 2008. When possible, in order to mitigate the risk of posting collateral, we provide letters of credit to certain counterparties in lieu of cash. At December 31, 2008, \$185 million related to letters of credit collateralizing certain counterparties to our fuel hedging transactions is included in short-term restricted cash. In addition, at December 31, 2008, we had \$276 million in cash deposits held by counterparties to our fuel hedging transactions. Since the third quarter of 2008, we have not entered into any new transactions as part of our fuel hedging program due to the impact collateral requirements could have on our liquidity resulting from the significant decline in the price of oil and counterparty credit risk arising from global economic uncertainty.

Further declines in heating oil prices would result in additional collateral requirements with our counterparties, unrealized losses on our existing fuel hedging derivative instruments and realized losses at the time of settlement of these fuel hedging derivative instruments. See also Item 7A. "Quantitative and Qualitative Disclosures About Market Risk."

### ***Sources and Uses of Cash***

#### *US Airways Group*

#### *2008 Compared to 2007*

Net cash used in operating activities was \$980 million in 2008 as compared to net cash provided by operating activities of \$451 million in 2007. The period over period decrease of \$1.43 billion is due principally to our net loss for 2008, which was driven by record high fuel prices. Our mainline and Express fuel expense, net of realized gains on fuel hedging transactions, was \$1.28 billion higher in 2008 than in 2007 on slightly lower capacity. Additionally, the substantial decrease in the price of fuel in the latter part of 2008, while a significant positive development, had the near term liquidity impact of reducing our operating cash flow by \$461 million as we were required to post collateral in the form of cash deposits and letters of credit we issued in connection with no premium collars entered into as part of our fuel hedging program. This compares to the same period in 2007 when we received the return of fuel hedging collateral of \$48 million from our counterparties. The increase in fuel costs and fuel hedge collateral was partially offset by an increase in revenue of \$418 million due to a 3.1% increase in mainline and Express PRASM and our new revenue initiatives that went into effect in 2008.

Net cash used in investing activities was \$915 million in 2008 as compared to net cash provided by investing activities of \$269 million in 2007. Principal investing activities in 2008 included expenditures for property and equipment totaling \$929 million, including the purchase of 14 Embraer 190 aircraft and five Airbus A321 aircraft, a \$139 million increase in equipment purchase deposits for certain aircraft on order and a \$74 million increase in

restricted cash, offset in part by net sales of investments in marketable securities of \$206 million. The change in the restricted cash balance for the 2008 period was due to changes in the amount of holdback held by certain credit card processors for advance ticket sales for which we had not yet provided air transportation. Principal investing activities in 2007 included net sales of investments in marketable securities of \$612 million, a decrease in restricted cash of \$200 million and \$56 million in proceeds from the sale of investments in ARINC and Sabre, offset in part by expenditures for property and equipment totaling \$523 million, including the purchase of nine Embraer 190 aircraft, and an increase in equipment purchase deposits of \$80 million. The net sales of investments in marketable securities in the 2007 period were primarily certain auction rate securities sold at par value in the third quarter of 2007. The change in the restricted cash balances for the 2007 period was due to changes in the amounts of holdback held by certain credit card processors.

Net cash provided by financing activities was \$981 million and \$112 million in 2008 and 2007, respectively. Principal financing activities in 2008 included proceeds from the issuance of debt of \$1.59 billion, of which \$800 million was from the series of financing transactions completed in October 2008. See further discussion of these transactions under "Commitments." Proceeds also included \$521 million to finance the acquisition of 14 Embraer 190 aircraft and five Airbus A321 aircraft and \$145 million in proceeds from the refinancing of certain aircraft equipment notes. Debt repayments were \$734 million, including a \$400 million paydown at par of our Citicorp credit facility, a \$100 million prepayment of certain indebtedness incurred as part of our financing transactions completed in October 2008 and \$97 million related to the \$145 million aircraft equipment note refinancing discussed above. Proceeds from the issuance of common stock, net were \$179 million as we completed an underwritten public stock offering of 21.85 million common shares issued at an offering price of \$8.50 per share during the third quarter of 2008. Principal financing activities in 2007 included proceeds from the issuance of debt of \$1.8 billion, including \$1.6 billion generated from the Citicorp credit facility and proceeds from property and equipment financings. Debt repayments were \$1.68 billion and, using the proceeds from the Citicorp credit facility, included the repayment in full of the balances outstanding on the \$1.25 billion GE loan, the Barclays Bank Delaware prepaid miles loan of \$325 million and a GECC credit facility of \$19 million.

#### *2007 Compared to 2006*

Net cash provided by operating activities was \$451 million and \$643 million in 2007 and 2006, respectively, a decrease of \$192 million. The period over period decrease was due principally to higher expenses in 2007 compared to 2006 related to an increase in salaries and benefits of \$212 million, aircraft maintenance of \$53 million and mainline and Express fuel costs, net of realized fuel hedging gains and losses, of \$46 million, offset by an increase in revenue of \$143 million.

Net cash provided by investing activities in 2007 was \$269 million as compared to net cash used in investing activities of \$903 million in 2006. Principal investing activities in 2007 included net sales of investments in marketable securities of \$612 million, a decrease in restricted cash of \$200 million and \$56 million in proceeds from the sale of investments in ARINC and Sabre, offset in part by expenditures for property and equipment totaling \$523 million, including the purchase of nine Embraer 190 aircraft, and an increase in equipment purchase deposits of \$80 million. The net sales of investments in marketable securities in the 2007 period were primarily certain auction rate securities sold at par value in the third quarter of 2007. Principal investing activities in 2006 included net purchases of investments in marketable securities of \$798 million, expenditures for property and equipment totaling \$232 million, including the purchase of three Boeing 757-200 and two Embraer 190 aircraft, and a decrease in restricted cash of \$128 million. Changes in the restricted cash balances for the 2007 and 2006 periods are due to changes in the amounts of holdback held by certain credit card processors.

Net cash provided by financing activities was \$112 million and \$251 million in 2007 and 2006, respectively. Principal financing activities in 2007 included proceeds from the issuance of debt of \$1.8 billion, including \$1.6 billion generated from the Citicorp credit facility and proceeds from property and equipment financings. Debt repayments were \$1.68 billion and, using the proceeds from the Citicorp credit facility, included the repayment in full of the balances outstanding on the \$1.25 billion GE loan, the Barclays Bank Delaware prepaid miles loan of \$325 million and a GECC credit facility of \$19 million. Principal financing activities in 2006 included proceeds from the issuance of debt of \$1.42 billion, which included borrowings of \$1.25 billion under the GE loan, a \$64 million draw on an Airbus loan and \$92 million of equipment notes issued to finance the acquisition of property



and equipment. Debt repayments totaled \$1.19 billion and, using the proceeds from the GE loan, included the repayment in full of the balances outstanding on the ATSB loans of \$801 million, Airbus loans of \$161 million and two GECC term loans of \$110 million. We also made a \$17 million payment in 2006 related to the partial conversion of the 7% Senior Convertible Notes.

*US Airways*

*2008 Compared to 2007*

Net cash used in operating activities was \$1.03 billion in 2008 as compared to net cash provided by operating activities of \$433 million in 2007. The period over period decrease of \$1.46 billion is due principally to US Airways' net loss for 2008, which was driven by record high fuel prices. US Airways' mainline and Express fuel expense, net of realized gains on fuel hedging transactions, was \$1.28 billion higher in 2008 than in 2007 on slightly lower capacity. Additionally, the substantial decrease in the price of fuel in the latter part of 2008, while a significant positive development, had the near term liquidity impact of reducing US Airways' operating cash flow by \$461 million as US Airways was required to post collateral in the form of cash deposits and letters of credit it issued in connection with no premium collars entered into as part of its fuel hedging program. This compares to the same period in 2007 when US Airways received the return of fuel hedging collateral of \$48 million from its counterparties. The increase in fuel costs and fuel hedge collateral was partially offset by an increase in revenue of \$431 million due to a 3.1% increase in mainline and Express PRASM and US Airways' new revenue initiatives that went into effect in 2008.

Net cash used in investing activities was \$889 million in 2008 as compared to net cash provided by investing activities of \$306 million in 2007. Principal investing activities in 2008 included expenditures for property and equipment totaling \$902 million, including the purchase of 14 Embraer 190 aircraft and five Airbus A321 aircraft, a \$139 million increase in equipment purchase deposits for certain aircraft on order and a \$74 million increase in restricted cash, offset in part by net sales of investments in marketable securities of \$206 million. The change in the restricted cash balance for the 2008 period was due to changes in the amount of holdback held by certain credit card processors for advance ticket sales for which US Airways had not yet provided air transportation. Principal investing activities in 2007 included net sales of investments in marketable securities of \$612 million, a decrease in restricted cash of \$200 million and \$56 million in proceeds from the sale of investments in ARINC and Sabre, offset in part by expenditures for property and equipment totaling \$486 million, including the purchase of nine Embraer 190 aircraft, and an increase in equipment purchase deposits of \$80 million. The net sales of investments in marketable securities in the 2007 period were primarily certain auction rate securities sold at par value in the third quarter of 2007. The change in the restricted cash balances for the 2007 period was due to changes in the amounts of holdback held by certain credit card processors.

Net cash provided by financing activities was \$1 billion and \$90 million in 2008 and 2007, respectively. Principal financing activities in 2008 included proceeds from the issuance of debt of \$1.39 billion, of which \$600 million was from the series of financing transactions completed in October 2008. See further discussion of these transactions under "Commitments." Proceeds also included \$521 million to finance the acquisition of 14 Embraer 190 aircraft and five Airbus A321 aircraft and \$145 million in proceeds from the refinancing of certain aircraft equipment notes. Debt repayments were \$318 million, including a \$100 million prepayment of certain indebtedness incurred as part of US Airways' financing transactions completed in October 2008 and \$97 million related to the \$145 million aircraft equipment note refinancing discussed above. Principal financing activities in 2007 included proceeds from the issuance of debt of \$198 million to finance the acquisition of property and equipment and total debt repayments of \$105 million.

*2007 Compared to 2006*

Net cash provided by operating activities was \$433 million and \$652 million in 2007 and 2006, respectively, a decrease of \$219 million. The period over period decrease was due principally to higher expenses in 2007 compared to 2006 related to an increase in salaries and benefits of \$212 million, aircraft maintenance of \$53 million and mainline and Express fuel costs, net of realized fuel hedging gains and losses, of \$46 million, offset by an increase in revenue of \$121 million.

Net cash provided by investing activities in 2007 was \$306 million as compared to net cash used in investing activities of \$893 million in 2006. Principal investing activities in 2007 included net sales of investments in marketable securities of \$612 million, a decrease in restricted cash of \$200 million and \$56 million in proceeds from the sale of investments in ARINC and Sabre, offset in part by expenditures for property and equipment totaling \$486 million, including the purchase of nine Embraer 190 aircraft, and an increase in equipment purchase deposits of \$80 million. The net sales of investments in marketable securities in the 2007 period were primarily certain auction rate securities sold at par value in the third quarter of 2007. Principal investing activities in 2006 included net purchases of investments in marketable securities of \$798 million, expenditures for property and equipment totaling \$222 million, including the purchase of three Boeing 757-200 and two Embraer 190 aircraft, and a decrease in restricted cash of \$128 million. Changes in the restricted cash balances for the 2007 and 2006 periods are due to changes in the amounts of holdback held by certain credit card processors.

Net cash provided by financing activities was \$90 million and \$236 million in 2007 and 2006, respectively. Principal financing activities in 2007 included proceeds from the issuance of debt of \$198 million to finance the acquisition of property and equipment and total debt repayments of \$105 million. Principal financing activities in 2006 included a net increase in payables to related parties of \$247 million, the issuance of \$92 million of equipment notes to finance the acquisition of property and equipment and total debt repayments of \$100 million.

### **Commitments**

As of December 31, 2008, we had \$4.15 billion of long-term debt and capital leases (including current maturities and before discount on debt).

#### ***Citicorp Credit Facility***

On March 23, 2007, US Airways Group entered into a term loan credit facility with Citicorp North America, Inc., as administrative agent, and a syndicate of lenders pursuant to which US Airways Group borrowed an aggregate principal amount of \$1.6 billion. US Airways, AWA and certain othersubsidiaries of US Airways Group are guarantors of the Citicorp credit facility.

The Citicorp credit facility bears interest at an index rate plus an applicable index margin or, at our option, LIBOR plus an applicable LIBOR margin for interest periods of one, two, three or six months. The applicable index margin, subject to adjustment, is 1.00%, 1.25% or 1.50% if the adjusted loan balance is less than \$600 million, between \$600 million and \$1 billion, or between \$1 billion and \$1.6 billion, respectively. The applicable LIBOR margin, subject to adjustment, is 2.00%, 2.25% or 2.50% if the adjusted loan balance is less than \$600 million, between \$600 million and \$1 billion, or between \$1 billion and \$1.6 billion, respectively. In addition, interest on the Citicorp credit facility may be adjusted based on the credit rating for the Citicorp credit facility as follows: (i) if the credit ratings of the Citicorp credit facility by Moody's and S&P in effect as of the last day of the most recently ended fiscal quarter are both at least one subgrade better than the credit ratings in effect on March 23, 2007, then (A) the applicable LIBOR margin will be the lower of 2.25% and the rate otherwise applicable based upon the adjusted Citicorp credit facility balance and (B) the applicable index margin will be the lower of 1.25% and the rate otherwise applicable based upon the Citicorp credit facility principal balance, and (ii) if the credit ratings of the Citicorp credit facility by Moody's and S&P in effect as of the last day of the most recently ended fiscal quarter are both at least two subgrades better than the credit ratings in effect on March 23, 2007, then (A) the applicable LIBOR margin will be 2.00% and (B) the applicable index margin will be 1.00%. As of December 31, 2008, the interest rate on the Citicorp credit facility was 2.97% based on a 2.50% LIBOR margin.

The Citicorp credit facility matures on March 23, 2014, and is repayable in seven annual installments with each of the first six installments to be paid on each anniversary of the closing date in an amount equal to 1% of the initial aggregate principal amount of the loan and the final installment to be paid on the maturity date in the amount of the full remaining balance of the loan.

In addition, the Citicorp credit facility requires certain mandatory prepayments upon the occurrence of certain events, establishes certain financial covenants, including minimum cash requirements and maintenance of certain minimum ratios, contains customary affirmative covenants and negative covenants and contains customary events of default. Prior to the amendment discussed below, the Citicorp credit facility required us to maintain consolidated

unrestricted cash and cash equivalents of not less than \$1.25 billion, with not less than \$750 million (subject to partial reductions upon certain reductions in the outstanding principal amount of the loan) of that amount held in accounts subject to control agreements, which would become restricted for use by us if certain adverse events occur per the terms of the agreement.

On October 20, 2008, US Airways Group entered into an amendment to the Citicorp credit facility. Pursuant to the amendment, we repaid \$400 million of indebtedness under the credit facility, reducing the principal amount outstanding under the credit facility to approximately \$1.18 billion as of December 31, 2008. The Citicorp credit facility amendment also provides for a reduction in the amount of unrestricted cash required to be held by us from \$1.25 billion to \$850 million, and we may, prior to September 30, 2009, further reduce that minimum requirement to a minimum of \$750 million on a dollar-for-dollar basis for any additional repayments of up to \$100 million of indebtedness under the credit facility. The Citicorp credit facility amendment also provides that we may sell, finance or otherwise pledge assets that were pledged as collateral under the credit facility, so long as we prepay the indebtedness under the credit facility in an amount equal to 75% of the appraised value of the collateral sold or financed or assigned or 75% of the collateral value of eligible accounts (determined in accordance with the credit facility) sold or financed in such transaction. In addition, the Citicorp credit facility amendment provides that we may issue debt in the future with a silent second lien on the assets pledged as collateral under the Citicorp credit facility. As of December 31, 2008, we were in compliance with all debt covenants under the amended credit facility.

#### ***Credit Card Processing Agreements***

We have agreements with companies that process customer credit card transactions for the sale of air travel and other services. Credit card processors have financial risk associated with tickets purchased for travel because, although the processor generally forwards the cash related to the purchase to us soon after the purchase is completed, the air travel generally occurs after that time, and the processor may have liability if we do not ultimately provide the air travel. Our agreements allow these processing companies, under certain conditions, to hold an amount of our cash (referred to as a "holdback") equal to a portion of advance ticket sales that have been processed by that company, but for which we have not yet provided the air transportation. These holdback requirements can be modified at the discretion of the processing companies, up to the estimated liability for future air travel purchased with the respective credit cards, upon the occurrence of specified events, including material adverse changes in our financial condition. The amount that the processing companies may withhold also varies as a result of changes in financial risk due to seasonal fluctuations in ticket volume. Additional holdback requirements will reduce our liquidity in the form of unrestricted cash and short-term investments by the amount of the holdbacks.

#### ***October 2008 Financing Transactions***

On October 20, 2008, we completed a series of financial transactions which raised approximately \$810 million in gross proceeds. Below is a discussion of the significant transactions comprising this amount.

Effective as of October 20, 2008, US Airways Group entered into an amendment to its co-branded credit card agreement with Barclays Bank Delaware. The amendment provides for, among other things, the pre-purchase of frequent flyer miles in an amount totaling \$200 million, which amount was paid by Barclays in October 2008. The amendment also provides that so long as any pre-purchased miles are outstanding, we will pay interest to Barclays on the outstanding dollar amount of the pre-purchased miles at the rate of LIBOR plus a margin.

The amendment to the co-branded credit card agreement provides that Barclays will compensate us for fees earned using pre-purchased miles. In addition, the amendment provides that for each month that certain conditions are met, Barclays will pre-purchase additional miles on a monthly basis in an amount equal to the difference between \$200 million and the amount of unused miles then outstanding. The conditions include a requirement that we maintain an unrestricted cash balance, subject to certain circumstances, of at least \$1.5 billion each month, which was reduced to \$1.4 billion for January 2009 and \$1.45 billion for February 2009, with the unrestricted cash balance in all cases including certain fuel hedge collateral. The reductions addressed the impact on our unrestricted cash of our obligations to post significant amounts of collateral with our fuel hedging counterparties due to recent rapid declines in fuel prices.

Prior to the second anniversary of the date of the amendment, the \$200 million cap on Barclays' pre-purchase obligation may be reduced if certain conditions are not met. Commencing on that second anniversary, the \$200 million cap will be reduced over a period of approximately two years until such time as no pre-purchased miles remain; however, the time of reduction of the cap may be accelerated if certain conditions are not met. We may repurchase any or all of the pre-purchased miles at any time, from time to time, without penalty.

Pursuant to the amendment to the co-branded credit card agreement, the expiration date of the agreement was extended to 2017.

On October 20, 2008, US Airways and Airbus entered into amendments to the A320 Family Aircraft Purchase Agreement, the A330 Aircraft Purchase Agreement, and the A350 XWB Purchase Agreement. In exchange for US Airways' agreement to enter into these amendments, Airbus advanced US Airways \$200 million in consideration of aircraft deliveries under the various related purchase agreements. Under the terms of each of the amendments, US Airways has agreed to maintain a level of unrestricted cash in the same amount required by the Citicorp credit facility.

On October 20, 2008, US Airways entered into a \$270 million spare parts loan agreement and a \$85 million engines loan agreement. The proceeds of the term loans made under these loan agreements were used to repay a portion of the outstanding indebtedness pursuant to the Citicorp credit facility amendment previously discussed.

US Airways' obligations under the spare parts loan agreement are secured by a first priority security interest in substantially all of US Airways' rotatable, repairable and expendable aircraft spare parts. The obligations under the engines loan agreement are secured by a first priority security interest in 36 of US Airways' aircraft engines. US Airways has also agreed that other obligations owed by it or its affiliates to the administrative agent for the loan agreements or its affiliates (including the loans under these loan agreements held by such administrative agent or its affiliates) will be secured on a second priority basis by the collateral for both loan agreements and certain other engines and aircraft.

The term loans under these loan agreements will bear interest at a rate equal to LIBOR plus a margin per annum, subject to adjustment in certain circumstances.

These loan agreements contain customary representations and warranties, events of default and covenants for financings of this nature, including obligations to maintain compliance with covenants tied to the appraised value of US Airways' spare parts and the appraised value and maintenance condition of US Airways' engines, respectively.

The spare parts loan agreement matures on the sixth anniversary of the closing date, and is subject to quarterly amortization in amounts ranging from \$8 million to \$15 million. The spare parts loan agreement may not be voluntarily prepaid during the first three years of the term; however, the loan agreement provided that in certain circumstances US Airways could prepay \$100 million of the loans under the agreement. The engines loan agreement, which may not be voluntarily prepaid prior to the third anniversary of the closing date, matures on the sixth anniversary of the closing date, and is subject to amortization in 24 equal quarterly installments.

On December 5, 2008, US Airways prepaid \$100 million of principal outstanding under the spare parts loan agreement. In connection with this prepayment and pursuant to an amendment to the spare parts loan agreement, subject to certain conditions, US Airways obtained the right to incur up to \$100 million in new loans. The right to incur new loans expires on April 1, 2009.

On January 16, 2009, US Airways exercised its right to obtain new loan commitments and incur additional loans under the spare parts loan agreement. In connection with the exercise of that right, Airbus Financial Services funded \$50 million in satisfaction of a previous commitment. This loan will mature on October 20, 2014, will bear interest at a rate of LIBOR plus a margin and will be secured by the collateral securing loans under the spare parts loan agreement. In addition, in connection with the incurrence of this loan, US Airways and Airbus entered into amendments to the A320 Family Aircraft Purchase Agreement, the A330 Aircraft Purchase Agreement and the A350 XWB Purchase Agreement. Pursuant to these amendments, the existing cross-default provisions of the applicable aircraft purchase agreements were amended and restated to, among other things, specify the circumstances under which a default under the loan would constitute a default under the applicable aircraft purchase agreement.

### ***Other 2008 Financing Transactions***

On February 1, 2008, US Airways entered into a loan agreement for \$145 million, secured by six Bombardier CRJ-700 aircraft, three Boeing 757 aircraft and one spare engine. The loan bears interest at a rate of LIBOR plus an applicable margin and is amortized over ten years. The proceeds of the loan were used to repay \$97 million of the equipment notes previously secured by the six Bombardier CRJ-700 aircraft and three Boeing 757 aircraft.

On February 29, 2008, US Airways entered into a credit facility agreement for \$88 million to finance certain pre-delivery payments required by US Airways' purchase agreements with Airbus. As of December 31, 2008, the outstanding balance of this credit facility agreement is \$73 million. The remaining amounts under this facility will be drawn as pre-delivery payments come due. The loan bears interest at a rate of LIBOR plus an applicable margin and is repaid as the related aircraft are delivered with a final maturity date of the loan in November 2010.

In the second quarter of 2008, US Airways entered into facility agreements with three lenders in the amounts of \$199 million, \$198 million, and \$119 million to finance the acquisition of certain Airbus A320 family aircraft deliveries starting in the second half of 2008. The loans bear interest at a rate of LIBOR plus an applicable margin, contain default and other covenants that are typical in the industry for similar financings, and are amortized over twelve years with balloon payments at maturity.

### ***Aircraft and Engine Purchase Commitments***

During 2008, we took delivery of 14 Embraer 190 aircraft under our Amended and Restated Purchase Agreement with Embraer, which we financed through an existing facility agreement. As of December 31, 2008, we have no remaining firm orders with Embraer. Under the terms of the Amended and Restated Purchase Agreement, we have 32 additional Embraer 190 aircraft on order, which are conditional and subject to our notification to Embraer. In 2008, we amended the Amended and Restated Purchase Agreement to revise the delivery schedule for these 32 additional Embraer 190 aircraft.

In 2007, US Airways and Airbus executed definitive purchase agreements for the acquisition of 97 aircraft, including 60 single-aisle A320 family aircraft and 37 widebody aircraft (comprised of 22 A350 XWB aircraft and 15 A330-200 aircraft). These were in addition to orders for 37 single-aisle A320 family aircraft from a previous Airbus purchase agreement. In 2008, US Airways and Airbus entered into Amendment No. 1 to the Amended and Restated Airbus A320 Family Aircraft Purchase Agreement. The amendment provides for the conversion of 13 A319 aircraft to A320 aircraft, one A319 aircraft to an A321 aircraft and 11 A320 aircraft to A321 aircraft for deliveries during 2009 and 2010.

Deliveries of the A320 family aircraft commenced during 2008 with the delivery of five A321 aircraft, which were financed through an existing facility agreement. Deliveries of the A320 family aircraft will continue in 2009 through 2012. Deliveries of the A330-200 aircraft will begin in 2009. In 2008, US Airways amended the terms of the A350 XWB Purchase Agreement for deliveries of the 22 firm order A350 XWB aircraft to begin in 2015 rather than 2014 and extending through 2018.

In 2007, US Airways agreed to terms with an aircraft lessor to lease two used A330-200 aircraft. In 2008, US Airways terminated the two leases and did not take delivery of the two used A330-200 aircraft. Related to this termination, US Airways recorded a \$2 million lease cancellation charge.

In 2008, US Airways executed purchase agreements for the purchase of eight new IAE V2500-A5 spare engines scheduled for delivery through 2014 for use on the Airbus A320 family fleet, three new Trent 700 spare engines scheduled for delivery through 2011 for use on the Airbus A330-200 fleet and three new Trent XWB spare engines scheduled for delivery in 2015 through 2017 for use on the Airbus A350 XWB aircraft.

Under all of our aircraft and engine purchase agreements, our total future commitments as of December 31, 2008 are expected to be approximately \$6.83 billion through 2018, which includes predelivery deposits and payments. We expect to fund these payments through future financings.

***Covenants and Credit Rating***

In addition to the minimum cash balance requirements, our long-term debt agreements contain various negative covenants that restrict or limit our actions, including our ability to pay dividends or make other restricted payments. Certain long-term debt agreements also contain cross-default provisions, which may be triggered by defaults by us under other agreements relating to indebtedness. See “Risk Factors — Our high level of fixed obligations limits our ability to fund general corporate requirements and obtain additional financing, limits our flexibility in responding to competitive developments and increases our vulnerability to adverse economic and industry conditions” in Item 1A. “Risk Factors.” As of December 31, 2008, we and our subsidiaries were in compliance with the covenants in our long-term debt agreements.

Our credit ratings, like those of most airlines, are relatively low. The following table details our credit ratings as of December 31, 2008:

	<u>S&amp;P Local Issuer credit rating</u>	<u>Fitch Issuer Default credit rating</u>	<u>Moody's Corporate Family rating</u>
US Airways Group	B-	CCC	Caa1
US Airways	B-	*	*

(\*) The credit agencies do not rate these categories for US Airways.

A decrease in our credit ratings could cause our borrowing costs to increase, which would increase our interest expense and could affect our net income, and our credit ratings could adversely affect our ability to obtain additional financing. If our financial performance or industry conditions do not improve, we may face future downgrades, which could further negatively impact our borrowing costs and the prices of our equity or debt securities. In addition, any downgrade of our credit ratings may indicate a decline in our business and in our ability to satisfy our obligations under our indebtedness.

**Off-Balance Sheet Arrangements**

An off-balance sheet arrangement is any transaction, agreement or other contractual arrangement involving an unconsolidated entity under which a company has (1) made guarantees, (2) a retained or a contingent interest in transferred assets, (3) an obligation under derivative instruments classified as equity or (4) any obligation arising out of a material variable interest in an unconsolidated entity that provides financing, liquidity, market risk or credit risk support to us, or that engages in leasing, hedging or research and development arrangements with us.

We have no off-balance sheet arrangements of the types described in the first three categories above that we believe may have a material current or future effect on financial condition, liquidity or results of operations. Certain guarantees that we do not expect to have a material current or future effect on financial condition, liquidity or results of operations are disclosed in Note 9(f) to the consolidated financial statements of US Airways Group included in Item 8A of this report and Note 8(f) to the consolidated financial statements of US Airways included in Item 8B of this report.

***Pass Through Trusts***

US Airways has obligations with respect to pass through trust certificates, also known as “Enhanced Equipment Trust Certificates” or EETCs, issued by pass through trusts to cover the financing of 19 owned aircraft, 116 leased aircraft and three leased engines. These trusts are off-balance sheet entities, the primary purpose of which is to finance the acquisition of aircraft. Rather than finance each aircraft separately when such aircraft is purchased or delivered, these trusts allowed US Airways to raise the financing for several aircraft at one time and place such funds in escrow pending the purchase or delivery of the relevant aircraft. The trusts were also structured to provide for certain credit enhancements, such as liquidity facilities to cover certain interest payments, that reduce the risks to the purchasers of the trust certificates and, as a result, reduce the cost of aircraft financing to US Airways.



Each trust covered a set amount of aircraft scheduled to be delivered within a specific period of time. At the time of each covered aircraft financing, the relevant trust used the funds in escrow to purchase equipment notes relating to the financed aircraft. The equipment notes were issued, at US Airways' election in connection with a mortgage financing of the aircraft or by a separate owner trust in connection with a leveraged lease financing of the aircraft. In the case of a leveraged lease financing, the owner trust then leased the aircraft to US Airways. In both cases, the equipment notes are secured by a security interest in the aircraft. The pass through trust certificates are not direct obligations of, nor are they guaranteed by, US Airways Group or US Airways. However, in the case of mortgage financings, the equipment notes issued to the trusts are direct obligations of US Airways. As of December 31, 2008, \$540 million associated with these mortgage financings is reflected as debt in the accompanying consolidated balance sheet.

With respect to leveraged leases, US Airways evaluated whether the leases had characteristics of a variable interest entity as defined by FASB Interpretation ("FIN") No. 46(R), "Consolidation of Variable Interest Entities — An Interpretation of ARB No. 51." US Airways concluded the leasing entities met the criteria for variable interest entities. US Airways then evaluated whether or not it was the primary beneficiary by evaluating whether or not it was exposed to the majority of the risks (expected losses) or whether it receives the majority of the economic benefits (expected residual returns) from the trusts' activities. US Airways does not provide residual value guarantees to the bondholders or equity participants in the trusts. Each lease does have a fixed price purchase option that allows US Airways to purchase the aircraft near the end of the lease term. However, the option price approximates an estimate of the aircraft's fair value at the option date. Under this feature, US Airways does not participate in any increases in the value of the aircraft. US Airways concluded it was not the primary beneficiary under these arrangements. Therefore, US Airways accounts for its EETC leveraged lease financings as operating leases under the criteria of SFAS No. 13, "Accounting for Leases." US Airways' total obligations under these leveraged lease financings are \$3.57 billion as of December 31, 2008.

#### ***Special Facility Revenue Bonds***

US Airways guarantees the payment of principal and interest on certain special facility revenue bonds issued by municipalities to build or improve certain airport and maintenance facilities which are leased to US Airways. Under such leases, US Airways is required to make rental payments through 2023, sufficient to pay maturing principal and interest payments on the related bonds. As of December 31, 2008, the principal amount outstanding on these bonds was \$90 million. Remaining lease payments guaranteeing the principal and interest on these bonds are \$145 million.

US Airways has long-term operating leases at a number of airports, including leases where US Airways is also the guarantor of the underlying debt. Such leases are typically with municipalities or other governmental entities. The arrangements are not required to be consolidated based on the provisions of FIN No. 46(R).

#### ***Jet Service Agreements***

Certain entities with which US Airways has capacity purchase agreements are considered variable interest entities under FIN No. 46(R). In connection with its restructuring and emergence from bankruptcy, US Airways contracted with Air Wisconsin and Republic Airways to purchase a significant portion of these companies' regional jet capacity for a period of ten years. US Airways has determined that it is not the primary beneficiary of these variable interest entities, based on cash flow analyses. Additionally, US Airways has analyzed the arrangements with other carriers with which US Airways has long-term capacity purchase agreements and has concluded that it is not required to consolidate any of the entities.



**Contractual Obligations**

The following table provides details of our future cash contractual obligations as of December 31, 2008 (in millions):

	Payments Due by Period						Total
	2009	2010	2011	2012	2013	Thereafter	
US Airways Group(1)							
Debt(2)	\$ 16	\$ 33	\$ 116	\$ 99	\$ 16	\$ 1,178	\$ 1,458
Interest obligations(3)	50	50	46	41	38	50	275
US Airways(4)							
Debt and capital lease obligations(5)(6)	356	221	257	246	192	1,423	2,695
Interest obligations(3)(6)	146	148	157	129	87	415	1,082
Aircraft purchase and operating lease commitments(7)	2,408	2,312	2,138	1,537	664	5,315	14,374
Regional capacity purchase agreements(8)	1,008	1,013	1,031	902	731	2,712	7,397
Other US Airways Group subsidiaries(9)	10	2	1	1	1	—	15
Total	<u>\$3,994</u>	<u>\$3,779</u>	<u>\$3,746</u>	<u>\$2,955</u>	<u>\$1,729</u>	<u>\$ 11,093</u>	<u>\$27,296</u>

- (1) These commitments represent those specifically entered into by US Airways Group or joint commitments entered into by US Airways Group and US Airways under which each entity is jointly and severally liable.
- (2) Excludes \$44 million of unamortized debt discount as of December 31, 2008.
- (3) For variable-rate debt, future interest obligations are shown above using interest rates in effect as of December 31, 2008.
- (4) Commitments listed separately under US Airways and its wholly owned subsidiaries represent commitments under agreements entered into separately by those companies.
- (5) Excludes \$113 million of unamortized debt discount as of December 31, 2008.
- (6) Includes \$540 million of future principal payments and \$260 million of future interest payments as of December 31, 2008, respectively, related to pass through trust certificates or EETCs associated with mortgage financings for the purchase of certain aircraft as described above under “Off-Balance Sheet Arrangements” and in Note 9(c) to US Airways Group’s and Note 8(c) to US Airways’ consolidated financial statements in Item 8A and 8B of this report, respectively.
- (7) Includes \$3.57 billion of future minimum lease payments related to EETC leveraged leased financings of certain aircraft as of December 31, 2008, as described above under “Off-Balance Sheet Arrangements” and in Note 9(c) to US Airways Group’s and Note 8(c) to US Airways’ consolidated financial statements in Item 8A and 8B of this report, respectively.
- (8) Represents minimum payments under capacity purchase agreements with third-party Express carriers.
- (9) Represents operating lease commitments entered into by US Airways Group’s other airline subsidiaries Piedmont and PSA.

We expect to fund these cash obligations from funds provided by operations and future financings, if necessary. The cash available to us from these sources, however, may not be sufficient to cover these cash obligations because economic factors outside our control may reduce the amount of cash generated by operations or increase our costs. For instance, an economic downturn or general global instability caused by military actions, terrorism, disease outbreaks and natural disasters could reduce the demand for air travel, which would reduce the amount of cash generated by operations. An increase in our costs, either due to an increase in borrowing costs caused by a reduction in our credit rating or a general increase in interest rates or due to an increase in the cost of fuel, maintenance, aircraft and aircraft engines and parts, could decrease the amount of cash available to cover the cash obligations.

Moreover, the Citicorp credit facility, our amended credit card agreement with Barclays and certain of our other financing arrangements contain minimum cash balance requirements. As a result, we cannot use all of our available cash to fund operations, capital expenditures and cash obligations without violating these requirements.

### **Critical Accounting Policies and Estimates**

The preparation of our consolidated financial statements in accordance with accounting principles generally accepted in the United States requires that we make certain estimates and assumptions that affect the reported amount of assets and liabilities, revenues and expenses, and the disclosure of contingent assets and liabilities at the date of our financial statements. We believe our estimates and assumptions are reasonable; however, actual results could differ from those estimates. Critical accounting policies are defined as those that are reflective of significant judgments and uncertainties and potentially result in materially different results under different assumptions and conditions. We have identified the following critical accounting policies that impact the preparation of our consolidated financial statements. See also the summary of significant accounting policies included in the notes to the financial statements under Items 8A and 8B of this Form 10-K for additional discussion of the application of these estimates and other accounting policies.

#### ***Passenger Revenue***

Passenger revenue is recognized when transportation is provided. Ticket sales for transportation that has not yet been provided are initially deferred and recorded as air traffic liability on the balance sheet. The air traffic liability represents tickets sold for future travel dates and estimated future refunds and exchanges of tickets sold for past travel dates. The balance in the air traffic liability fluctuates throughout the year based on seasonal travel patterns and fare sale activity. Our air traffic liability was \$698 million and \$832 million as of December 31, 2008 and 2007, respectively.

The majority of our tickets sold are nonrefundable. A small percentage of tickets, some of which are partially used tickets, expire unused. Due to complex pricing structures, refund and exchange policies, and interline agreements with other airlines, certain amounts are recognized in revenue using estimates regarding both the timing of the revenue recognition and the amount of revenue to be recognized. These estimates are generally based on the analysis of our historical data. We routinely evaluate estimated future refunds and exchanges included in the air traffic liability based on subsequent activity to validate the accuracy of our estimates. Holding other factors constant, a 10% change in our estimate of the amount refunded, exchanged or forfeited for 2008 would result in a \$38 million change in our passenger revenue, which represents less than 1% of our passenger revenue.

Passenger traffic commissions and related fees are expensed when the related revenue is recognized. Passenger traffic commissions and related fees not yet recognized are included as a prepaid expense.

#### ***Impairment of Goodwill***

SFAS No. 142, "Goodwill and Other Intangible Assets," requires that goodwill be tested for impairment at the reporting unit level on an annual basis and between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of the reporting unit below its carrying value. Goodwill represents the purchase price in excess of the net amount assigned to assets acquired and liabilities assumed by America West Holdings on September 27, 2005. We have two reporting units consisting of our mainline and Express operations. All of our goodwill was allocated to the mainline reporting unit.

In accordance with SFAS No. 142, we concluded that events had occurred and circumstances had changed during the second quarter of 2008 which required us to perform an interim period goodwill impairment test. Subsequent to the first quarter of 2008, we experienced a significant decline in market capitalization due to overall airline industry conditions driven by record high fuel prices. The price of fuel became less volatile in the second quarter of 2008, and there was a sustained surge in fuel prices. On May 21, 2008, the price per barrel of oil hit a then record high of \$133 per barrel and from that date through June 30, 2008 stayed at an average daily price of \$133 per barrel. Our average mainline fuel price during the second quarter of 2008 was \$3.63 as compared to \$2.88 per gallon in the first quarter of 2008 and \$2.20 for the full year 2007. This increase in the price per gallon of fuel represented an increase of 26% and 65% as compared to the first quarter of 2008 and full year 2007, respectively. Our average

stock price in the second quarter of 2008 was \$6.13 as compared to an average of \$12.15 in the first quarter of 2008, a decline of 50%. In addition, we announced in June 2008 that in response to the record high fuel prices, we planned to reduce fourth quarter 2008 and full year 2009 domestic mainline capacity.

During the second quarter of 2008, we performed the first step of the two-step impairment test and compared the fair value of the mainline reporting unit to its carrying value. Consistent with our approach in our annual impairment testing, in assessing the fair value of the reporting unit, we considered both the market approach and income approach. Under the market approach, the fair value of the reporting unit is based on quoted market prices and the number of shares outstanding for our common stock. Under the income approach, the fair value of the reporting unit is based on the present value of estimated future cash flows. The income approach is dependent on a number of significant management assumptions, including estimates of future capacity, passenger yield, traffic, fuel, other operating costs and discount rates. Due to current market conditions, greater weighting was attributed to the market approach, which was weighted 67% while the income approach was weighted 33% in arriving at the fair value of the reporting unit. We determined that the fair value of the mainline reporting unit was less than the carrying value of the net assets of the reporting unit, and thus we performed step two of the impairment test.

In step two of the impairment test, we determined the implied fair value of the goodwill and compared it to the carrying value of the goodwill. We allocated the fair value of the reporting unit to all of our assets and liabilities as if the reporting unit had been acquired in a business combination and the fair value of the mainline reporting unit was the price paid to acquire the reporting unit. The excess of the fair value of the reporting unit over the amounts assigned to its assets and liabilities is the implied fair value of goodwill. Our step two analysis resulted in no implied fair value of goodwill, and therefore, we recognized an impairment charge of \$622 million in the second quarter of 2008, representing a write off of the entire amount of our previously recorded goodwill.

The following table reflects the change in the carrying amount of goodwill from December 31, 2007 (in millions):

	<u>Goodwill</u>
Balance at December 31, 2007	\$ 622
Impairment charge	<u>(622)</u>
Balance at December 31, 2008	<u>\$ —</u>

#### ***Impairment of Intangible and Other Assets***

We assess the impairment of long-lived assets and intangible assets whenever events or changes in circumstances indicate that the carrying value may not be recoverable. In addition, our international route authorities and trademark intangible assets are classified as indefinite lived assets and are reviewed for impairment annually. Factors which could trigger an impairment review include the following: significant changes in the manner of use of the assets; significant underperformance relative to historical or projected future operating results; or significant negative industry or economic trends. An impairment has occurred when the future undiscounted cash flows estimated to be generated by those assets are less than the carrying amount of those items. Cash flow estimates are based on historical results adjusted to reflect management's best estimate of future market and operating conditions. The net carrying value of assets not recoverable is reduced to fair value. Estimates of fair value represent management's best estimate based on appraisals, industry trends and reference to market rates and transactions. Changes in industry capacity and demand for air transportation can significantly impact the fair value of aircraft and related assets.

In connection with completing step two of our goodwill impairment analysis in the second quarter of 2008, we assessed the fair values of our significant intangible assets. Our other intangible assets of \$558 million as of June 30, 2008 consisted principally of airport take-off and landing slots and airport gate leasehold rights of \$473 million which are subject to amortization and \$85 million of international route authorities and trademarks which are classified as indefinite lived assets under SFAS No. 142. We considered the potential impairment of these other intangible assets in accordance with SFAS No. 142 and SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," as applicable. The fair values of airport take-off and landing slots and international route authorities were assessed using the market approach. The market approach took into consideration relevant supply

and demand factors at the related airport locations as well as available market sale and lease data. For trademarks, we utilized a form of the income approach known as the relief-from-royalty method. As a result of these assessments, no impairment was indicated. In addition, we performed the annual impairment test on our international route authorities and trademarks during the fourth quarter of 2008, at which time we concluded that no impairment exists. We will perform our next annual impairment test on October 1, 2009.

In connection with completing step two of our goodwill impairment analysis in the second quarter of 2008, we also assessed the current fair values of our other significant assets including owned aircraft, aircraft leases, and aircraft spare parts. We concluded that the only additional impairment indicated was associated with the decline in fair value of certain spare parts associated with our Boeing 737 fleet. Due to record high fuel prices and the industry environment in 2008, demand for the Boeing 737 aircraft type declined given its lower fuel efficiency as compared to other aircraft types. The fair value of these spare parts was determined using a market approach on the premise of continued use of the aircraft through our final scheduled lease return.

In accordance with SFAS No. 144, we determined that the carrying amount of the Boeing 737 spare parts classified as long-lived assets was not recoverable as the carrying amount of the Boeing 737 assets was greater than the sum of the undiscounted cash flows expected from the use and disposition of these assets. As a result of this impairment analysis, we recorded a \$13 million impairment charge in the second quarter of 2008 related to Boeing 737 rotatable parts included in flight equipment on our consolidated balance sheet. We also recorded a \$5 million write down in the second quarter of 2008 related to our Boeing 737 spare parts inventory included in materials and supplies, net on our consolidated balance sheet to reflect lower of cost or market.

### ***Investments in Marketable Securities***

We account for investments in marketable securities in accordance with the provisions of SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities." Management determines the appropriate classification of securities at the time of purchase and re-evaluates such designation as of each balance sheet date. As of December 31, 2008, all current investments in marketable securities were classified as held to maturity and all noncurrent investments in marketable securities, consisting entirely of auction rate securities, are classified as available for sale.

We determine the fair value of our available for sale securities using the criteria of SFAS No. 157, "Fair Value Measurements," which we adopted on January 1, 2008. SFAS No. 157, among other things, defines fair value, establishes a consistent framework for measuring fair value and expands disclosure for each major asset and liability category measured at fair value on either a recurring or nonrecurring basis. SFAS No. 157 clarifies that fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability. As a basis for considering such assumptions, SFAS No. 157 establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value as follows:

- Level 1. Observable inputs such as quoted prices in active markets;
- Level 2. Inputs, other than the quoted prices in active markets, that are observable either directly or indirectly; and
- Level 3. Unobservable inputs in which there is little or no market data, which require the reporting entity to develop its own assumptions.

We estimate the fair value of our auction rate securities based on the following: (i) the underlying structure of each security; (ii) the present value of future principal and interest payments discounted at rates considered to reflect current market conditions; (iii) consideration of the probabilities of default, passing a future auction, or repurchase at par for each period; and (iv) estimates of the recovery rates in the event of default for each security. These estimated fair values could change significantly based on future market conditions.

We review declines in the fair value of our investments in marketable securities in accordance with Financial Accounting Standards Board ("FASB") Staff Position ("FSP") SFAS 115-1 and 124-1, "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments," to determine the classification of the

impairment as temporary or other than temporary. A temporary impairment charge results in an unrealized loss being recorded in the other comprehensive income component of stockholders' equity. Unrealized losses are recognized in our consolidated statement of operations when a decline in fair value is determined to be other than temporary. We review our investments on an ongoing basis for indications of possible impairment, and if impairment is identified, we determine whether the impairment is temporary or other than temporary. Determination of whether the impairment is temporary or other than temporary requires significant judgment. The primary factors that we consider in classifying the impairment include the extent and period of time the fair value of each investment has declined below its cost basis, the expected holding or recovery period for each investment, and our intent and ability to hold each investment until recovery.

Refer to the "Liquidity and Capital Resources" section for further discussion of our investments in marketable securities.

### ***Frequent Traveler Program***

The Dividend Miles frequent traveler program awards miles to passengers who fly on US Airways and Star Alliance carriers and certain other airlines that participate in the program. We use the incremental cost method to account for the portion of our frequent flyer liability incurred when Dividend Miles members earn mileage credits. We have an obligation to provide this future travel and have therefore recognized an expense and recorded a liability for mileage awards. Outstanding miles may be redeemed for travel on any airline that participates in the program, in which case we pay a designated amount to the transporting carrier.

Members may not reach the threshold necessary for a travel award and outstanding miles may not be redeemed. Therefore, in calculating the liability we estimate how many miles will never be used for an award and exclude those miles from the estimate of the liability. Estimates are also made for the number of miles that will be used per award and the number of awards that will be redeemed on partner airlines. These estimates are based on past customer behavior. Estimated future travel awards for travel on US Airways are valued at the combined estimated average incremental cost of carrying one additional passenger. Incremental costs include unit costs for fuel, credit card fees, insurance, denied boarding compensation and food and beverages. No profit or overhead margin is included in the accrual for incremental costs. For travel awards on partner airlines, the liability is based upon the gross payment to be paid to the other airline for redemption on the other airline. A change to these cost estimates, actual redemption activity or award redemption level could have a material impact on the liability in the year of change as well as future years. Incremental changes in the liability resulting from participants earning or redeeming mileage credits or changes in assumptions used for the related calculations are recorded in the statement of operations as part of the regular review process. At December 31, 2008, we have assumed 10% of our future travel awards accrued will be redeemed on partner airlines. A 1% increase or decrease in the percentage of awards redeemed on partner airlines would have a \$5 million impact on the liability as of December 31, 2008.

As of December 31, 2008, Dividend Miles members had accumulated mileage credits for approximately 2.6 million awards. The liability for the future travel awards accrued on our balance sheet within other accrued expenses was \$151 million as of December 31, 2008. The number of awards redeemed for travel during the year ended December 31, 2008 was approximately 0.9 million, representing approximately 4% of US Airways' RPMs during that period. The use of certain inventory management techniques minimizes the displacement of revenue passengers by passengers traveling on award tickets.

US Airways also sells frequent flyer program mileage credits to participating airline partners and non-airline business partners. Revenue earned from selling these mileage credits to other companies is recognized in two components. A portion of the revenue from these sales is deferred, representing the estimated fair value of the transportation component of the sold mileage credits. The deferred revenue for the transportation component is amortized on a straight-line basis over the period in which the credits are expected to be redeemed for travel as passenger revenue, which is currently estimated to be 28 months. The marketing component, which is earned at the time the miles are sold, is recognized in other revenues at the time of the sale. As of December 31, 2008, we had \$240 million in deferred revenue from the sale of mileage credits included in other accrued expenses on our balance sheet. A change to either the period over which the credits are used or the estimated fair value of credits sold could have a significant impact on revenue in the year of change as well as future years.

### ***Deferred Tax Asset Valuation Allowance***

At December 31, 2008, US Airways Group has a full valuation allowance against its net deferred tax assets. In assessing the realizability of the deferred tax assets, we considered whether it was more likely than not that some portion or all of the deferred tax assets will be realized, in accordance with SFAS No. 109, "Accounting for Income Taxes." We generated NOL in 2008, which was reserved by this full valuation allowance.

### **Recent Accounting Pronouncements**

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements." This standard defines fair value, establishes a framework for measuring fair value in accounting principles generally accepted in the United States of America, and expands disclosure about fair value measurements. This pronouncement applies to other accounting standards that require or permit fair value measurements. Accordingly, this statement does not require any new fair value measurement. This statement is effective for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. In December 2007, the FASB agreed to a one year deferral of SFAS No. 157's fair value measurement requirements for nonfinancial assets and liabilities that are not required or permitted to be measured at fair value on a recurring basis. As such, we did not apply the fair value measurement requirements of SFAS No. 157 for nonfinancial assets and liabilities when performing our goodwill and other assets impairment test as discussed above in "Critical Accounting Policies." We adopted SFAS No. 157 on January 1, 2008, which had no effect on our consolidated financial statements.

In December 2007, the FASB issued SFAS No. 141 (Revised 2007), "Business Combinations." SFAS No. 141R is effective for fiscal years beginning after December 15, 2008 and adjusts certain guidance related to recording nearly all transactions where one company gains control of another. The statement revises the measurement principle to require fair value measurements on the acquisition date for recording acquired assets and liabilities. It also changes the requirements for recording acquisition-related costs and liabilities. Additionally, the statement revises the treatment of valuation allowance adjustments related to income tax benefits in existence prior to a business combination. The current standard, SFAS No. 141, requires that adjustments to these valuation allowances be recorded as adjustments to goodwill or intangible assets if no goodwill exists, while the new standard will require companies to adjust current income tax expense. Effective January 1, 2009, we adopted the provisions of SFAS No. 141R and all future decreases in the valuation allowance established in purchase accounting as a result of the merger will be recognized as a reduction to income tax expense.

On January 1, 2008, we adopted the measurement date provisions of SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106, and 132(R)." The measurement date provisions require plan assets and obligations to be measured as of the employer's balance sheet date. We previously measured our other postretirement benefit obligations as of September 30 each year. As a result of the adoption of the measurement date provisions, we recorded a \$2 million increase to our postretirement benefit liability and a \$2 million increase to accumulated deficit, representing the net periodic benefit cost for the period between the measurement date utilized in 2007 and the beginning of 2008. The adoption of the measurement provisions of SFAS No. 158 had no effect on our consolidated statements of operations.

In May 2008, the FASB issued FSP Accounting Principles Board ("APB") 14-1, "Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement)." FSP APB 14-1 applies to convertible debt instruments that, by their stated terms, may be settled in cash (or other assets) upon conversion, including partial cash settlement of the conversion option. FSP APB 14-1 requires bifurcation of the instrument into a debt component that is initially recorded at fair value and an equity component. The difference between the fair value of the debt component and the initial proceeds from issuance of the instrument is recorded as a component of equity. The liability component of the debt instrument is accreted to par using the effective yield method; accretion is reported as a component of interest expense. The equity component is not subsequently re-valued as long as it continues to qualify for equity treatment. FSP APB 14-1 must be applied retrospectively to previously issued cash-settleable convertible instruments as well as prospectively to newly issued instruments. FSP APB 14-1 is effective for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. The adoption of FSP APB 14-1 will result in increased non-cash interest expense in future periods related to



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our 7% senior convertible notes issued in 2005. Upon retrospective application in 2009, the adoption will also result in increases to 2005 through 2008 non-cash interest expense as well as non-cash losses on debt extinguishment related to the partial conversion of certain notes to common stock in 2006. We do not believe the adoption of FSP APB 14-1 will materially impact our consolidated financial statements.

In October 2008, the FASB issued FSP FAS 157-3, "Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active." FSP FAS 157-3 clarifies the application of SFAS No. 157 in a market that is not active and provides an example to illustrate key considerations in determining the fair value of a financial asset when the market for that financial asset is not active. FSP FAS 157-3 is effective upon issuance, including prior periods for which financial statements have not been issued. Revisions resulting from a change in the valuation technique or its application should be accounted for as a change in accounting estimate following the guidance in SFAS No. 154, "Accounting Changes and Error Corrections." FSP FAS 157-3 is effective as of October 10, 2008, and the application of FSP FAS 157-3 had no impact on our consolidated financial statements.



**Item 7A. *Quantitative and Qualitative Disclosures About Market Risk***

**Market Risk Sensitive Instruments**

Our primary market risk exposures include commodity price risk (i.e., the price paid to obtain aviation fuel) and interest rate risk. The potential impact of adverse increases in these risks and general strategies that we employ to manage these risks are discussed below. The following sensitivity analyses do not consider the effects that an adverse change may have on the overall economy nor do they consider additional actions we may take to mitigate our exposure to these changes. Actual results of changes in prices or rates may differ materially from the following hypothetical results.

***Commodity Price Risk***

Prices and availability of all petroleum products are subject to political, economic and market factors that are generally outside of our control. Accordingly, the price and availability of aviation fuel, as well as other petroleum products, can be unpredictable. Prices may be affected by many factors, including:

- the impact of global political instability on crude production;
- unexpected changes to the availability of petroleum products due to disruptions in distribution systems or refineries as evidenced in the third quarter of 2005 when Hurricane Katrina and Hurricane Rita caused widespread disruption to oil production, refinery operations and pipeline capacity along certain portions of the U.S. Gulf Coast. As a result of these disruptions, the price of jet fuel increased significantly and the availability of jet fuel supplies was diminished;
- unpredicted increases to oil demand due to weather or the pace of economic growth;
- inventory levels of crude, refined products and natural gas; and
- other factors, such as the relative fluctuation in value between the U.S. dollar and other major currencies and influence of speculative positions on the futures exchanges.

Because our operations are dependent upon aviation fuel, significant increases in aviation fuel costs materially and adversely affect our liquidity, results of operations and financial condition. Our 2009 forecasted mainline and Express fuel consumption is approximately 1.44 billion gallons, and a one cent per gallon increase in aviation fuel price results in a \$14 million annual increase in expense, excluding the impact of hedge transactions.

As of December 31, 2008, we have entered into no premium collars, which establish an upper and lower limit on heating oil futures prices, to protect us from fuel price risks. These transactions are in place with respect to approximately 14% of our projected mainline and Express 2009 fuel requirements at a weighted average collar range of \$3.41 to \$3.61 per gallon of heating oil or \$131.15 to \$139.55 per barrel of estimated crude oil equivalent.

The use of such hedging transactions in our fuel hedging program could result in us not fully benefiting from certain declines in heating oil futures prices. As of December 31, 2008, the fair value of our fuel hedging instruments was a net liability of \$375 million. Further, these instruments do not provide protection from future price increases unless heating oil prices exceed the call option price of the no premium collar. Although heating oil prices are generally highly correlated with those of jet fuel, the prices of jet fuel may change more or less than heating oil, resulting in a change in fuel expense that is not fully offset by the hedge transactions. At December 31, 2008, we estimate that a 10% increase in heating oil futures prices would increase the fair value of the hedge transactions by approximately \$30 million. We estimate that a 10% decrease in heating oil futures prices would decrease the fair value of the hedging transactions by approximately \$30 million. Since we have not entered into any new fuel hedge transactions since the third quarter of 2008, the impact of changes in heating oil futures prices will decrease as existing hedges are settled.

When our fuel hedging derivative instruments are in a net asset position, we are exposed to credit losses in the event of non-performance by counterparties to our fuel hedging derivatives. The amount of such credit exposure is limited to the unrealized gains, if any, on our fuel hedging derivatives. To manage credit risks, we carefully select counterparties, conduct transactions with multiple counterparties which limits our exposure to any single counterparty, and monitor the market position of the program and our relative market position with each counterparty. We

also maintain industry-standard security agreements with all of our counterparties which may require the counterparty to post collateral if the value of the fuel hedging derivatives exceeds specified thresholds related to the counterparty's credit ratings.

When our fuel hedging derivative instruments are in a net liability position, we are exposed to credit risks related to the return of collateral in situations in which we have posted collateral with counterparties for unrealized losses. As of December 31, 2008, we were in a net liability position of \$375 million based on the fair value of our fuel hedging derivative instruments due to the significant decline in the price of oil in the latter part of 2008. When possible, in order to mitigate the risk of posting collateral, we provide letters of credit to certain counterparties in lieu of cash. At December 31, 2008, \$185 million related to letters of credit collateralizing certain counterparties to our fuel hedging transactions is included in short-term restricted cash. In addition, at December 31, 2008, we had \$276 million in cash deposits held by counterparties to our fuel hedging transactions. Since the third quarter of 2008, we have not entered into any new transactions as part of our fuel hedging program due to the impact collateral requirements could have on our liquidity resulting from the significant decline in the price of oil and counterparty credit risk arising from global economic uncertainty.

Further declines in heating oil prices would result in additional collateral requirements with our counterparties, unrealized losses on our existing fuel hedging derivative instruments and realized losses at the time of settlement of these fuel hedging derivative instruments.

### **Interest Rate Risk**

Our exposure to interest rate risk relates primarily to our cash equivalents, investment portfolios and variable rate debt obligations. At December 31, 2008, our variable-rate long-term debt obligations of approximately \$2.8 billion represented approximately 67% of our total long-term debt. If interest rates increased 10% in 2008, the impact on our results of operations would be approximately \$12 million of additional interest expense. Additional information regarding our debt obligations as of December 31, 2008 is as follows (dollars in millions):

	Expected Maturity Date						Total
	2009	2010	2011	2012	2013	Thereafter	
Fixed-rate debt	\$ 123	\$ 105	\$ 140	\$ 139	\$ 78	\$ 771	\$ 1,356
Weighted avg. interest rate	9.5%	9.5%	9.1%	8.6%	8.3%	7.5%	
Variable-rate debt	\$ 249	\$ 149	\$ 233	\$ 206	\$ 130	\$ 1,830	\$ 2,797
Weighted avg. interest rate	4.2%	4.1%	3.9%	3.7%	3.5%	2.4%	

US Airways Group and US Airways have total future aircraft and spare engine purchase commitments of approximately \$6.83 billion. We expect to finance such commitments either by entering into leases or debt agreements. Changes in interest rates will impact the cost of such financings.

At December 31, 2008, included within our investment portfolio are \$187 million (\$411 million par value) of investments in auction rate securities. With the liquidity issues experienced in the global credit and capital markets, all of our auction rate securities have experienced failed auctions since August 2007. The estimated fair value of these auction rate securities no longer approximates par value. However, we have not experienced any defaults and continue to earn and receive interest at the maximum contractual rates. As of December 31, 2008, the full decline in value from the par value of our investments in auction rate securities of \$224 million has been recorded as an other than temporary impairment, of which \$214 million was recorded in 2008. The decline in fair value was caused by the significant deterioration in the financial markets in 2008. We continue to monitor the market for auction rate securities and consider its impact (if any) on the fair value of our investments. If the current market conditions deteriorate further, we may be required to record additional impairment charges in other nonoperating expense, net in future periods.

We do not anticipate having to sell these securities in order to operate our business. We believe that, based on our current unrestricted cash, cash equivalents and short-term marketable securities balances of \$1.05 billion at December 31, 2008, the current lack of liquidity in our investments in auction rate securities will not have a material impact on our liquidity, cash flow, or our ability to fund our operations. See Notes 6(b) and 5(b) in Items 8A and 8B, respectively, of this report for additional information.

**Item 8A. Consolidated Financial Statements and Supplementary Data of US Airways Group, Inc.**

**Management's Annual Report on Internal Control over Financial Reporting**

Management of US Airways Group, Inc. is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934, as amended. US Airways Group's internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. US Airways Group's internal control over financial reporting includes those policies and procedures that:

- pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of US Airways Group;
- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of US Airways Group are being made only in accordance with authorizations of management and directors of US Airways Group; and
- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of US Airways Group's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management assessed the effectiveness of US Airways Group's internal control over financial reporting as of December 31, 2008. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control-Integrated Framework.

Based on our assessment and those criteria, management concludes that US Airways Group maintained effective internal control over financial reporting as of December 31, 2008.

US Airways Group's independent registered public accounting firm has issued an audit report on the effectiveness of US Airways Group's internal control over financial reporting. That report has been included herein.

**Report of Independent Registered Public Accounting Firm**

The Board of Directors and Stockholders  
US Airways Group, Inc.:

We have audited US Airways Group, Inc.'s ("US Airways Group" or the "Company") internal control over financial reporting as of December 31, 2008 based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying management's annual report on internal control over financial reporting. Our responsibility is to express an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control over financial reporting based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, US Airways Group, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2008, based on criteria established in *Internal Control — Integrated Framework* issued by COSO.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of US Airways Group and subsidiaries as of December 31, 2008 and 2007, and the related consolidated statements of operations, stockholders' equity (deficit), and cash flows for each of the years in the three-year period ended December 31, 2008, and our report dated February 17, 2009 expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG LLP

Phoenix, Arizona  
February 17, 2009

**Report of Independent Registered Public Accounting Firm**

The Board of Directors and Stockholders  
US Airways Group, Inc.:

We have audited the accompanying consolidated balance sheets of US Airways Group, Inc. and subsidiaries (the Company) as of December 31, 2008 and 2007, and the related consolidated statements of operations, stockholders' equity (deficit), and cash flows for each of the years in the three-year period ended December 31, 2008. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of US Airways Group, Inc. and subsidiaries as of December 31, 2008 and 2007, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2008, in conformity with U.S. generally accepted accounting principles.

As discussed in Note 1 to the consolidated financial statements, effective January 1, 2008, the Company adopted the provisions of Statement of Financial Accounting Standards (SFAS) No. 157, *Fair Value Measurements*, and the measurement date provisions of SFAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2008, based on criteria established in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated February 17, 2009 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

/s/ KPMG LLP

Phoenix, Arizona  
February 17, 2009

**US Airways Group, Inc.**  
**Consolidated Statements of Operations**  
**For the Years Ended December 31, 2008, 2007 and 2006**

	<u>2008</u>	<u>2007</u>	<u>2006</u>
	(In millions, except share and per share amounts)		
<b>Operating revenues:</b>			
Mainline passenger	\$ 8,183	\$ 8,135	\$ 7,966
Express passenger	2,879	2,698	2,744
Cargo	144	138	153
Other	912	729	694
Total operating revenues	<u>12,118</u>	<u>11,700</u>	<u>11,557</u>
<b>Operating expenses:</b>			
Aircraft fuel and related taxes	3,618	2,630	2,518
Loss (gain) on fuel hedging instruments, net	356	(245)	79
Salaries and related costs	2,231	2,302	2,090
Express expenses	3,049	2,594	2,559
Aircraft rent	724	727	732
Aircraft maintenance	783	635	582
Other rent and landing fees	562	536	568
Selling expenses	439	453	446
Special items, net	76	99	27
Depreciation and amortization	215	189	175
Goodwill impairment	622	—	—
Other	1,243	1,247	1,223
Total operating expenses	<u>13,918</u>	<u>11,167</u>	<u>10,999</u>
Operating income (loss)	<u>(1,800)</u>	<u>533</u>	<u>558</u>
<b>Nonoperating income (expense):</b>			
Interest income	83	172	153
Interest expense, net	(253)	(273)	(295)
Other, net	(240)	2	(12)
Total nonoperating expense, net	<u>(410)</u>	<u>(99)</u>	<u>(154)</u>
Income (loss) before income taxes and cumulative effect of change in accounting principle	<u>(2,210)</u>	<u>434</u>	<u>404</u>
Income tax provision	—	7	101
Income (loss) before cumulative effect of change in accounting principle	<u>(2,210)</u>	<u>427</u>	<u>303</u>
Cumulative effect of change in accounting principle, net	—	—	1
Net income (loss)	<u>\$ (2,210)</u>	<u>\$ 427</u>	<u>\$ 304</u>
<b>Earnings (loss) per common share:</b>			
<b>Basic:</b>			
Before cumulative effect of change in accounting principle	\$ (22.06)	\$ 4.66	\$ 3.50
Cumulative effect of change in accounting principle	—	—	0.01
Earnings (loss) per share	<u>\$ (22.06)</u>	<u>\$ 4.66</u>	<u>\$ 3.51</u>
<b>Diluted:</b>			
Before cumulative effect of change in accounting principle	\$ (22.06)	\$ 4.52	\$ 3.32
Cumulative effect of change in accounting principle	—	—	0.01
Earnings (loss) per share	<u>\$ (22.06)</u>	<u>\$ 4.52</u>	<u>\$ 3.33</u>
<b>Shares used for computation (in thousands):</b>			
Basic	100,168	91,536	86,447
Diluted	100,168	95,603	93,821

See accompanying notes to consolidated financial statements.

**US Airways Group, Inc.**  
**Consolidated Balance Sheets**  
**December 31, 2008 and 2007**

	<u>2008</u>	<u>2007</u>
<b>(In millions, except share and per share amounts)</b>		
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 1,034	\$ 1,948
Investments in marketable securities	20	226
Restricted cash	186	2
Accounts receivable, net	293	374
Materials and supplies, net	201	249
Prepaid expenses and other	684	548
Total current assets	2,418	3,347
Property and equipment		
Flight equipment	3,157	2,414
Ground property and equipment	816	703
Less accumulated depreciation and amortization	(954)	(757)
	3,019	2,360
Equipment purchase deposits	267	128
Total property and equipment	3,286	2,488
Other assets		
Other intangibles, net of accumulated amortization of \$87 million and \$62 million, respectively	545	553
Restricted cash	540	466
Investments in marketable securities	187	353
Goodwill	—	622
Other assets, net	238	211
Total other assets	1,510	2,205
Total assets	\$ 7,214	\$ 8,040
<b>LIABILITIES &amp; STOCKHOLDERS' EQUITY (DEFICIT)</b>		
Current liabilities		
Current maturities of debt and capital leases	\$ 362	\$ 117
Accounts payable	797	366
Air traffic liability	698	832
Accrued compensation and vacation	158	225
Accrued taxes	142	152
Other accrued expenses	887	859
Total current liabilities	3,044	2,551
Noncurrent liabilities and deferred credits		
Long-term debt and capital leases, net of current maturities	3,634	3,031
Deferred gains and credits, net	323	318
Postretirement benefits other than pensions	108	138
Employee benefit liabilities and other	610	563
Total noncurrent liabilities and deferred credits	4,675	4,050
Commitments and contingencies (Note 9)		
Stockholders' equity (deficit)		
Common stock, \$0.01 par value; 200,000,000 shares authorized, 114,527,377 and 114,113,384 shares issued and outstanding at December 31, 2008; 92,278,557 and 91,864,564 shares issued and outstanding at December 31, 2007	1	1
Additional paid-in capital	1,749	1,536
Accumulated other comprehensive income	65	10
Accumulated deficit	(2,307)	(95)
Treasury stock, common stock, 413,993 shares at December 31, 2008 and December 31, 2007	(13)	(13)
Total stockholders' equity (deficit)	(505)	1,439
Total liabilities and stockholders' equity (deficit)	\$ 7,214	\$ 8,040

See accompanying notes to consolidated financial statements.



**US Airways Group, Inc.**  
**Consolidated Statements of Cash Flows**  
**For the Years Ended December 31, 2008, 2007 and 2006**

	<u>2008</u>	<u>2007</u>	<u>2006</u>
	(In millions)		
<b>Cash flows from operating activities:</b>			
Net income (loss)	\$(2,210)	\$ 427	\$ 304
<b>Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:</b>			
Cumulative effect of change in accounting principle	—	—	(1)
Depreciation and amortization	240	212	198
Gain on curtailment of pension benefit	—	(5)	—
Loss on dispositions of property and equipment	7	1	—
Gain on forgiveness of debt	(8)	—	(90)
Gain on sale of investments	(1)	(17)	—
Goodwill impairment	622	—	—
Impairment on auction rate securities	214	10	—
Impairment on fixed assets	13	—	—
Utilization of acquired net operating loss carryforwards	—	7	85
Change in fair value of fuel hedging instruments, net	496	(187)	70
Amortization of deferred credits and rent	(41)	(40)	(38)
Amortization of debt discount and debt issuance costs	20	14	16
Amortization of actuarial gains	(2)	—	—
Stock-based compensation	34	32	34
Debt extinguishment costs	7	18	7
Premium paid in conversion of 7% senior convertible notes	—	—	17
Other	—	—	(1)
<b>Changes in operating assets and liabilities:</b>			
Decrease (increase) in restricted cash	(184)	(1)	6
Decrease (increase) in accounts receivable, net	74	14	(35)
Decrease (increase) in materials and supplies, net	49	(18)	(25)
Decrease (increase) in prepaid expenses and other	(259)	(52)	22
Decrease (increase) in other assets, net	4	(5)	9
Increase (decrease) in accounts payable	96	(11)	(2)
Increase (decrease) in air traffic liability	(134)	(22)	59
Increase (decrease) in accrued compensation and vacation	(67)	(37)	56
Increase (decrease) in accrued taxes	(10)	(29)	38
Increase (decrease) in other liabilities	60	140	(86)
<b>Net cash provided by (used in) operating activities</b>	<b>(980)</b>	<b>451</b>	<b>643</b>
<b>Cash flows from investing activities:</b>			
Purchases of property and equipment	(929)	(523)	(232)
Purchases of marketable securities	(299)	(2,591)	(2,583)
Sales of marketable securities	505	3,203	1,785
Proceeds from sale of other investments	4	56	—
Decrease (increase) in long-term restricted cash	(74)	200	128
Proceeds from dispositions of property and equipment	17	4	7
Increase in equipment purchase deposits	(139)	(80)	(8)
<b>Net cash provided by (used in) investing activities</b>	<b>(915)</b>	<b>269</b>	<b>(903)</b>
<b>Cash flows from financing activities:</b>			
Repayments of debt and capital lease obligations	(734)	(1,680)	(1,187)
Proceeds from issuance of debt	1,586	1,798	1,419
Deferred financing costs	(50)	(9)	(25)
Proceeds from issuance of common stock, net	179	3	44
<b>Net cash provided by financing activities</b>	<b>981</b>	<b>112</b>	<b>251</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>(914)</b>	<b>832</b>	<b>(9)</b>
Cash and cash equivalents at beginning of year	1,948	1,116	1,125
<b>Cash and cash equivalents at end of year</b>	<b>\$ 1,034</b>	<b>\$ 1,948</b>	<b>\$ 1,116</b>

See accompanying notes to consolidated financial statements.

**US Airways Group, Inc.**  
**Consolidated Statements of Stockholders' Equity (Deficit)**  
**For the Years Ended December 31, 2008, 2007 and 2006**

	Common Stock	Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Income	Treasury Stock	Total
	(In millions, except share amounts)					
<b>Balance at December 31, 2005</b>	\$ 1	\$ 1,258	\$ (826)	\$ —	\$ (13)	\$ 420
Net income	—	—	304	—	—	304
Issuance of 3,860,358 shares of common stock pursuant to the conversion of the 7.5% notes	—	95	—	—	—	95
Issuance of 2,909,636 shares of common stock pursuant to the conversion of the 7.0% notes	—	70	—	—	—	70
Issuance of 386,925 shares of common stock pursuant to the exercise of warrants	—	3	—	—	—	3
Issuance of 2,463,534 shares of common stock pursuant to employee stock plans	—	41	—	—	—	41
Stock-based compensation expense	—	34	—	—	—	34
Adjustment to initially apply the recognition provisions of SFAS No. 158, net of tax	—	—	—	3	—	3
<b>Balance at December 31, 2006</b>	<b>1</b>	<b>1,501</b>	<b>(522)</b>	<b>3</b>	<b>(13)</b>	<b>970</b>
Net income	—	—	427	—	—	427
Issuance of 580,661 shares of common stock pursuant to employee stock plans	—	3	—	—	—	3
Stock-based compensation expense	—	32	—	—	—	32
Unrealized loss on available for sale securities, net	—	—	—	(48)	—	(48)
Actuarial gain associated with pension and other postretirement benefits, net of current period amortization	—	—	—	55	—	55
<b>Balance at December 31, 2007</b>	<b>1</b>	<b>1,536</b>	<b>(95)</b>	<b>10</b>	<b>(13)</b>	<b>1,439</b>
Net loss	—	—	(2,210)	—	—	(2,210)
Issuance of 21,850,000 shares of common stock pursuant to a public stock offering, net of offering costs	—	179	—	—	—	179
Issuance of 398,820 shares of common stock pursuant to employee stock plans	—	—	—	—	—	—
Stock-based compensation expense	—	34	—	—	—	34
Recognition of previous unrealized loss on available for sale securities, net now deemed other than temporary	—	—	—	48	—	48
Adjustment to initially apply the measurement provisions of SFAS No. 158	—	—	(2)	—	—	(2)
Actuarial gain associated with pension and other postretirement benefits, net of current period amortization	—	—	—	7	—	7
<b>Balance at December 31, 2008</b>	<b>\$ 1</b>	<b>\$ 1,749</b>	<b>\$ (2,307)</b>	<b>\$ 65</b>	<b>\$ (13)</b>	<b>\$ (505)</b>

See accompanying notes to consolidated financial statements.

**US Airways Group, Inc.**  
**Notes to Consolidated Financial Statements**

**1. Basis of presentation and summary of significant accounting policies**

**(a) Nature of Operations and Operating Environment**

US Airways Group, Inc. (“US Airways Group” or the “Company”) is a Delaware corporation whose primary business activity is the operation of a major network air carrier through its ownership of the common stock of US Airways, Inc. (“US Airways”), Piedmont Airlines, Inc. (“Piedmont”), PSA Airlines, Inc. (“PSA”), Material Services Company, Inc. (“MSC”) and Airways Assurance Limited, LLC (“AAL”). On May 19, 2005, US Airways Group signed a merger agreement with America West Holdings Corporation (“America West Holdings”) pursuant to which America West Holdings merged with a wholly owned subsidiary of US Airways Group. The merger agreement was amended by a letter of agreement on July 7, 2005. The merger became effective upon US Airways Group’s emergence from bankruptcy on September 27, 2005.

Most of the airline operations are in competitive markets. Competitors include other air carriers along with other modes of transportation. The Company operates the fifth largest airline in the United States as measured by domestic mainline revenue passenger miles (“RPMs”) and available seat miles (“ASMs”). US Airways has primary hubs in Charlotte, Philadelphia and Phoenix and secondary hubs/focus cities in New York, Washington, D.C., Boston and Las Vegas. US Airways offers scheduled passenger service on more than 3,100 flights daily to 200 communities in the United States, Canada, Europe, the Caribbean and Latin America. US Airways also has an established East Coast route network, including the US Airways Shuttle service, with a substantial presence at capacity constrained airports including New York’s LaGuardia Airport and the Washington, D.C. area’s Ronald Reagan Washington National Airport. US Airways had approximately 55 million passengers boarding its mainline flights in 2008. During 2008, US Airways’ mainline operation provided regularly scheduled service or seasonal service at 135 airports. During 2008, the US Airways Express network served 187 airports in the United States, Canada and Latin America, including 77 airports also served by the mainline operation. During 2008, US Airways Express air carriers had approximately 27 million passengers boarding their planes. As of December 31, 2008, US Airways operated 354 mainline jets and is supported by the Company’s regional airline subsidiaries and affiliates operating as US Airways Express either under capacity purchase or prorate agreements, which operate approximately 238 regional jets and 74 turboprops.

As of December 31, 2008, the Company employed approximately 37,500 active full-time equivalent employees. Approximately 87% of the Company’s employees are covered by collective bargaining agreements with various labor unions. The Company’s pilots and flight attendants are currently working under the terms of their respective US Airways or America West Airlines (“AWA”) collective bargaining agreements, as modified by transition agreements reached in connection with the merger. In 2008, the Company reached final single labor agreements covering fleet service employees, maintenance and related employees and maintenance training instructors, each represented by the International Association of Machinists & Aerospace Workers.

**(b) Basis of Presentation**

The accompanying consolidated financial statements include the accounts of US Airways Group and its wholly owned subsidiaries. The Company has the ability to move funds freely between its operating subsidiaries to support operations. These transfers are recognized as intercompany transactions. All significant intercompany accounts and transactions have been eliminated.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The principal areas of judgment relate to passenger revenue recognition, impairment of goodwill, impairment of long-lived and intangible assets, valuation of investments in marketable securities, the frequent traveler program and the deferred tax valuation allowance.

US Airways Group, Inc.

Notes to Consolidated Financial Statements — (Continued)

Certain prior year amounts have been reclassified to conform with the 2008 presentation.

**(c) Cash and Cash Equivalents**

Cash equivalents consist primarily of cash in money market securities and highly liquid debt instruments. All highly liquid investments purchased within three months of maturity are classified as cash equivalents. Cash equivalents are stated at cost, which approximates fair value due to the highly liquid nature and short-term maturities of the underlying securities.

As of December 31, 2008 and 2007, the Company's cash and cash equivalents are as follows (in millions):

	<u>2008</u>	<u>2007</u>
Cash and money market funds	\$ 1,024	\$ 1,858
Corporate bonds	10	90
Total cash and cash equivalents	<u>\$ 1,034</u>	<u>\$ 1,948</u>

**(d) Investments in Marketable Securities**

All highly liquid investments with maturities greater than three months but less than one year are classified as current investments in marketable securities. Investments in marketable securities classified as noncurrent assets on the Company's balance sheet represent investments expected to be converted to cash after 12 months. Debt securities, other than auction rate securities, are classified as held to maturity in accordance with Statement of Financial Accounting Standards ("SFAS") No. 115, "Accounting for Certain Investments in Debt and Equity Securities." Held to maturity investments are carried at amortized cost, which approximates fair value. Investments in auction rate securities are classified as available for sale and recorded at fair value.

As of December 31, 2008 and 2007, the Company's investments in marketable securities are classified as follows (in millions):

	<u>2008</u>	<u>2007</u>
Held to maturity securities:		
Corporate bonds	\$ 20	\$ 125
U.S. government sponsored enterprises	—	81
Certificates of deposit	—	20
Total investments in marketable securities-current	<u>\$ 20</u>	<u>\$ 226</u>
Available for sale securities:		
Auction rate securities	187	353
Total investments in marketable securities-noncurrent	<u>\$ 187</u>	<u>\$ 353</u>

See Note 6(b) for more information on the Company's investments in marketable securities.

**(e) Restricted Cash**

Restricted cash includes deposits in trust accounts primarily to fund certain taxes and fees and workers' compensation claims, deposits securing certain letters of credit and surety bonds and deposits held by institutions that process credit card sales transactions. Restricted cash is stated at cost, which approximates fair value.

US Airways Group, Inc.

Notes to Consolidated Financial Statements — (Continued)

**(f) Materials and Supplies, Net**

Inventories of materials and supplies are valued at the lower of cost or fair value. Costs are determined using average costing methods. An allowance for obsolescence is provided for flight equipment expendable and repairable parts. These items are generally charged to expense when issued for use. During 2008, the Company recorded a \$5 million write down related to its Boeing 737 spare parts inventory to reflect lower of cost or fair value. See Note 1(g) below for further discussion of the decline in value of Boeing 737 parts.

**(g) Property and Equipment**

Property and equipment are recorded at cost. Interest expense related to the acquisition of certain property and equipment is capitalized as an additional cost of the asset or as a leasehold improvement if the asset is leased. Interest capitalized for the years ended December 31, 2008, 2007 and 2006 was \$6 million, \$4 million and \$2 million, respectively. Property and equipment is depreciated and amortized to residual values over the estimated useful lives or the lease term, whichever is less, using the straight-line method. Costs of major improvements that enhance the usefulness of the asset are capitalized and depreciated over the estimated useful life of the asset or the modifications, whichever is less.

The estimated useful lives of owned aircraft, jet engines, flight equipment and rotatable parts range from five to 30 years. Leasehold improvements relating to flight equipment and other property on operating leases are amortized over the life of the lease or the life of the asset, whichever is shorter, on a straight-line basis. The estimated useful lives for other owned property and equipment range from three to 12 years and range from 18 to 30 years for training equipment and buildings.

The Company records impairment losses on long-lived assets used in operations when events and circumstances indicate that the assets might be impaired as defined by SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to undiscounted future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less cost to sell.

In connection with completing step two of the Company's interim goodwill impairment analysis in the second quarter of 2008 as further discussed in Note 1(i) below, the Company also assessed the current fair values of its other significant assets including owned aircraft, aircraft leases and aircraft spare parts. The Company concluded that the only impairment indicated was associated with the decline in fair value of certain spare parts associated with its Boeing 737 fleet. Due to record high fuel prices and the industry environment in 2008, demand for the Boeing 737 aircraft type declined given its lower fuel efficiency as compared to other aircraft types. The fair value of these spare parts was determined using a market approach on the premise of continued use of the aircraft through the Company's final scheduled lease return.

In accordance with SFAS No. 144, the Company determined that the carrying amount of the Boeing 737 spare parts classified as long-lived assets was not recoverable as the carrying amount of the Boeing 737 assets was greater than the sum of the undiscounted cash flows expected from the use and disposition of these assets. As a result of this impairment analysis, the Company recorded a \$13 million impairment charge in 2008 related to Boeing 737 rotatable parts included in flight equipment on its consolidated balance sheet. The Company recorded no impairment charges in the years ended December 31, 2007 and 2006.

**(h) Income Taxes**

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit

US Airways Group, Inc.

Notes to Consolidated Financial Statements — (Continued)

carryforwards. A valuation allowance is established, if necessary, for the amount of any tax benefits that, based on available evidence, are not expected to be realized.

*(i) Goodwill and Other Intangibles, Net*

*Goodwill*

SFAS No. 142, "Goodwill and Other Intangible Assets," requires that goodwill be tested for impairment at the reporting unit level on an annual basis and between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of the reporting unit below its carrying value. Goodwill represents the purchase price in excess of the net amount assigned to assets acquired and liabilities assumed by America West Holdings on September 27, 2005. The Company has two reporting units consisting of its mainline and Express operations. All of the Company's goodwill was allocated to the mainline reporting unit.

In accordance with SFAS No. 142, the Company concluded that events had occurred and circumstances had changed during the second quarter of 2008 which required the Company to perform an interim period goodwill impairment test. Subsequent to the first quarter of 2008, the Company experienced a significant decline in market capitalization due to overall airline industry conditions driven by record high fuel prices. The price of fuel became less volatile in the second quarter of 2008, and there was a sustained surge in fuel prices. On May 21, 2008, the price per barrel of oil hit a then record high of \$133 per barrel and from that date through June 30, 2008 stayed at an average daily price of \$133 per barrel. The Company's average mainline fuel price during the second quarter of 2008 was \$3.63 as compared to \$2.88 per gallon in the first quarter of 2008 and \$2.20 for the full year 2007. This increase in the price per gallon of fuel represented an increase of 26% and 65% as compared to the first quarter of 2008 and full year 2007, respectively. The Company's average stock price in the second quarter of 2008 was \$6.13 as compared to an average of \$12.15 in the first quarter of 2008, a decline of 50%. In addition, the Company announced in June 2008 that in response to the record high fuel prices, it planned to reduce fourth quarter 2008 and full year 2009 domestic mainline capacity.

During the second quarter of 2008, the Company performed the first step of the two-step impairment test and compared the fair value of the mainline reporting unit to its carrying value. Consistent with the Company's approach in its annual impairment testing, in assessing the fair value of the reporting unit, the Company considered both the market approach and income approach. Under the market approach, the fair value of the reporting unit is based on quoted market prices and the number of shares outstanding for the Company's common stock. Under the income approach, the fair value of the reporting unit is based on the present value of estimated future cash flows. The income approach is dependent on a number of significant management assumptions, including estimates of future capacity, passenger yield, traffic, fuel, other operating costs and discount rates. Due to current market conditions, greater weighting was attributed to the market approach, which was weighted 67% while the income approach was weighted 33% in arriving at the fair value of the reporting unit. The Company determined that the fair value of the mainline reporting unit was less than the carrying value of the net assets of the reporting unit, and thus the Company performed step two of the impairment test.

In step two of the impairment test, the Company determined the implied fair value of the goodwill and compared it to the carrying value of the goodwill. The Company allocated the fair value of the reporting unit to all of its assets and liabilities as if the reporting unit had been acquired in a business combination and the fair value of the mainline reporting unit was the price paid to acquire the reporting unit. The excess of the fair value of the reporting unit over the amounts assigned to its assets and liabilities is the implied fair value of goodwill. The Company's step two analysis resulted in no implied fair value of goodwill, and therefore, the Company recognized an impairment charge of \$622 million in the second quarter of 2008, representing a write off of the entire amount of the Company's previously recorded goodwill.

## US Airways Group, Inc.

## Notes to Consolidated Financial Statements — (Continued)

The following table reflects the change in the carrying amount of goodwill from December 31, 2007 (in millions):

	<u>Goodwill</u>
Balance at December 31, 2007	\$ 622
Impairment charge	(622)
Balance at December 31, 2008	<u>\$ —</u>

*Other intangible assets*

Other intangible assets consist primarily of trademarks, international route authorities and airport take-off and landing slots and airport gates.

SFAS No. 142 requires that intangible assets with estimable useful lives be amortized over their respective estimated useful lives to their estimated residual values, and reviewed for impairments in accordance with SFAS No. 144. The following table provides information relating to the Company's intangible assets subject to amortization as of December 31, 2008 and 2007 (in millions):

	<u>2008</u>	<u>2007</u>
Airport take-off and landing slots	\$495	\$ 478
Airport gate leasehold rights	52	52
Accumulated amortization	(87)	(62)
Total	<u>\$ 460</u>	<u>\$ 468</u>

The intangible assets subject to amortization generally are amortized over 25 years for airport take-off and landing slots and over the term of the lease for airport gate leasehold rights on a straight-line basis and are included in depreciation and amortization on the consolidated statements of operations. For the years ended December 31, 2008, 2007 and 2006, the Company recorded amortization expense of \$25 million, \$25 million and \$28 million, respectively, related to its intangible assets. The Company expects to record annual amortization expense of \$26 million in 2009, \$26 million in year 2010, \$23 million in year 2011, \$22 million in year 2012, \$22 million in year 2013 and \$341 million thereafter related to these intangible assets.

Under SFAS No. 142, indefinite lived assets are not amortized but instead are reviewed for impairment annually and more frequently if events or circumstances indicate that the asset may be impaired. As of December 31, 2008 and 2007, the Company had \$55 million of international route authorities and \$30 million of trademarks on its balance sheets, which are classified as indefinite lived assets.

In connection with completing step two of the Company's goodwill impairment analysis in the second quarter of 2008, the Company assessed the fair values of its significant intangible assets. The Company considered the potential impairment of these other intangible assets in accordance with SFAS No. 142 and SFAS No. 144, as applicable. The fair values of airport take-off and landing slots and international route authorities were assessed using the market approach. The market approach took into consideration relevant supply and demand factors at the related airport locations as well as available market sale and lease data. For trademarks, the Company utilized a form of the income approach known as the relief-from-royalty method. As a result of these assessments, no impairment was indicated.

In addition, the Company performed the annual impairment test on its international route authorities and trademarks during the fourth quarter of 2008, at which time it concluded that no impairment exists. The Company will perform its next annual impairment test on October 1, 2009.



## US Airways Group, Inc.

## Notes to Consolidated Financial Statements — (Continued)

**(j) Other Assets, Net**

Other assets, net consists of the following as of December 31, 2008 and 2007 (in millions):

	<u>2008</u>	<u>2007</u>
Deposits	\$ 40	\$ 46
Debt issuance costs, net	57	14
Long term investments	11	12
Deferred rent	46	48
Aircraft leasehold interest, net	83	89
Other	1	2
Total other assets, net	<u>\$238</u>	<u>\$211</u>

In connection with fresh-start reporting for US Airways following its emergence from bankruptcy in September 2005, aircraft operating leases were adjusted to fair value and \$101 million of assets were established for leasehold interests in aircraft for aircraft leases with rental rates deemed to be below market rates. These leasehold interests are amortized on a straight-line basis as an increase to aircraft rent expense over the applicable remaining lease periods. The Company expects to amortize \$6 million per year in 2009-2013 and \$53 million thereafter to aircraft rent expense related to these leasehold interests.

The Company capitalized \$50 million in debt issuance costs in 2008 as a result of its current year financing transactions.

**(k) Frequent Traveler Program**

Members of the Dividend Miles program, the US Airways frequent traveler program, can redeem miles on US Airways or other members of the Star Alliance. The estimated cost of providing the travel award, using the incremental cost method as adjusted for estimated redemption rates, is recognized as a liability and charged to operations as program members accumulate mileage. For travel awards on partner airlines, the liability is based on the average contractual amount to be paid to the other airline per redemption. As of December 31, 2008, Dividend Miles members had accumulated mileage credits for approximately 2.6 million awards. The liability for the future travel awards accrued on the Company's consolidated balance sheets within other accrued expenses was \$151 million and \$161 million as of December 31, 2008 and 2007, respectively.

The Company sells mileage credits to participating airline and non-airline business partners. Revenue earned from selling mileage credits to other companies is recognized in two components. A portion of the revenue from these sales is deferred, representing the estimated fair value of the transportation component of the sold mileage credits. The deferred revenue for the transportation component is amortized on a straight-line basis over the period in which the credits are expected to be redeemed for travel as passenger revenue, which is currently estimated to be 28 months. The marketing component, which is earned at the time the miles are sold, is recognized in other revenues at the time of the sale. As of December 31, 2008 and 2007, the Company had \$240 million and \$241 million, respectively, in deferred revenue from the sale of mileage credits included in other accrued expenses on its consolidated balance sheets.

**(l) Derivative Instruments**

The Company currently utilizes heating oil-based derivative instruments to hedge a portion of its exposure to jet fuel price increases. These instruments consist of no premium collars. SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," requires that all derivatives be marked to fair value and recorded on the balance sheet. Derivatives that do not qualify for hedge accounting must be adjusted to fair value through the income statement. The Company does not purchase or hold any derivative financial instruments for trading

**US Airways Group, Inc.**

**Notes to Consolidated Financial Statements — (Continued)**

purposes. As of December 31, 2008 and 2007, the Company had open fuel hedging instruments in place, which do not currently qualify for hedge accounting under SFAS No. 133. Accordingly, the derivative hedging instruments are recorded as an asset or liability on the consolidated balance sheets at fair value and any changes in fair value are recorded as gains or losses on fuel hedging instruments, net in operating expenses in the accompanying consolidated statements of operations in the period of change. See Note 6(a) for additional information on the Company's fuel hedging instruments.

**(m) *Deferred Gains and Credits, Net***

In 2005, the Company's affinity credit card provider, Barclays Bank Delaware, formerly Juniper Bank, paid AWA \$150 million in bonuses, consisting of a \$20 million bonus pursuant to AWA's original credit card agreement with Juniper and a \$130 million bonus following the effectiveness of the merger, subject to certain conditions.

In the event Barclays, at its option, terminates the amended agreement prior to April 1, 2009 due to the Company's breach of its obligations under the amended credit card agreement, or upon the occurrence of certain other events, then the Company must repay all of the bonus payments. If Barclays terminates the amended agreement any time thereafter through March 31, 2013 for the same reasons, the Company must repay a reduced amount that declines monthly according to a formula. The Company will have no obligation to repay any portion of the bonus payments after March 31, 2013.

At the time of payment, the entire \$150 million was recorded as deferred revenue. The Company will begin recognizing revenue from the bonus payments on April 1, 2009. The revenue from the bonus payments will be recognized on a straight-line basis through March 31, 2017, the expiration date of the amended Barclays co-branded credit card agreement.

In connection with fresh-start reporting and purchase accounting for US Airways' in 2005 and fresh-start reporting for AWA upon emergence from bankruptcy in 1994, aircraft operating leases were adjusted to fair value and deferred credits were established in the accompanying consolidated balance sheets, which represented the net present value of the difference between the stated lease rates and the fair market rates. These deferred credits will be amortized on a straight-line basis as a reduction in rent expense over the applicable lease periods. At December 31, 2008 and 2007, the unamortized balance of the deferred credits was \$93 million and \$134 million, respectively. The Company expects to amortize \$21 million in 2009, \$13 million in 2010, \$9 million in 2011, \$8 million in 2012, \$7 million in 2013 and \$35 million thereafter to aircraft rent expense related to these leasehold interests.

**(n) *Revenue Recognition***

*Passenger Revenue*

Passenger revenue is recognized when transportation is provided. Ticket sales for transportation that has not yet been provided are initially recorded as air traffic liability on the consolidated balance sheets. The air traffic liability represents tickets sold for future travel dates and estimated future refunds and exchanges of tickets sold for past travel dates. The majority of tickets sold are nonrefundable. A small percentage of tickets, some of which are partially used tickets, expire unused. Due to complex pricing structures, refund and exchange policies, and interline agreements with other airlines, certain amounts are recognized in revenue using estimates regarding both the timing of the revenue recognition and the amount of revenue to be recognized. These estimates are generally based on the analysis of the Company's historical data. The Company and members of the airline industry have consistently applied this accounting method to estimate revenue from forfeited tickets at the date travel was to be provided. Estimated future refunds and exchanges included in the air traffic liability are routinely evaluated based on subsequent activity to validate the accuracy of the Company's estimates. Any adjustments resulting from periodic evaluations of the estimated air traffic liability are included in results of operations during the period in which the evaluations are completed.

**US Airways Group, Inc.**

**Notes to Consolidated Financial Statements — (Continued)**

Passenger traffic commissions and related fees are expensed when the related revenue is recognized. Passenger traffic commissions and related fees not yet recognized are included as a prepaid expense.

The Company purchases capacity, or ASMs, generated by the Company's wholly owned regional air carriers and the capacity of Air Wisconsin Airlines Corp. ("Air Wisconsin"), Republic Airways Holdings ("Republic"), Mesa Airlines, Inc. ("Mesa") and Chautauqua Airlines, Inc. ("Chautauqua") in certain markets. Air Wisconsin, Republic, Mesa and Chautauqua operate regional jet aircraft in these markets as part of US Airways Express. The Company classifies revenues related to capacity purchase arrangements as Express passenger revenues. Liabilities related to tickets sold for travel on these air carriers are also included in the Company's air traffic liability and are subsequently relieved in the same manner as described above.

The Company collects various excise taxes on its ticket sales, which are accounted for on a net basis.

*Cargo Revenue*

Cargo revenue is recognized when shipping services for mail and other cargo are provided.

*Other Revenue*

Other revenue includes checked and excess baggage charges, beverage sales, ticket change and service fees, commissions earned on tickets sold for flights on other airlines and sales of tour packages by the US Airways Vacations division, which are recognized when the services are provided. Other revenues also include processing fees for travel awards issued through the Dividend Miles frequent traveler program and the marketing component earned from selling mileage credits to partners, as discussed in Note 1(k).

**(o) Maintenance and Repair Costs**

Maintenance and repair costs for owned and leased flight equipment are charged to operating expense as incurred.

**(p) Selling Expenses**

Selling expenses include commissions, credit card fees, computerized reservations systems fees, advertising and promotional expenses. Advertising and promotional expenses are expensed when incurred. Advertising and promotional expenses for the years ended December 31, 2008, 2007 and 2006 were \$10 million, \$16 million and \$16 million, respectively.

**(q) Stock-based Compensation**

The Company accounts for its stock-based compensation plans in accordance with SFAS No. 123(R), "Share-Based Payment." Compensation expense is based on the fair value of the stock award at the time of grant and is recognized ratably over the respective vesting period of the stock award. The fair value of stock options and stock appreciation rights is estimated using a Black-Scholes option pricing model. The fair value of restricted stock units is based on the market price of the underlying shares of common stock on the date of grant. See Note 15 for further discussion of stock-based compensation.

**(r) Express Expenses**

Expenses associated with the Company's wholly owned regional airlines, affiliate regional airlines operating as US Airways Express and US Airways' former MidAtlantic division are classified as Express expenses on the consolidated statements of operations. Effective May 27, 2006, the transfer of certain MidAtlantic assets to

US Airways Group, Inc.

Notes to Consolidated Financial Statements — (Continued)

Republic was complete, and Republic assumed the operations of the aircraft as a US Airways affiliate Express carrier. Express expenses consist of the following (in millions):

	Year Ended December 31, 2008	Year Ended December 31, 2007	Year Ended December 31, 2006
Aircraft fuel and related taxes	\$ 1,137	\$ 765	\$ 764
Salaries and related costs	244	245	266
Capacity purchases	1,049	987	972
Aircraft rent	51	51	59
Aircraft maintenance	74	76	71
Other rent and landing fees	115	112	117
Selling expenses	163	157	148
Depreciation and amortization	25	23	24
Other expenses	191	178	138
Express expenses	<u>\$ 3,049</u>	<u>\$ 2,594</u>	<u>\$ 2,559</u>

*(s) Variable Interest Entities*

The Company determined that certain entities with which the Company has capacity purchase agreements are considered variable interest entities under Financial Accounting Standards Board (“FASB”) Interpretation (“FIN”) No. 46(R), “Consolidation of Variable Interest Entities — An Interpretation of ARB No. 51.” The Company has determined that it is not the primary beneficiary of any of these variable interest entities and, accordingly, does not consolidate any of the entities with which it has jet service agreements. See Note 9(d) for further discussion.

*(t) Recent Accounting Pronouncements*

In September 2006, the FASB issued SFAS No. 157, “Fair Value Measurements.” This standard defines fair value, establishes a framework for measuring fair value in accounting principles generally accepted in the United States of America, and expands disclosure about fair value measurements. This pronouncement applies to other accounting standards that require or permit fair value measurements. Accordingly, this statement does not require any new fair value measurement. This statement is effective for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. In December 2007, the FASB agreed to a one year deferral of SFAS No. 157’s fair value measurement requirements for nonfinancial assets and liabilities that are not required or permitted to be measured at fair value on a recurring basis. As such, the Company did not apply the fair value measurement requirements of SFAS No. 157 for nonfinancial assets and liabilities when performing its goodwill and other assets impairment test as discussed in Note 1(i). The Company adopted SFAS No. 157 on January 1, 2008, which had no effect on the Company’s consolidated financial statements. Refer to Note 7 for additional information related to the adoption of SFAS No. 157.

In December 2007, the FASB issued SFAS No. 141 (Revised 2007), “Business Combinations.” SFAS No. 141R is effective for fiscal years beginning after December 15, 2008 and adjusts certain guidance related to recording nearly all transactions where one company gains control of another. The statement revises the measurement principle to require fair value measurements on the acquisition date for recording acquired assets and liabilities. It also changes the requirements for recording acquisition-related costs and liabilities. Additionally, the statement revises the treatment of valuation allowance adjustments related to income tax benefits in existence prior to a business combination. The current standard, SFAS No. 141, requires that adjustments to these valuation allowances be recorded as adjustments to goodwill or intangible assets if no goodwill exists, while the new standard will require companies to adjust current income tax expense. Effective January 1, 2009, the Company adopted the provisions of SFAS No. 141R and all future decreases in the valuation allowance established in purchase accounting as a result of the merger will be recognized as a reduction to income tax expense.

**US Airways Group, Inc.**

**Notes to Consolidated Financial Statements — (Continued)**

On January 1, 2008, the Company adopted the measurement date provisions of SFAS No. 158, “Employers’ Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106, and 132(R).” The measurement date provisions require plan assets and obligations to be measured as of the employer’s balance sheet date. The Company previously measured its other postretirement benefit obligations as of September 30 each year. As a result of the adoption of the measurement date provisions, the Company recorded a \$2 million increase to its postretirement benefit liability and a \$2 million increase to accumulated deficit, representing the net periodic benefit cost for the period between the measurement date utilized in 2007 and the beginning of 2008. The adoption of the measurement provisions of SFAS No. 158 had no effect on the Company’s consolidated statements of operations.

In May 2008, the FASB issued FASB Staff Position (“FSP”) Accounting Principles Board (“APB”) 14-1, “Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement).” FSP APB 14-1 applies to convertible debt instruments that, by their stated terms, may be settled in cash (or other assets) upon conversion, including partial cash settlement of the conversion option. FSP APB 14-1 requires bifurcation of the instrument into a debt component that is initially recorded at fair value and an equity component. The difference between the fair value of the debt component and the initial proceeds from issuance of the instrument is recorded as a component of equity. The liability component of the debt instrument is accreted to par using the effective yield method; accretion is reported as a component of interest expense. The equity component is not subsequently re-valued as long as it continues to qualify for equity treatment. FSP APB 14-1 must be applied retrospectively to previously issued cash-settleable convertible instruments as well as prospectively to newly issued instruments. FSP APB 14-1 is effective for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. The adoption of FSP APB 14-1 will result in increased non-cash interest expense in future periods related to the Company’s 7% senior convertible notes issued in 2005. Upon retrospective application in 2009, the adoption will also result in increases to 2005 through 2008 non-cash interest expense as well as non-cash losses on debt extinguishment related to the partial conversion of certain notes to common stock in 2006. The Company does not believe the adoption of FSP APB 14-1 will materially impact the Company’s consolidated financial statements.

In October 2008, the FASB issued FSP FAS 157-3, “Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active.” FSP FAS 157-3 clarifies the application of SFAS No. 157 in a market that is not active and provides an example to illustrate key considerations in determining the fair value of a financial asset when the market for that financial asset is not active. FSP FAS 157-3 is effective upon issuance, including prior periods for which financial statements have not been issued. Revisions resulting from a change in the valuation technique or its application should be accounted for as a change in accounting estimate following the guidance in SFAS No. 154, “Accounting Changes and Error Corrections.” FSP FAS 157-3 is effective October 10, 2008, and the application of FSP FAS 157-3 had no impact on the Company’s consolidated financial statements.

**2. Special items, net**

Special items, net as shown on the consolidated statements of operations include the following charges (credits) (in millions):

	<b>Year Ended December 31,</b>		
	<b>2008</b>	<b>2007</b>	<b>2006</b>
Merger related transition expenses(a)	\$ 35	\$ 99	\$ 131
Asset impairment charges(b)	18	—	—
Lease return costs and penalties(c)	14	—	—
Severance charges(d)	9	—	—
Airbus restructuring(e)	—	—	(90)
Settlement of bankruptcy claims(f)	—	—	(14)
<b>Total</b>	<b>\$ 76</b>	<b>\$ 99</b>	<b>\$ 27</b>

**US Airways Group, Inc.**

**Notes to Consolidated Financial Statements — (Continued)**

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(a) In 2008, in connection with the effort to consolidate functions and integrate the Company's organizations, procedures and operations, the Company incurred \$35 million of merger related transition expenses. These expenses included \$12 million in uniform costs to transition employees to the new US Airways uniforms; \$5 million in applicable employment tax expenses related to contractual benefits granted to certain current and former employees as a result of the merger; \$6 million in compensation expenses for equity awards granted in connection with the merger to retain key employees through the integration period; \$5 million of aircraft livery costs; \$4 million in professional and technical fees related to the integration of the Company's airline operations systems and \$3 million in other expenses.

In 2007, the Company incurred \$99 million of merger related transition expenses. These expenses included \$13 million in training and related expenses; \$19 million in compensation expenses for equity awards granted in connection with the merger to retain key employees through the integration period; \$20 million of aircraft livery costs; \$37 million in professional and technical fees related to the integration of the Company's airline operations systems; \$1 million in employee moving expenses; \$4 million related to reservation system migration expenses and \$5 million of other expenses.

In 2006, the Company incurred \$131 million of merger related transition expenses. These items included \$6 million in training and related expenses; \$41 million in compensation expenses primarily for severance, retention payments and equity awards granted in connection with the merger to retain key employees through the integration period; \$17 million of aircraft livery costs; \$38 million in professional and technical fees, including continuing professional fees associated with US Airways' bankruptcy proceedings and fees related to the integration of the Company's airline operations systems; \$7 million of employee moving expenses; \$11 million of net costs associated with the integration of the AWA FlightFund and US Airways Dividend Miles frequent traveler programs; \$2 million in merger related aircraft lease return expenses and \$9 million of other expenses.

- (b) In 2008, the Company recorded \$18 million in non-cash charges related to the decline in fair value of certain spare parts associated with the Company's Boeing 737 aircraft fleet. See Note 1(f) and (g) for further discussion of these charges.
- (c) In 2008, the Company recorded \$14 million in charges for lease return costs and penalties related to certain Airbus aircraft as a result of the planned fleet reductions.
- (d) In 2008, in connection with planned capacity reductions, the Company recorded \$9 million in charges related to involuntary furloughs as well as terminations of non-union administrative and management staff. Of this amount, \$6 million was paid out in 2008. The Company expects that the remaining \$3 million will be substantially paid by the end of the first quarter of 2009.
- (e) In connection with the merger and the Airbus Memorandum of Understanding (the "Airbus MOU") executed between AVSA S.A.R.L., an affiliate of Airbus S.A.S. ("Airbus"), US Airways Group, US Airways and AWA, certain aircraft firm orders were restructured. In connection with the Airbus MOU, US Airways and AWA entered into two loan agreements with aggregate commitments of up to \$161 million and \$89 million. On March 31, 2006, the outstanding principal and accrued interest on the \$89 million loan was forgiven upon repayment in full of the \$161 million loan in accordance with terms of the Airbus loans. As a result, in 2006, the Company recognized a gain associated with the return of these equipment deposits upon forgiveness of the loan totaling \$90 million, consisting of the \$89 million in equipment deposits and accrued interest of \$1 million.
- (f) In 2006, the Company recognized \$14 million in gains in connection with the settlement of bankruptcy claims, which includes \$11 million related to a settlement with Bombardier.

US Airways Group, Inc.

Notes to Consolidated Financial Statements — (Continued)

3. Earnings (loss) per common share

Basic earnings (loss) per common share (“EPS”) is computed on the basis of the weighted average number of shares of common stock outstanding during the period. Diluted EPS is computed on the basis of the weighted average number of shares of common stock plus the effect of dilutive potential common shares outstanding during the period using the treasury stock method. Dilutive potential common shares include outstanding employee stock options, employee stock appreciation rights, employee restricted stock units and convertible debt. The following table presents the computation of basic and diluted EPS (in millions, except share and per share amounts):

	Year Ended December 31,		
	2008	2007	2006
<b>Basic earnings (loss) per share:</b>			
Income (loss) before cumulative effect of change in accounting principle	\$ (2,210)	\$ 427	\$ 303
Cumulative effect of change in accounting principle	—	—	1
Net income (loss)	<u>\$ (2,210)</u>	<u>\$ 427</u>	<u>\$ 304</u>
Weighted average common shares outstanding (in thousands)	<u>100,168</u>	<u>91,536</u>	<u>86,447</u>
<b>Basic earnings (loss) per share:</b>			
Before cumulative effect of change in accounting principle	\$ (22.06)	\$ 4.66	\$ 3.50
Cumulative effect of change in accounting principle	—	—	0.01
Basic earnings (loss) per share	<u>\$ (22.06)</u>	<u>\$ 4.66</u>	<u>\$ 3.51</u>
<b>Diluted earnings (loss) per share:</b>			
Income (loss) before cumulative effect of change in accounting principle	\$ (2,210)	\$ 427	\$ 303
Cumulative effect of change in accounting principle	—	—	1
Net income (loss)	(2,210)	427	304
Interest expense on 7.0% senior convertible notes	—	5	9
Income (loss) for purposes of computing diluted net income (loss) per share	<u>\$ (2,210)</u>	<u>\$ 432</u>	<u>\$ 313</u>
<b>Share computation (in thousands):</b>			
Weighted average common shares outstanding	100,168	91,536	86,447
Dilutive effect of stock awards	—	1,017	2,058
Assumed conversion of 7.0% senior convertible notes	—	3,050	5,316
Weighted average common shares outstanding as adjusted	<u>100,168</u>	<u>95,603</u>	<u>93,821</u>
<b>Diluted earnings (loss) per share:</b>			
Before cumulative effect of change in accounting principle	\$ (22.06)	\$ 4.52	\$ 3.32
Cumulative effect of change in accounting principle	—	—	0.01
Diluted earnings (loss) per share	<u>\$ (22.06)</u>	<u>\$ 4.52</u>	<u>\$ 3.33</u>

For the year ended December 31, 2008, 8,181,340 shares underlying stock options, stock appreciation rights and restricted stock units were not included in the computation of diluted EPS because inclusion of such shares would be antidilutive or because the exercise prices were greater than the average market price of common stock for the period. In addition, 3,050,148 incremental shares from assumed conversion of the 7% senior convertible notes were excluded from the computation of diluted EPS due to their antidilutive effect.

For the year ended December 31, 2007, 2,916,762 shares underlying stock options, stock appreciation rights and restricted stock units were not included in the computation of diluted EPS because inclusion of such shares would be antidilutive or because the exercise prices were greater than the average market price of common stock for the period.



**US Airways Group, Inc.**

**Notes to Consolidated Financial Statements — (Continued)**

For the year ended December 31, 2006, 1,254,960 shares underlying stock options and stock appreciation rights were not included in the computation of diluted EPS because inclusion of such shares would be antidilutive or because the exercise prices were greater than the average market price of common stock for the period. Also, 34,650 performance-based restricted stock unit awards were excluded as the performance-based provision had not been met as of December 31, 2006. In addition, 1,054,692 incremental shares from assumed conversion of the 7.5% convertible senior notes are not included in the computation of diluted EPS due to their antidilutive effect.

**4. Debt**

The following table details the Company's debt as of December 31, 2008 and 2007 (in millions). Variable interest rates listed are the rates as of December 31, 2008 unless noted.

	<u>December 31,</u> <u>2008</u>	<u>December 31,</u> <u>2007</u>
<i>Secured</i>		
Citicorp North America loan, variable interest rate of 2.97%, installments due through 2014(a)	\$ 1,184	\$ 1,600
Equipment loans, aircraft pre-delivery payment financings and other notes payable, fixed and variable interest rates ranging from 1.87% to 12.15%, averaging 5.75% as of December 31, 2008, maturing from 2010 to 2020(b)	1,674	802
Aircraft enhanced equipment trust certificates ("EETCs"), fixed interest rates ranging from 7.08% to 9.01%, averaging 7.79% as of December 31, 2008, maturing from 2015 to 2022(c)	540	576
Slot financing, fixed interest rate of 8.08%, interest only payments until due in 2015(d)	47	47
Capital lease obligations, interest rate of 8%, installments due through 2021(e)	39	41
Senior secured discount notes, variable interest rate of 5.34%, due in 2009(f)	32	32
Capital lease obligations, computer software	—	1
	<u>3,516</u>	<u>3,099</u>
<i>Unsecured</i>		
Barclays prepaid miles, variable interest rate of 5.19%, interest only payments(g)	200	—
Airbus advance, repayments beginning in 2010 through 2018(h)	207	—
7% senior convertible notes, interest only payments until due in 2020(i)	74	74
Engine maintenance notes(j)	72	57
Industrial development bonds, fixed interest rate of 6.3%, interest only payments until due in 2023(k)	29	29
Note payable to Pension Benefit Guaranty Corporation, fixed interest rate of 6%, interest only payments until due in 2012(l)	10	10
Other notes payable, due in 2009	45	—
	<u>637</u>	<u>170</u>
Total long-term debt and capital lease obligations	4,153	3,269
Less: Total unamortized discount on debt	(157)	(121)
Current maturities, less \$10 million of unamortized discount on debt at December 31, 2008	(362)	(117)
Long-term debt and capital lease obligations, net of current maturities	<u>\$ 3,634</u>	<u>\$ 3,031</u>

(a) On March 23, 2007, US Airways Group entered into a term loan credit facility with Citicorp North America, Inc., as administrative agent, and a syndicate of lenders pursuant to which the Company borrowed an aggregate

**US Airways Group, Inc.**

**Notes to Consolidated Financial Statements — (Continued)**

principal amount of \$1.6 billion. US Airways, AWA and certain other subsidiaries of the Company are guarantors of the Citicorp credit facility.

The Citicorp credit facility bears interest at an index rate plus an applicable index margin or, at the Company's option, LIBOR plus an applicable LIBOR margin for interest periods of one, two, three or six months. The applicable index margin, subject to adjustment, is 1.00%, 1.25% or 1.50% if the adjusted loan balance is less than \$600 million, between \$600 million and \$1 billion, or between \$1 billion and \$1.6 billion, respectively. The applicable LIBOR margin, subject to adjustment, is 2.00%, 2.25% or 2.50% if the adjusted loan balance is less than \$600 million, between \$600 million and \$1 billion, or between \$1 billion and \$1.6 billion, respectively. In addition, interest on the Citicorp credit facility may be adjusted based on the credit rating for the Citicorp credit facility as follows: (i) if the credit ratings of the Citicorp credit facility by Moody's and S&P in effect as of the last day of the most recently ended fiscal quarter are both at least one subgrade better than the credit ratings in effect on March 23, 2007, then (A) the applicable LIBOR margin will be the lower of 2.25% and the rate otherwise applicable based upon the adjusted Citicorp credit facility balance and (B) the applicable index margin will be the lower of 1.25% and the rate otherwise applicable based upon the Citicorp credit facility principal balance, and (ii) if the credit ratings of the Citicorp credit facility by Moody's and S&P in effect as of the last day of the most recently ended fiscal quarter are both at least two subgrades better than the credit ratings in effect on March 23, 2007, then (A) the applicable LIBOR margin will be 2.00% and (B) the applicable index margin will be 1.00%. As of December 31, 2008, the interest rate on the Citicorp credit facility was 2.97% based on a 2.50% LIBOR margin.

The Citicorp credit facility matures on March 23, 2014, and is repayable in seven annual installments with each of the first six installments to be paid on each anniversary of the closing date in an amount equal to 1% of the initial aggregate principal amount of the loan and the final installment to be paid on the maturity date in the amount of the full remaining balance of the loan.

In addition, the Citicorp credit facility requires certain mandatory prepayments upon the occurrence of certain events, establishes certain financial covenants, including minimum cash requirements and maintenance of certain minimum ratios, contains customary affirmative covenants and negative covenants and contains customary events of default. Prior to the amendment discussed below, the Citicorp credit facility required the Company to maintain consolidated unrestricted cash and cash equivalents of not less than \$1.25 billion, with not less than \$750 million (subject to partial reductions upon certain reductions in the outstanding principal amount of the loan) of that amount held in accounts subject to control agreements, which would become restricted for use by the Company if certain adverse events occur per the terms of the agreement.

On October 20, 2008, US Airways Group entered into an amendment to the Citicorp credit facility. Pursuant to the amendment, the Company repaid \$400 million of indebtedness under the credit facility, reducing the principal amount outstanding under the credit facility to approximately \$1.18 billion as of December 31, 2008. The Citicorp credit facility amendment also provides for a reduction in the amount of unrestricted cash required to be held by the Company from \$1.25 billion to \$850 million, and the Company may, prior to September 30, 2009, further reduce that minimum requirement to a minimum of \$750 million on a dollar-for-dollar basis for any additional repayments of up to \$100 million of indebtedness under the credit facility. The Citicorp credit facility amendment also provides that the Company may sell, finance or otherwise pledge assets that were pledged as collateral under the credit facility, so long as the Company prepays the indebtedness under the credit facility in an amount equal to 75% of the appraised value of the collateral sold or financed or assigned or 75% of the collateral value of eligible accounts (determined in accordance with the credit facility) sold or financed in such transaction. In addition, the Citicorp credit facility amendment provides that the Company may issue debt in the future with a silent second lien on the assets pledged as collateral under the Citicorp credit facility.

(b) The following are the significant secured financing agreements entered into in 2008:

On February 1, 2008, US Airways entered into a loan agreement for \$145 million, secured by six Bombardier CRJ-700 aircraft, three Boeing 757 aircraft and one spare engine. The loan bears interest at a rate of LIBOR

**US Airways Group, Inc.**

**Notes to Consolidated Financial Statements — (Continued)**

plus an applicable margin and is amortized over ten years. The proceeds of the loan were used to repay \$97 million of the equipment notes previously secured by the six Bombardier CRJ-700 aircraft and three Boeing 757 aircraft.

On February 29, 2008, US Airways entered into a credit facility agreement for \$88 million to finance certain pre-delivery payments required by US Airways' purchase agreements with Airbus. As of December 31, 2008, the outstanding balance of this credit facility agreement is \$73 million. The remaining amounts under this facility will be drawn as pre-delivery payments come due. The loan bears interest at a rate of LIBOR plus an applicable margin and is repaid as the related aircraft are delivered with a final maturity date of the loan in November 2010.

In the second quarter of 2008, US Airways entered into facility agreements with three lenders in the amounts of \$199 million, \$198 million, and \$119 million to finance the acquisition of certain Airbus A320 family aircraft deliveries starting in the second half of 2008. The loans bear interest at a rate of LIBOR plus an applicable margin, contain default and other covenants that are typical in the industry for similar financings, and are amortized over twelve years with balloon payments at maturity.

On October 20, 2008, US Airways entered into a \$270 million spare parts loan agreement and an \$85 million engines loan agreement. The proceeds of the term loans made under these loan agreements were used to repay a portion of the outstanding indebtedness pursuant to the Citicorp credit facility amendment discussed in (a) above.

US Airways' obligations under the spare parts loan agreement are secured by a first priority security interest in substantially all of US Airways' rotatable, repairable and expendable aircraft spare parts. The obligations under the engines loan agreement are secured by a first priority security interest in 36 of US Airways' aircraft engines. US Airways has also agreed that other obligations owed by it or its affiliates to the administrative agent for the loan agreements or its affiliates (including the loans under these loan agreements held by such administrative agent or its affiliates) will be secured on a second priority basis by the collateral for both loan agreements and certain other engines and aircraft.

The term loans under these loan agreements will bear interest at a rate equal to LIBOR plus a margin per annum, subject to adjustment in certain circumstances.

These loan agreements contain customary representations and warranties, events of default and covenants for financings of this nature, including obligations to maintain compliance with covenants tied to the appraised value of US Airways' spare parts and the appraised value and maintenance condition of US Airways' engines, respectively.

The spare parts loan agreement matures on the sixth anniversary of the closing date, and is subject to quarterly amortization in amounts ranging from \$8 million to \$15 million. The spare parts loan agreement may not be voluntarily prepaid during the first three years of the term; however, the loan agreement provided that in certain circumstances US Airways could prepay \$100 million of the loans under the agreement. The engines loan agreement, which may not be voluntarily prepaid prior to the third anniversary of the closing date, matures on the sixth anniversary of the closing date, and is subject to amortization in 24 equal quarterly installments.

On December 5, 2008, US Airways prepaid \$100 million of principal outstanding under the spare parts loan agreement. In connection with this prepayment and pursuant to an amendment to the spare parts loan agreement, subject to certain conditions, US Airways obtained the right to incur up to \$100 million in new loans. The right to incur new loans expires on April 1, 2009.

- (c) The equipment notes underlying the EETCs are the direct obligations of US Airways and cover the financing of 19 aircraft. See Note 9(c) for further discussion.
- (d) In September 2005, US Airways entered into an agreement with Republic to sell and leaseback certain of its commuter slots at Ronald Reagan Washington National Airport and New York LaGuardia Airport. US Airways continues to hold the right to repurchase the slots anytime after the second anniversary of the slot sale-leaseback

**US Airways Group, Inc.**

**Notes to Consolidated Financial Statements — (Continued)**

transaction. These transactions were accounted for as secured financings. Installments are due monthly through 2015. In December 2006, Republic and US Airways modified terms of the agreement to conform to subsequent regulatory changes at LaGuardia, and the LaGuardia slots were returned to US Airways. The need for a subsequent modification was fully contemplated in the original agreement.

- (e) Capital lease obligations consist principally of certain airport maintenance and facility leases which expire in 2018 and 2021.
- (f) On December 27, 2004, AWA raised additional capital by financing its Phoenix maintenance facility and flight training center. The flight training center was previously unencumbered, and the maintenance facility became unencumbered earlier in 2004 when AWA refinanced its term loan. Using its leasehold interest in these two facilities as collateral, AWA, through a wholly owned subsidiary named FTCHP LLC, raised \$31 million through the issuance of senior secured discount notes. The notes were issued by FTCHP at a discount pursuant to the terms of a senior secured term loan agreement among AWA, FTCHP, Heritage Bank SSB, as administrative agent, Citibank, N.A., as the initial lender, and the other lenders from time to time party thereto. Citibank, N.A. subsequently assigned all of its interests in the notes to third party lenders.

AWA fully and unconditionally guaranteed the payment and performance of FTCHP's obligations under the notes and the loan agreement. The notes require aggregate principal payments of \$36 million with principal payments of \$2 million due on each of the first two anniversary dates and the remaining principal amount due on the fifth anniversary date. The notes may be prepaid in full at any time (subject to customary LIBOR breakage costs) and in partial amounts of \$2 million on the third and fourth anniversary dates. The unpaid principal amount of the notes bears interest based on LIBOR plus a margin subject to adjustment based on a loan to collateral value ratio.

The loan agreement contains customary covenants applicable to loans of this type, including obligations relating to the preservation of the collateral and restrictions on the activities of FTCHP. In addition, the loan agreement contains events of default, including payment defaults, cross-defaults to other debt of FTCHP, if any, breach of covenants, bankruptcy and insolvency defaults and judgment defaults.

In connection with this financing, AWA sold all of its leasehold interests in the maintenance facility and flight training center to FTCHP and entered into subleases for the facilities with FTCHP at lease rates expected to approximate the interest payments due under the notes. In addition, AWA agreed to make future capital contributions to FTCHP in amounts sufficient to cover principal payments and other amounts owing pursuant to the notes and the loan agreement. As part of the transfer of substantially all of AWA's assets and liabilities to USAirways in connection with the combination of all mainline airline operations under one FAA operating certificate on September 26, 2007, AWA assigned its subleases for the facilities with FTCHP to US Airways. In addition, US Airways assumed all of the obligations of AWA in connection with the financing and joined the guarantee of the payment and performance of FTCHP's obligations under the notes and the loan agreement.

- (g) Effective as of October 20, 2008, US Airways Group entered into an amendment to its co-branded credit card agreement with Barclays Bank Delaware. The amendment provides for, among other things, the pre-purchase of frequent flyer miles in an amount totaling \$200 million, which amount was paid by Barclays in October 2008. The amendment also provides that so long as any pre-purchased miles are outstanding, the Company will pay interest to Barclays on the outstanding dollar amount of the pre-purchased miles at the rate of LIBOR plus a margin. This transaction was treated as a financing transaction for accounting purposes using an effective interest rate commensurate with the Company's credit rating.

The amendment to the co-branded credit card agreement provides that Barclays will compensate us for fees earned using pre-purchased miles. In addition, the amendment provides that for each month that certain conditions are met, Barclays will pre-purchase additional miles on a monthly basis in an amount equal to the difference between \$200 million and the amount of unused miles then outstanding. The conditions include a requirement that the Company maintains an unrestricted cash balance, subject to certain circumstances, of at least \$1.5 billion each month, which was reduced to \$1.4 billion for January 2009 and \$1.45 billion for

**US Airways Group, Inc.**

**Notes to Consolidated Financial Statements — (Continued)**

February 2009, with the unrestricted cash balance in all cases including certain fuel hedge collateral. The reductions addressed the impact on the Company's unrestricted cash of its obligations to post significant amounts of collateral with its fuel hedging counterparties due to recent rapid declines in fuel prices.

Prior to the second anniversary of the date of the amendment, the \$200 million cap on Barclays' pre-purchase obligation may be reduced if certain conditions are not met. Commencing on that second anniversary, the \$200 million cap will be reduced over a period of approximately two years until such time as no pre-purchased miles remain; however, the time of reduction of the cap may be accelerated if certain conditions are not met. The Company may repurchase any or all of the pre-purchased miles at any time, from time to time, without penalty.

Pursuant to the amendment to the co-branded credit card agreement, the expiration date of the agreement was extended to 2017.

- (h) On October 20, 2008, US Airways and Airbus entered into amendments to the A320 Family Aircraft Purchase Agreement, the A330 Aircraft Purchase Agreement, and the A350 XWB Purchase Agreement. In exchange for US Airways' agreement to enter into these amendments, Airbus advanced US Airways \$200 million in consideration of aircraft deliveries under the various related purchase agreements. Under the terms of each of the amendments, US Airways has agreed to maintain a level of unrestricted cash in the same amount required by the Citicorp credit facility. This transaction was treated as a financing transaction for accounting purposes using an effective interest rate commensurate with US Airways' credit rating. There are no stated interest payments.
- (i) On September 30, 2005, US Airways Group issued \$144 million aggregate principal amount of 7% Senior Convertible Notes due 2020 (the "7% Senior Convertible Notes") for proceeds, net of expenses, of approximately \$139 million. The 7% Senior Convertible Notes are US Airways Group's senior unsecured obligations and rank equally in right of payment to its other senior unsecured and unsubordinated indebtedness and are effectively subordinated to its secured indebtedness to the extent of the value of assets securing such indebtedness. The 7% Senior Convertible Notes are fully and unconditionally guaranteed, jointly and severally and on a senior subordinated basis, by US Airways and AWA. The guarantees are the guarantors' unsecured obligations and rank equally in right of payment to the other senior unsecured and unsubordinated indebtedness of the guarantors and are effectively subordinated to the guarantors' secured indebtedness to the extent of the value of assets securing such indebtedness.

The 7% Senior Convertible Notes bear interest at the rate of 7% per year payable in cash semiannually in arrears on March 30 and September 30 of each year, beginning March 30, 2006. The 7% Senior Convertible Notes mature on September 30, 2020.

Holders may convert, at any time on or prior to maturity or redemption, any outstanding notes (or portions thereof) into shares of US Airways Group's common stock, initially at a conversion rate of 41.4508 shares of US Airways Group's common stock per \$1,000 principal amount of notes (equivalent to an initial conversion price of approximately \$24.12 per share of US Airways Group's common stock). If a holder elects to convert its notes in connection with certain specified fundamental changes that occur prior to October 5, 2015, the holder will be entitled to receive additional shares of US Airways Group's common stock as a make whole premium upon conversion. In lieu of delivery of shares of US Airways Group's common stock upon conversion of all or any portion of the notes, US Airways Group may elect to pay holders surrendering notes for conversion, cash or a combination of shares and cash.

Holders may require US Airways Group to purchase for cash or shares or a combination thereof, at US Airways Group's election, all or a portion of their 7% Senior Convertible Notes on September 30, 2010 and September 30, 2015 at a purchase price equal to 100% of the principal amount of the 7% Senior Convertible Notes to be repurchased plus accrued and unpaid interest, if any, to the purchase date. In addition, if US Airways Group experiences a specified fundamental change, holders may require US Airways Group to purchase for cash, shares or a combination thereof, at its election, all or a portion of their 7% Senior Convertible Notes, subject to specified exceptions, at a price equal to 100% of the principal amount of the

**US Airways Group, Inc.**

**Notes to Consolidated Financial Statements — (Continued)**

7% Senior Convertible Notes plus accrued and unpaid interest, if any, to the purchase date. Prior to October 5, 2010, the 7% Senior Convertible Notes will not be redeemable at US Airways Group's option. US Airways Group may redeem all or a portion of the 7% Senior Convertible Notes at any time on or after October 5, 2010, at a price equal to 100% of the principal amount of the 7% Senior Convertible Notes plus accrued and unpaid interest, if any, to the redemption date if the closing price of US Airways Group's common stock has exceeded 115% of the conversion price for at least 20 trading days in the 30 consecutive trading day period ending on the trading day before the date on which US Airways Group mails the optional redemption notice.

In 2006, \$70 million of the \$144 million outstanding principal amount was converted into 2,909,636 shares of common stock. In connection with the conversion, the Company paid a premium of \$17 million to the holders of the converted notes, which was recorded in other nonoperating expenses.

- (j) In December 2004, deferred charges under US Airways' maintenance agreements with GE Engine Services, Inc. were converted into an unsecured term note. Interest on the note accrues at LIBOR plus 4%, and became payable beginning in January 2008, with principal and interest payments due in 48 monthly installments through 2011. The outstanding balance on the note at December 31, 2008 was \$39 million at an interest rate of 6.6%.

In October 2008, US Airways entered into a promissory note with GE Engine Services, Inc. pursuant to which maintenance payments up to \$40 million due from October 2008 through March 2009 under US Airways' Engine Service Agreement are deferred. Interest on the note accrues at 14%, and becomes payable beginning in April 2009, at which time principal and interest payments are due in 12 monthly installments. The deferred balance on the note at December 31, 2008 was \$33 million.

- (k) The industrial development revenue bonds are due April 2023. Interest at 6.3% is payable semiannually on April 1 and October 1. The bonds are subject to optional redemption prior to the maturity date on or after April 1, 2008, in whole or in part, on any interest payment date at the following redemption prices: 102% on April 1 or October 1, 2008; 101% on April 1 or October 1, 2009; and 100% on April 1, 2010 and thereafter.

- (l) In connection with US Airways Group's emergence from bankruptcy in September 2005, it reached a settlement with the Pension Benefit Guaranty Corporation ("PBGC") related to the termination of three of its defined benefit pension plans. The settlement included the issuance of a \$10 million note which matures in 2012 and bears interest at 6% payable annually in arrears.

Secured financings are collateralized by assets, primarily aircraft, engines, simulators, rotatable aircraft parts and hangar and maintenance facilities. At December 31, 2008, the estimated maturities of long-term debt and capital leases are as follows (in millions):

2009	\$ 372
2010	254
2011	373
2012	345
2013	208
Thereafter	2,601
	<u>\$ 4,153</u>

Certain of the Company's long-term debt agreements contain minimum cash balance requirements and other covenants with which the Company was in compliance at December 31, 2008. Certain of the Company's long-term debt agreements contain cross-default provisions, which may be triggered by defaults by US Airways or US Airways Group under other agreements relating to indebtedness.



**US Airways Group, Inc.**

**Notes to Consolidated Financial Statements — (Continued)**

**5. Income taxes**

The Company accounts for income taxes using the asset and liability method. The Company files a consolidated federal income tax return with its wholly owned subsidiaries. The Company and its wholly owned subsidiaries allocate tax and tax items, such as net operating losses (“NOL”) and net tax credits, between members of the group based on their proportion of taxable income and other items. Accordingly, the Company’s tax expense is based on taxable income, taking into consideration allocated tax loss carryforwards/carrybacks and tax credit carryforwards.

The Company reported a loss for 2008, which increased its NOL, and has not recorded a tax provision for 2008. As of December 31, 2008, the Company has approximately \$1.49 billion of gross NOL to reduce future federal taxable income. Of this amount, approximately \$1.44 billion is available to reduce federal taxable income in the calendar year 2009. The NOL expires during the years 2022 through 2028. The Company’s deferred tax asset, which includes \$1.41 billion of the NOL discussed above, has been subject to a full valuation allowance. The Company also has approximately \$77 million of tax-effected state NOL as of December 31, 2008.

In assessing the realizability of the deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will be realized. The Company has recorded a valuation allowance against its net deferred tax asset. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income (including reversals of deferred tax liabilities) during the periods in which those temporary differences will become deductible.

At December 31, 2008, the federal valuation allowance is \$568 million, all of which will reduce future tax expense when recognized. The state valuation allowance is \$82 million, of which \$58 million was established through the recognition of tax expense. The remaining \$24 million was established in purchase accounting. Effective January 1, 2009, the Company adopted SFAS No. 141R. In accordance with SFAS No. 141R, all future decreases in the valuation allowance established in purchase accounting will be recognized as a reduction of tax expense. In addition, the Company has \$23 million and \$2 million, respectively, of unrealized federal and state tax benefit related to amounts recorded in other comprehensive income.

Throughout 2006 and 2007, the Company utilized NOL that was generated by US Airways prior to the merger. Utilization of the NOL results in a corresponding decrease in the valuation allowance. As this valuation allowance was established through the recognition of tax expense, the decrease in valuation allowance offsets the Company’s tax provision dollar for dollar. The Company recognized \$7 million and \$85 million of non-cash tax expense for the years ended December 31, 2007 and 2006, respectively, as the Company utilized NOL that was generated by US Airways prior to the merger. As this was acquired NOL, the decrease in the valuation allowance associated with this NOL reduced goodwill instead of the provision for income taxes.

The Company is subject to Alternative Minimum Tax liability (“AMT”). In most cases, the recognition of AMT does not result in tax expense. However, since the Company’s net deferred tax asset is subject to a full valuation allowance, any liability for AMT is recorded as tax expense. The Company recorded AMT expense of \$1 million and \$10 million for the years ended December 31, 2007 and 2006, respectively. The Company also recorded \$1 million and \$2 million of state income tax related to certain states where NOL was not available or limited, for the years ended December 31, 2007 and 2006, respectively.



**US Airways Group, Inc.**  
**Notes to Consolidated Financial Statements — (Continued)**

The components of the provision for income taxes are as follows (in millions):

	<u>Year Ended December 31,</u>		
	<u>2008</u>	<u>2007</u>	<u>2006</u>
Current provision:			
Federal	\$ 1	\$ 1	\$ 10
State	—	1	2
Total current	1	2	12
Deferred provision:			
Federal	—	(1)	77
State	(1)	6	12
Total deferred	(1)	5	89
Provision for income taxes	<u>\$ —</u>	<u>\$ 7</u>	<u>\$ 101</u>

Income tax expense (benefit) differs from amounts computed at the federal statutory income tax rate as follows (in millions):

	<u>Year Ended December 31,</u>		
	<u>2008</u>	<u>2007</u>	<u>2006</u>
Income tax expense (benefit) at the federal statutory income tax rate	\$(773)	\$ 152	\$ 142
Book expenses not deductible for tax purposes	229	13	(4)
State income tax expense, net of federal income tax expense (benefit)	(30)	30	10
Change in valuation allowance	573	(186)	(67)
AMT provision	1	1	10
Other, net	—	(3)	10
Total	<u>\$ —</u>	<u>\$ 7</u>	<u>\$ 101</u>
Effective tax rate	<u>—%</u>	<u>1.5%</u>	<u>24.9%</u>

## US Airways Group, Inc.

## Notes to Consolidated Financial Statements — (Continued)

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and liabilities as of December 31, 2008 and 2007 are as follows (in millions):

	<u>2008</u>	<u>2007</u>
Deferred tax assets:		
Net operating loss carryforwards	\$ 546	\$ 282
Property, plant and equipment	22	22
Investments	95	19
Financing transactions	25	18
Employee benefits	352	347
Dividend Miles awards	144	153
AMT credit carryforward	38	38
Other deferred tax assets	199	16
Valuation allowance	(650)	(77)
Net deferred tax assets	<u>771</u>	<u>818</u>
Deferred tax liabilities:		
Depreciation and amortization	563	519
Sale and leaseback transactions and deferred rent	144	146
Leasing transactions	47	59
Long-lived intangibles	31	31
Other deferred tax liabilities	5	84
Total deferred tax liabilities	<u>790</u>	<u>839</u>
Net deferred tax liabilities	<u>19</u>	<u>21</u>
Less: current deferred tax liabilities	<u>—</u>	<u>—</u>
Non-current deferred tax liabilities	<u>\$ 19</u>	<u>\$ 21</u>

The reason for significant differences between taxable and pretax book income primarily relates to depreciation on fixed assets, employee pension and postretirement benefit costs, employee-related accruals and leasing transactions.

The Company files tax returns in the U.S. federal jurisdiction, and in various states and foreign jurisdictions. All federal and state tax filings for US Airways Group and its subsidiaries for fiscal years through December 31, 2007 have been timely filed. There are currently no federal audits and one state audit in process. The Company's federal income tax year 2004 was closed by operation of the statute of limitations expiring, and there were no extensions filed. The Company is not currently under IRS examination. The Company files tax returns in 44 states, and its major state tax jurisdictions are Arizona, California, Pennsylvania and North Carolina. Tax years up to 2003 for these state tax jurisdictions are closed by operation of the statute of limitations expiring, and there were no extensions filed.

The Company believes that its income tax filing positions and deductions related to tax periods subject to examination will be sustained upon audit and does not anticipate any adjustments that will result in a material adverse effect on the Company's financial condition, results of operations, or cash flow. Therefore, no reserves for uncertain income tax positions have been recorded pursuant to FIN 48, "Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109."

US Airways Group, Inc.

Notes to Consolidated Financial Statements — (Continued)

**6. Risk management and financial instruments**

The Company operates in an industry whose economic prospects are heavily dependent upon two variables it cannot control: the health of the economy and the price of fuel. Due to the discretionary nature of business and leisure travel spending, airline industry revenues are heavily influenced by the condition of the U.S. economy and the economies in other regions of the world. Unfavorable economic conditions may result in decreased passenger demand for air travel, which in turn could have a negative effect on the Company's revenues. Similarly, the airline industry may not be able to sufficiently raise ticket prices to offset increases in aviation jet fuel prices. These factors could impact the Company's results of operations, financial performance and liquidity.

**(a) Fuel Price Risk**

Because the Company's operations are dependent upon aviation fuel, significant increases in aviation fuel costs materially and adversely affect its liquidity, results of operations and financial condition. To manage the risk of changes in aviation fuel prices, the Company periodically enters into derivative contracts comprised of heating oil-based derivative instruments to hedge a portion of its projected jet fuel requirements. As of December 31, 2008, the Company had entered into no premium collars to hedge approximately 14% of its projected mainline and Express 2009 jet fuel requirements at a weighted average collar range of \$3.41 to \$3.61 per gallon of heating oil or \$131.15 to \$139.55 per barrel of estimated crude oil equivalent.

The fair value of the Company's fuel hedging derivative instruments at December 31, 2008 was a liability of \$375 million recorded in accounts payable. The fair value of the Company's fuel hedging derivative instruments at December 31, 2007 was an asset of \$121 million recorded in prepaid expenses and other. Refer to Note 7 for discussion on how the Company determines the fair value of its fuel hedging derivative instruments. The net change in the fair value from an asset of \$121 million to a liability of \$375 million represents the unrealized loss of \$496 million for 2008. The unrealized loss was due to the significant decline in the price of oil in the latter part of 2008. The following table details the Company's loss (gain) on fuel hedging instruments, net (in millions):

	Year Ended December 31, 2008	Year Ended December 31, 2007	Year Ended December 31, 2006
Realized loss (gain)	\$ (140)	\$ (58)	\$ 9
Unrealized loss (gain)	496	(187)	70
Loss (gain) on fuel hedging instruments, net	<u>\$ 356</u>	<u>\$ (245)</u>	<u>\$ 79</u>

**(b) Credit Risk**

*Fuel Hedging*

When the Company's fuel hedging derivative instruments are in a net asset position, the Company is exposed to credit losses in the event of non-performance by counterparties to its fuel hedging derivatives. The amount of such credit exposure is limited to the unrealized gains, if any, on the Company's fuel hedging derivatives. To manage credit risks, the Company carefully selects counterparties, conducts transactions with multiple counterparties which limits its exposure to any single counterparty, and monitors the market position of the program and its relative market position with each counterparty. The Company also maintains industry-standard security agreements with all of its counterparties which may require the counterparty to post collateral if the value of the fuel hedging derivatives exceeds specified thresholds related to the counterparty's credit ratings.

When the Company's fuel hedging derivative instruments are in a net liability position, the Company is exposed to credit risks related to the return of collateral in situations in which the Company has posted collateral with counterparties for unrealized losses. When possible, in order to mitigate this risk, the Company provides letters

**US Airways Group, Inc.**

**Notes to Consolidated Financial Statements — (Continued)**

of credit to certain counterparties in lieu of cash. At December 31, 2008, \$185 million related to letters of credit collateralizing certain counterparties to the Company's fuel hedging transactions is included in short-term restricted cash. In addition, at December 31, 2008, the Company had \$276 million in cash deposits held by counterparties to its fuel hedging transactions. Since the third quarter of 2008, the Company has not entered into any new transactions as part of its fuel hedging program due to the impact collateral requirements could have on its liquidity resulting from the significant decline in the price of oil and counterparty credit risk arising from global economic uncertainty.

Further declines in heating oil prices would result in additional collateral requirements with the Company's counterparties, unrealized losses on its existing fuel hedging derivative instruments and realized losses at the time of settlement of these fuel hedging derivative instruments.

*Cash, Cash Equivalents and Investments in Marketable Securities*

The Company invests available cash in money market securities and highly liquid debt instruments.

As of December 31, 2008, the Company held auction rate securities totaling \$411 million at par value, which are classified as available for sale securities and noncurrent assets on the Company's consolidated balance sheets. Contractual maturities for these auction rate securities range from eight to 44 years, with 62% of the Company's portfolio maturing within the next ten years, 10% maturing within the next 20 years, 16% maturing within the next 30 years and 12% maturing thereafter through 2052. The interest rates are reset approximately every 28 days, except one security for which the auction process is currently suspended. Current yields range from 1.76% to 6.08%. With the liquidity issues experienced in the global credit and capital markets, all of the Company's auction rate securities have experienced failed auctions since August 2007. The estimated fair value of these auction rate securities no longer approximates par value. However, the Company has not experienced any defaults and continues to earn and receive interest at the maximum contractual rates. See Note 7 for discussion on how the Company determines the fair value of its investments in auction rate securities.

At December 31, 2007, the \$411 million par value auction rate securities had a fair value of \$353 million, a \$58 million decline from par. Of this decline in fair value, \$48 million was deemed temporary and an unrealized loss in this amount was recorded to other comprehensive income. The Company concluded \$10 million of the decline was an other than temporary impairment as a single security with subprime exposure experienced a severe decline in fair value during the period. Accordingly, the \$10 million impairment charge was recorded to other nonoperating expense, net in the fourth quarter of 2007.

At December 31, 2008, the fair value of the Company's auction rate securities was \$187 million, representing a decline in fair value of \$166 million from December 31, 2007. The decline in fair value was caused by the significant deterioration in the financial markets in 2008. The Company concluded that the 2008 decline in fair value of \$166 million as well as the previously deemed temporary declines recorded to other comprehensive income of \$48 million were now other than temporary. The Company's conclusion for the other than temporary impairment was due to the length of time and extent to which the fair value has been less than cost for certain securities. All of these securities have experienced failed auctions for a period greater than one year, and there has been no recovery in their fair value. Accordingly, the Company recorded \$214 million in impairment charges in other nonoperating expense, net related to the other than temporary impairment of its auction rate securities. The Company continues to monitor the market for auction rate securities and consider its impact (if any) on the fair value of its investments. If the current market conditions deteriorate further, the Company may be required to record additional impairment charges in other nonoperating expense, net in future periods.

*Accounts Receivable*

As of December 31, 2008, most of the Company's receivables related to tickets sold to individual passengers through the use of major credit cards or to tickets sold by other airlines and used by passengers on US Airways or its

**US Airways Group, Inc.**

**Notes to Consolidated Financial Statements — (Continued)**

regional airline affiliates. These receivables are short-term, mostly being settled within seven days after sale. Bad debt losses, which have been minimal in the past, have been considered in establishing allowances for doubtful accounts. The Company does not believe it is subject to any significant concentration of credit risk.

**(c) Interest Rate Risk**

The Company has exposure to market risk associated with changes in interest rates related primarily to its variable rate debt obligations. Interest rates on \$2.8 billion principal amount of long-term debt as of December 31, 2008 are subject to adjustment to reflect changes in floating interest rates. The weighted average effective interest rate on the Company's variable rate debt was 4.33% at December 31, 2008.

The fair value of the Company's long-term debt was approximately \$3.31 billion and \$3.23 billion at December 31, 2008 and 2007, respectively. The fair values were estimated using quoted market prices where available. For long-term debt not actively traded, fair values were estimated using a discounted cash flow analysis, based on the Company's current incremental borrowing rates for similar types of borrowing arrangements.

**7. Fair value measurements**

As described in Note 1(s), the Company adopted SFAS No. 157 on January 1, 2008. SFAS No. 157, among other things, defines fair value, establishes a consistent framework for measuring fair value and expands disclosure for each major asset and liability category measured at fair value on either a recurring or nonrecurring basis. SFAS No. 157 clarifies that fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability. As a basis for considering such assumptions, SFAS No. 157 establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value as follows:

- Level 1. Observable inputs such as quoted prices in active markets;
- Level 2. Inputs, other than the quoted prices in active markets, that are observable either directly or indirectly; and
- Level 3. Unobservable inputs in which there is little or no market data, which require the reporting entity to develop its own assumptions.

Assets measured at fair value on a recurring basis are as follows (in millions):

	<u>Fair Value December 31, 2008</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>	<u>Valuation Technique</u>
Investments in marketable securities (noncurrent)	\$ 187	\$ —	\$ —	\$ 187	(1)
Fuel hedging derivatives	(375)	—	(375)	—	(2)

- (1) The Company estimated the fair value of these auction rate securities based on the following: (i) the underlying structure of each security; (ii) the present value of future principal and interest payments discounted at rates considered to reflect current market conditions; (iii) consideration of the probabilities of default, passing a future auction, or repurchase at par for each period; and (iv) estimates of the recovery rates in the event of default for each security. These estimated fair values could change significantly based on future market conditions. Refer to Note 6(b) for further discussion of the Company's investments in marketable securities.

**US Airways Group, Inc.****Notes to Consolidated Financial Statements — (Continued)**

- (2) Since the Company's fuel hedging derivative instruments are not traded on a market exchange, the fair values are determined using valuation models which include assumptions about commodity prices based on those observed in the underlying markets. The fair value of fuel hedging derivatives is recorded in accounts payable on the consolidated balance sheets. Refer to Note 6(a) for further discussion of the Company's fuel hedging derivatives.

Assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) are as follows (in millions):

	<b>Investments in Marketable Securities (Noncurrent)</b>
Balance at December 31, 2007	\$ 353
Losses deemed to be other than temporary reclassified from other comprehensive income to other nonoperating expense, net	48
Impairment losses included in other nonoperating expense, net	(214)
Balance at December 31, 2008	<u>\$ 187</u>

US Airways Group, Inc.

Notes to Consolidated Financial Statements — (Continued)

**8. Employee pension and benefit plans**

Substantially all of the Company's employees meeting certain service and other requirements are eligible to participate in various pension, medical, dental, life insurance, disability and survivorship plans.

*(a) Defined Benefit and Other Postretirement Benefit Plans*

The following table sets forth changes in the fair value of plan assets, benefit obligations and the funded status of the plans and the amounts recognized in the Company's consolidated balance sheets as of December 31, 2008 and 2007 (in millions).

	Defined Benefit Pension Plans(1)		Other Postretirement Benefits	
	Year Ended December 31, 2008	Year Ended December 31, 2007	Year Ended December 31, 2008	Year Ended December 31, 2007
Fair value of plan assets at beginning of period	\$ 46	\$ 45	\$ —	\$ —
Actual return on plan assets	(13)	3	—	—
Employer contributions	2	1	15	24
Plan participants' contributions	—	—	23	29
Gross benefits paid	(2)	(3)	(38)	(53)
Fair value of plan assets at end of period	33	46	—	—
Benefit obligation at beginning of period	50	59	163	220
Service cost	1	2	2	3
Interest cost	3	3	9	12
Plan participants' contributions	—	—	23	29
Actuarial (gain) loss	8	(7)	(33)	(48)
Curtailments(2)	—	(5)	—	—
Gross benefits paid	(3)	(2)	(38)	(53)
SFAS No. 158 adoption	—	—	(4)	—
Benefit obligation at end of period	59	50	122	163
Funded status of the plan	(26)	(4)	(122)	(163)
Contributions for October to December	—	—	—	6
Liability recognized in consolidated balance sheet	\$ (26)	\$ (4)	\$ (122)	\$ (157)
Net actuarial loss (gain) recognized in accumulated other comprehensive income	\$ 15	\$ (9)	\$ (80)	\$ (49)

(1) The Company maintains two defined benefit pension plans sponsored by Piedmont. Piedmont closed one plan to new participants in 2002 and froze the accrued benefits for the other plan for all participants in 2003. The aggregate accumulated benefit obligations, projected benefit obligations and plan assets were \$54 million, \$59 million and \$33 million, as of December 31, 2008 and \$46 million, \$50 million and \$46 million, as of December 31, 2007, respectively.



US Airways Group, Inc.

Notes to Consolidated Financial Statements — (Continued)

(2) For the year ended December 31, 2007, the Company recognized a \$5 million curtailment gain related to the elimination of a social security supplemental benefit as a result of the federally mandated change in the pilot retirement age from age 60 to 65.

Defined benefit plans are measured as of December 31, 2008 and 2007. As described in Note 1(s), the Company adopted the measurement provisions of SFAS No. 158 on January 1, 2008. The change in the Company's other postretirement benefit obligation reflects a \$4 million reduction for the adoption of SFAS No. 158 which includes \$6 million of benefit payments, offset by \$2 million of net periodic benefit costs for the period between the measurement date utilized in 2007, September 30, and the beginning of 2008. The \$2 million of net periodic benefit costs was recorded as an adjustment to accumulated deficit.

The following table presents the weighted average assumptions used to determine benefit obligations:

	Defined Benefit Pension Plans		Other Postretirement Benefits	
	Year Ended	Year Ended	Year Ended	Year Ended
	December 31, 2008	December 31, 2007	December 31, 2008	December 31, 2007
Discount rate	5.5%	6%	5.98%	5.94%
Rate of compensation increase	4%	4%	—	—

As of December 31, 2008 and 2007, the Company discounted its pension obligations based on the current rates earned on high quality Aa rated long-term bonds.

The Company assumed discount rates for measuring its other postretirement benefit obligations, based on a hypothetical portfolio of high quality publicly traded U.S. bonds (Aa rated, non-callable or callable with make-whole provisions), for which the timing and cash outflows approximate the estimated benefit payments of the other postretirement benefit plans.

As of December 31, 2008, the assumed health care cost trend rates are 9% in 2009 and 8% in 2010, decreasing to 5.5% in 2015 and thereafter. As of September 30, 2007, the assumed health care cost trend rates are 10% in 2008 and 9% in 2009, decreasing to 5.5% in 2013 and thereafter. The assumed health care cost trend rates could have a significant effect on amounts reported for retiree health care plans. A one-percentage point change in the health care cost trend rates would have the following effects on other postretirement benefits as of December 31, 2008 (in millions):

	1% Increase	1% Decrease
Effect on total service and interest costs	\$ 1	\$ (1)
Effect on postretirement benefit obligation	6	(5)

Weighted average assumptions used to determine net periodic benefit cost were as follows:

	Defined Benefit Pension Plans		Other Postretirement Benefits	
	Year Ended	Year Ended	Year Ended	Year Ended
	December 31, 2008	December 31, 2007	December 31, 2008	December 31, 2007
Discount rate	6%	5.75%	5.94%	5.67%
Expected return on plan assets	8%	8%	—	—
Rate of compensation increase	4%	4%	—	—

US Airways Group, Inc.

Notes to Consolidated Financial Statements — (Continued)

Components of the net and total periodic cost for pension and other postretirement benefits are as follows (in millions):

	Defined Benefit Pension Plans		Other Postretirement Benefits	
	Year Ended December 31, 2008	Year Ended December 31, 2007	Year Ended December 31, 2008	Year Ended December 31, 2007
	Service cost	\$ 1	\$ 2	\$ 2
Interest cost	3	3	9	12
Expected return on plan assets	(4)	(3)	—	—
Amortization of actuarial gain	—	—	(2)	—
Total periodic costs	\$ —	\$ 2	\$ 9	\$ 15

In 2009, the Company expects to contribute \$14 million to its other postretirement plans. No contributions are expected in 2009 for the Company's defined benefit plans. The following benefits, which reflect expected future service, as appropriate, are expected to be paid from the defined benefit and other postretirement plans (in millions):

	Defined Benefit Pension Plans	Other Postretirement Benefits before Medicare Subsidy	
		Medicare Subsidy	Medicare Subsidy
2009	\$ 2	\$ 14	\$ —
2010	2	12	—
2011	2	12	—
2012	2	11	—
2013	2	12	—
2014 to 2018	13	60	2

The Company assumed that its pension plans' assets would generate a long-term rate of return of 8% at December 31, 2008. The expected long-term rate of return assumption was developed by evaluating input from the plans' investment consultants, including their review of asset class return expectations and long-term inflation assumptions.

The weighted average asset allocation as of December 31 by asset category is as follows:

	2008	2007
Equity securities	69%	69%
Debt securities	30	30
Other	1	1
Total	100%	100%

The Company's targeted asset allocation as of December 31, 2008 is approximately 65% equity securities and 35% debt securities. The Company believes that its long-term asset allocation on average will approximate the targeted allocation. The Company regularly reviews its actual asset allocation and periodically rebalances its investments to its targeted allocation when considered appropriate.

**(b) Defined Contribution Plans**

The Company sponsors several defined contribution plans which cover a majority of its employee groups. The Company makes contributions to these plans based on the individual plan provisions, including an employer non-discretionary contribution and an employer match. These contributions are generally made based upon eligibility,

**US Airways Group, Inc.**

**Notes to Consolidated Financial Statements — (Continued)**

eligible earnings and employee group. Expenses related to these plans were \$96 million, \$81 million and \$92 million for the years ended December 31, 2008, 2007, and 2006, respectively.

**(c) Postemployment Benefits**

The Company provides certain postemployment benefits to its employees. These benefits include disability-related and workers' compensation benefits for certain employees. The Company accrues for the cost of such benefit expenses once an appropriate triggering event has occurred. In 2007, the Company recorded a \$99 million charge to increase long-term disability obligations for US Airways' pilots as a result of a change in the FAA mandated retirement age for pilots from 60 to 65.

**(d) Profit Sharing Plans**

Most non-executive employees of US Airways are eligible to participate in the 2005 Profit Sharing Plan, an annual bonus program. Annual bonus awards are paid from a profit-sharing pool equal to (i) ten percent of the annual profits of US Airways Group (excluding unusual items) for pre-tax profit margins up to ten percent, plus (ii) 15% of the annual profits of US Airways Group (excluding unusual items) for pre-tax profit margins greater than ten percent. Awards are paid as a lump sum no later than March 15 after the end of each fiscal year. The Company recorded no amounts in 2008 for profit sharing as the Company had a net loss in 2008 excluding unusual items and recorded \$49 million and \$59 million for profit sharing in 2007 and 2006, respectively, which is recorded in salaries and related costs.

**9. Commitments and contingencies**

**(a) Commitments to Purchase Flight Equipment and Maintenance Services**

*Aircraft and Engine Purchase Commitments*

During 2008, the Company took delivery of 14 Embraer 190 aircraft under its Amended and Restated Purchase Agreement with Embraer, which it financed through an existing facility agreement. As of December 31, 2008, the Company has no remaining firm orders with Embraer. Under the terms of the Amended and Restated Purchase Agreement, the Company has 32 additional Embraer 190 aircraft on order, which are conditional and subject to its notification to Embraer. In 2008, the Company amended the Amended and Restated Purchase Agreement to revise the delivery schedule for these 32 additional Embraer 190 aircraft.

In 2007, US Airways and Airbus executed definitive purchase agreements for the acquisition of 97 aircraft, including 60 single-aisle A320 family aircraft and 37 widebody aircraft (comprised of 22 A350 XWB aircraft and 15 A330-200 aircraft). These were in addition to orders for 37 single-aisle A320 family aircraft from a previous Airbus purchase agreement. In 2008, US Airways and Airbus entered into Amendment No. 1 to the Amended and Restated Airbus A320 Family Aircraft Purchase Agreement. The amendment provides for the conversion of 13 A319 aircraft to A320 aircraft, one A319 aircraft to an A321 aircraft and 11 A320 aircraft to A321 aircraft for deliveries during 2009 and 2010.

Deliveries of the A320 family aircraft commenced during 2008 with the delivery of five A321 aircraft, which were financed through an existing facility agreement. Deliveries of the A320 family aircraft will continue in 2009 through 2012. Deliveries of the A330-200 aircraft will begin in 2009. In 2008, US Airways amended the terms of the A350 XWB Purchase Agreement for deliveries of the 22 firm order A350 XWB aircraft to begin in 2015 rather than 2014 and extending through 2018.

In 2007, US Airways agreed to terms with an aircraft lessor to lease two used A330-200 aircraft. In 2008, US Airways terminated the two leases and did not take delivery of the two used A330-200 aircraft. Related to this termination, US Airways recorded a \$2 million lease cancellation charge.

**US Airways Group, Inc.****Notes to Consolidated Financial Statements — (Continued)**

In 2008, US Airways executed purchase agreements for the purchase of eight new IAE V2500-A5 spare engines scheduled for delivery through 2014 for use on the Airbus A320 family fleet, three new Trent 700 spare engines scheduled for delivery through 2011 for use on the Airbus A330-200 fleet and three new Trent XWB spare engines scheduled for delivery in 2015 through 2017 for use on the Airbus A350 XWB aircraft.

Under all of the Company's aircraft and engine purchase agreements, the Company's total future commitments as of December 31, 2008 are expected to be approximately \$6.83 billion through 2018 as follows: \$1.31 billion in 2009, \$1.34 billion in 2010, \$1.29 billion in 2011, \$768 million in 2012, \$36 million in 2013 and \$2.09 billion thereafter, which includes predelivery deposits and payments. The Company expects to fund these payments through future financings.

*Engine Maintenance Commitments*

In connection with the merger, US Airways and AWA restructured their rate per engine hour agreements with General Electric Engine Services for overhaul maintenance services. Under the restructured agreements, the minimum monthly payment on account of accrued engine flight hours for both of the agreements together will equal \$3 million as long as both agreements remain in effect through October 2009. In September 2007, all engines covered under the AWA agreement were transferred to the US Airways agreement, and the AWA agreement was terminated. The minimum monthly payment of \$3 million remains unchanged.

*(b) Leases*

The Company leases certain aircraft, engines, and ground equipment, in addition to the majority of its ground facilities and terminal space. As of December 31, 2008, the Company had 343 aircraft under operating leases, with remaining terms ranging from one month to approximately 15 years. Ground facilities include executive offices, maintenance facilities and ticket and administrative offices. Public airports are utilized for flight operations under lease arrangements with the municipalities or agencies owning or controlling such airports. Substantially all leases provide that the lessee must pay taxes, maintenance, insurance and certain other operating expenses applicable to the leased property. Some leases also include renewal and purchase options.

As of December 31, 2008, obligations under noncancellable operating leases for future minimum lease payments were as follows (in millions):

2009	\$ 1,075
2010	976
2011	851
2012	770
2013	629
Thereafter	<u>3,227</u>
Total minimum lease payments	<u>\$7,528</u>

For the years ended December 31, 2008, 2007 and 2006, rental expense under operating leases was \$1.33 billion, \$1.29 billion and \$1.29 billion, respectively.

*(c) Off-balance Sheet Arrangements*

US Airways has obligations with respect to pass through trust certificates, or EETCs, issued by pass through trusts to cover the financing of 19 owned aircraft, 116 leased aircraft and three leased engines. These trusts are off-balance sheet entities, the primary purpose of which is to finance the acquisition of aircraft. Rather than finance each aircraft separately when such aircraft is purchased or delivered, these trusts allowed US Airways to raise the financing for several aircraft at one time and place such funds in escrow pending the purchase or delivery of the

**US Airways Group, Inc.**

**Notes to Consolidated Financial Statements — (Continued)**

relevant aircraft. The trusts were also structured to provide for certain credit enhancements, such as liquidity facilities to cover certain interest payments, that reduce the risks to the purchasers of the trust certificates and, as a result, reduce the cost of aircraft financing to US Airways.

Each trust covered a set amount of aircraft scheduled to be delivered within a specific period of time. At the time of each covered aircraft financing, the relevant trust used the funds in escrow to purchase equipment notes relating to the financed aircraft. The equipment notes were issued, at US Airways' election in connection with a mortgage financing of the aircraft or by a separate owner trust in connection with a leveraged lease financing of the aircraft. In the case of a leveraged lease financing, the owner trust then leased the aircraft to US Airways. In both cases, the equipment notes are secured by a security interest in the aircraft. The pass through trust certificates are not direct obligations of, nor are they guaranteed by, the Company or US Airways. However, in the case of mortgage financings, the equipment notes issued to the trusts are direct obligations of US Airways. As of December 31, 2008, \$540 million associated with these mortgage financings is reflected as debt in the accompanying consolidated balance sheet.

With respect to leveraged leases, US Airways evaluated whether the leases had characteristics of a variable interest entity as defined by FIN No. 46(R). US Airways concluded the leasing entities met the criteria for variable interest entities. US Airways then evaluated whether or not it was the primary beneficiary by evaluating whether or not it was exposed to the majority of the risks (expected losses) or whether it receives the majority of the economic benefits (expected residual returns) from the trusts' activities. US Airways does not provide residual value guarantees to the bondholders or equity participants in the trusts. Each lease does have a fixed price purchase option that allows US Airways to purchase the aircraft near the end of the lease term. However, the option price approximates an estimate of the aircraft's fair value at the option date. Under this feature, US Airways does not participate in any increases in the value of the aircraft. US Airways concluded it was not the primary beneficiary under these arrangements. Therefore, US Airways accounts for its EETC leverage lease financings as operating leases under the criteria of SFAS No. 13, "Accounting for Leases." US Airways' total obligations under these leveraged lease financings are \$3.57 billion as of December 31, 2008, which are included in the future minimum lease payments table in (b) above.

***(d) Regional Jet Capacity Purchase Agreements***

US Airways has entered into capacity purchase agreements with certain regional jet operators. The capacity purchase agreements provide that all revenues (passenger, mail and freight) go to US Airways. In return, US Airways agrees to pay predetermined fees to the regional airlines for operating an agreed upon number of aircraft, without regard to the number of passengers onboard. In addition, these agreements provide that certain variable costs, such as airport landing fees and passenger liability insurance, will be reimbursed 100% by US Airways. US Airways controls marketing, scheduling, ticketing, pricing and seat inventories. The regional jet capacity purchase agreements have expirations from 2012 to 2020 and provide for optional extensions at US Airways' discretion. The future minimum noncancellable commitments under the regional jet capacity purchase agreements are \$1.01 billion in 2009, \$1.01 billion in 2010, \$1.03 billion in 2011, \$902 million in 2012, \$731 million in 2013 and \$2.71 billion thereafter.

Certain entities with which US Airways has capacity purchase agreements are considered variable interest entities under FIN No. 46(R). In connection with its restructuring and emergence from bankruptcy, US Airways contracted with Air Wisconsin and Republic Airways to purchase a significant portion of these companies' regional jet capacity for a period of ten years. US Airways has determined that it is not the primary beneficiary of these variable interest entities, based on cash flow analyses. Additionally, US Airways has analyzed the arrangements with other carriers with which US Airways has long-term capacity purchase agreements and has concluded it is not required to consolidate any of the entities.

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**Notes to Consolidated Financial Statements — (Continued)**

***(e) Legal Proceedings***

On September 12, 2004, US Airways Group and its domestic subsidiaries (collectively, the “Reorganized Debtors”) filed voluntary petitions for relief under Chapter 11 of the Bankruptcy Code in the United States Bankruptcy Court for the Eastern District of Virginia, Alexandria Division (Case Nos. 04-13819-SSM through 03-13823-SSM) (the “2004 Bankruptcy”). On September 16, 2005, the Bankruptcy Court issued an order confirming the plan of reorganization submitted by the Reorganized Debtors and on September 27, 2005, the Reorganized Debtors emerged from the 2004 Bankruptcy. The Bankruptcy Court’s order confirming the plan included a provision called the plan injunction, which forever bars other parties from pursuing most claims against the Reorganized Debtors that arose prior to September 27, 2005 in any forum other than the Bankruptcy Court. The great majority of these claims are pre-petition claims that, if paid out at all, will be paid out in common stock of the post-bankruptcy US Airways Group at a fraction of the actual claim amount.

***(f) Guarantees and Indemnifications***

US Airways guarantees the payment of principal and interest on certain special facility revenue bonds issued by municipalities to build or improve certain airport and maintenance facilities which are leased to US Airways. Under such leases, US Airways is required to make rental payments through 2023, sufficient to pay maturing principal and interest payments on the related bonds. As of December 31, 2008, the principal amount outstanding on these bonds was \$90 million. Remaining lease payments guaranteeing the principal and interest on these bonds are \$145 million.

The Company enters into real estate leases in substantially all cities that it serves. It is common in such commercial lease transactions for the Company as the lessee to agree to indemnify the lessor and other related third parties for tort liabilities that arise out of or relate to the use or occupancy of the leased premises. In some cases, this indemnity extends to related liabilities arising from the negligence of the indemnified parties, but usually excludes any liabilities caused by their gross negligence or willful misconduct. With respect to certain special facility bonds, the Company agreed to indemnify the municipalities for any claims arising out of the issuance and sale of the bonds and use or occupancy of the concourses financed by these bonds. Additionally, the Company typically indemnifies such parties for any environmental liability that arises out of or relates to its use or occupancy of the leased premises.

The Company is the lessee under many aircraft financing agreements (including leveraged lease financings of aircraft under pass through trusts). It is common in such transactions for the Company as the lessee to agree to indemnify the lessor and other related third parties for the manufacture, design, ownership, financing, use, operation and maintenance of the aircraft, and for tort liabilities that arise out of or relate to the Company’s use or occupancy of the leased asset. In some cases, this indemnity extends to related liabilities arising from the negligence of the indemnified parties, but usually excludes any liabilities caused by their gross negligence or willful misconduct. In aircraft financing agreements structured as leverage leases, the Company typically indemnifies the lessor with respect to adverse changes in U.S. tax laws.

US Airways has long-term operating leases at a number of airports, including leases where US Airways is also the guarantor of the underlying debt. Such leases are typically with municipalities or other governmental entities. The arrangements are not required to be consolidated based on the provisions of FIN No. 46(R).

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Notes to Consolidated Financial Statements — (Continued)

**10. Other comprehensive income (loss)**

The Company's other comprehensive income (loss) consisted of the following (in millions):

	<u>Year Ended December 31,</u>		
	<u>2008</u>	<u>2007</u>	<u>2006</u>
Net income (loss)	\$ (2,210)	\$ 427	\$ 304
Unrealized losses on available for sale securities	—	(48)	—
Recognition of previous unrealized losses now deemed other than temporary	48	—	—
Adjustment to initially apply the recognition provisions of SFAS No. 158	—	—	3
Actuarial gains associated with pension and other postretirement benefits, net of current period amortization	7	55	—
Total comprehensive income (loss)	<u>\$ (2,155)</u>	<u>\$ 434</u>	<u>\$ 307</u>

The components of accumulated other comprehensive income (loss) were as follows (in millions):

	<u>December 31,</u>	<u>December 31,</u>
	<u>2008</u>	<u>2007</u>
Accumulated net unrealized losses on available for sale securities	\$ —	\$ (48)
Adjustment to initially apply the recognition provisions of SFAS No. 158	3	3
Actuarial gains associated with pension and other postretirement benefits, net of amortization	62	55
Accumulated other comprehensive income	<u>\$ 65</u>	<u>\$ 10</u>

The accumulated other comprehensive income is not presented net of tax as any tax effects resulting from the items above have been immediately offset by the recording of a valuation allowance through the same financial statement caption.



US Airways Group, Inc.

Notes to Consolidated Financial Statements — (Continued)

**11. Supplemental cash flow information**

Supplemental disclosure of cash flow information and non-cash investing and financing activities were as follows (in millions):

	<u>Year Ended December 31,</u>		
	<u>2008</u>	<u>2007</u>	<u>2006</u>
<b>Non-cash transactions:</b>			
Interest payable converted to debt	\$ 7	\$ —	\$ —
Maintenance payable converted to debt	33	—	—
Unrealized loss on available for sale securities	—	48	—
Conversion of 7% convertible notes into common stock	—	—	70
Conversion of 7.5% convertible senior notes, net of discount of \$17 million to common stock	—	—	95
Notes payable canceled under the aircraft purchase agreement	—	—	4
Equipment purchases financed by capital lease	—	—	3
<b>Cash transactions:</b>			
Interest paid, net of amounts capitalized	216	248	264
Income taxes paid	1	4	12

**12. Related party transactions**

Richard A. Bartlett, a member of the Company's board of directors until June 2008, is a greater than 10% owner of Air Wisconsin. US Airways and Air Wisconsin also entered into a regional jet services agreement under which Air Wisconsin may, but is not required to, provide regional jet service under a US Airways Express code share arrangement. On April 8, 2005, Air Wisconsin notified the Company of its intention to deploy 70 regional jets, the maximum number provided for in the agreement, into the US Airways Express network. The amount paid to Air Wisconsin in 2008 was approximately \$344 million. Mr. Bartlett became a member of the board of directors pursuant to certain stockholder agreements, which by their terms expired in June 2008.

Edward L. Shapiro, a member of the Company's board of directors until June 2008, is a Vice President and partner of PAR Capital Management, the general partner of PAR. PAR received 10,768,485 shares of US Airways Group common stock, including shares received pursuant to Participation Agreements with America West Holdings, for a total investment of \$160 million at the time of the merger. As of December 31, 2007, PAR has sold substantially all of its investment in the Company. Mr. Shapiro became a member of the board of directors pursuant to certain stockholder agreements, which by their terms expired in June 2008.

**13. Operating segments and related disclosures**

The Company is managed as a single business unit that provides air transportation for passengers and cargo. This allows it to benefit from an integrated revenue pricing and route network that includes US Airways, Piedmont, PSA and third-party carriers that fly under capacity purchase or prorate agreements as part of the Company's Express operations. The flight equipment of all these carriers is combined to form one fleet that is deployed through a single route scheduling system. When making resource allocation decisions, the chief operating decision maker evaluates flight profitability data, which considers aircraft type and route economics, but gives no weight to the financial impact of the resource allocation decision on an individual carrier basis. The objective in making resource allocation decisions is to maximize consolidated financial results, not the individual results of US Airways, Piedmont and PSA.

**US Airways Group, Inc.****Notes to Consolidated Financial Statements — (Continued)**

Information concerning operating revenues in principal geographic areas is as follows (in millions):

	Year Ended December 31, 2008	Year Ended December 31, 2007	Year Ended December 31, 2006
United States	\$ 9,659	\$ 9,582	\$ 9,397
Foreign	2,459	2,118	2,160
Total	<u>\$ 12,118</u>	<u>\$ 11,700</u>	<u>\$ 11,557</u>

The Company attributes operating revenues by geographic region based upon the origin and destination of each flight segment. The Company's tangible assets consist primarily of flight equipment, which are mobile across geographic markets and, therefore, have not been allocated.

**14. Stockholders' equity**

Holders of common stock are entitled to one vote per share on all matters submitted to a vote of common shareholders, except that voting rights of non-U.S. citizens are limited to the extent that the shares of common stock held by such non-U.S. persons would otherwise be entitled to more than 24.9% of the aggregate votes of all outstanding equity securities of US Airways Group. Holders of common stock have no right to cumulate their votes. Holders of common stock participate equally as to any dividends or distributions on the common stock.

In August 2008, the Company completed an underwritten public stock offering of 19 million common shares, as well as the full exercise of 2.85 million common shares included in an over-allotment option, at an offering price of \$8.50 per share. Net proceeds from the offering, after underwriting discounts and commissions, were \$179 million.

**15. Stock-based compensation**

In June 2008, the stockholders of the Company approved the 2008 Equity Incentive Plan (the "2008 Plan"). The 2008 Plan replaces and supersedes the 2005 Equity Incentive Plan (the "2005 Plan"). No additional awards will be made under the 2005 Plan, although outstanding awards previously made under the 2005 Plan will continue to be governed by the terms and conditions of the 2005 Plan. Any shares subject to an award under the 2005 Plan outstanding as of the date on which the 2008 Plan was approved by the Board that expire, are forfeited or otherwise terminate unexercised will increase the shares reserved for issuance under the 2008 Plan by (i) one share for each share of stock issued pursuant to a stock option and stock appreciation right and (ii) three shares for each share of stock issued pursuant to a restricted stock unit, which corresponds to the reduction originally made with respect to each award in the 2005 Plan.

The 2008 Plan authorizes the grant of awards for the issuance of up to a maximum of 6,700,000 shares of the Company's common stock. Awards may be in the form of performance grants, bonus awards, performance shares, restricted stock awards, vested shares, restricted stock units, vested units, incentive stock options, nonstatutory stock options and stock appreciation rights. The number of shares of the Company's common stock available for issuance under the 2008 Plan is reduced by (i) one share for each share of stock issued pursuant to a stock option or a stock appreciation right, and (ii) one and one-half (1.5) shares for each share of stock issued pursuant to all other stock awards. Stock awards that are terminated, forfeited or repurchased result in an increase in the share reserve of the 2008 Plan corresponding to the reduction originally made in respect of the award. Any shares of the Company's stock tendered or exchanged by a participant as full or partial payment to the Company of the exercise price under an option and any shares retained or withheld by the Company in satisfaction of an employee's obligations to pay applicable withholding taxes with respect to any award will not be available for reissuance, subjected to new awards or otherwise used to increase the share reserve under the 2008 Plan. The cash proceeds from option exercises will not be used to repurchase shares on the open market for reuse under the 2008 Plan.

US Airways Group, Inc.

Notes to Consolidated Financial Statements — (Continued)

The Company's net income (loss) for the years ended December 31, 2008, 2007 and 2006 includes \$34 million, \$32 million and \$34 million, respectively, of compensation costs related to share-based payments. Upon adoption of SFAS No. 123R, "Share-Based Payment," the Company recorded a cumulative benefit from the accounting change of \$1 million, which reflects the impact of estimating future forfeitures for previously recognized compensation expense. No income tax effect related to share-based payments or cumulative effect has been recorded as the effects have been immediately offset by the recording of a valuation allowance through the same financial statement caption.

*Restricted Stock Unit Awards* — As of December 31, 2008, the Company has outstanding restricted stock unit awards ("RSUs") with service conditions (vesting periods) and RSUs with service and performance conditions (which the performance condition of obtaining a combined operating certificate for AWA and US Airways was met on September 26, 2007). SFAS No. 123R requires that the grant-date fair value of RSUs be equal to the market price of the underlying shares of common stock on the date of grant if vesting is based on a service or a performance condition. The grant-date fair value of RSU awards that are subject to both a service and a performance condition are being expensed over the vesting period, as the performance condition has been met. Vesting periods for RSU awards range from three to four years. RSUs are classified as equity awards.

RSU award activity for the years ending December 31, 2008, 2007 and 2006 is as follows (shares in thousands):

	Number of Shares	Weighted Average Grant- Date Fair Value
<b>2005 Equity Incentive Plan</b>		
Nonvested balance at December 31, 2005	687	\$ 26.17
Granted	254	38.55
Vested and released	(75)	42.38
Forfeited	(52)	24.85
Nonvested balances at December 31, 2006	814	\$ 28.63
Granted	242	41.51
Vested and released	(446)	29.85
Forfeited	(18)	31.26
Nonvested balance at December 31, 2007	592	\$ 32.91
Granted	535	9.02
Vested and released	(390)	29.07
Forfeited	(32)	23.15
Nonvested balance at December 31, 2008	705	\$ 17.36
<b>2008 Equity Incentive Plan</b>		
Nonvested balance at December 31, 2007	—	\$ —
Granted	19	7.52
Vested and released	—	—
Forfeited	—	—
Nonvested balance at December 31, 2008	19	\$ 7.52

As of December 31, 2008, there were \$8 million of total unrecognized compensation costs related to RSUs. These costs are expected to be recognized over a weighted average period of 1.1 years. The total fair value of RSUs vested during 2008, 2007 and 2006 was \$3 million, \$14 million and \$3 million, respectively.

US Airways Group, Inc.

Notes to Consolidated Financial Statements — (Continued)

*Stock Options and Stock Appreciation Rights* — Stock options and stock appreciation rights (“SARs”) are granted with an exercise price equal to the underlying common stock’s fair market value at the date of each grant, generally become exercisable over a three to four year period and expire if unexercised at the end of their term, which ranges from seven to ten years. Stock options and SARs are classified as equity awards. The exercise of SARs will be settled with the issuance of shares of the Company’s common stock.

Stock option and SARs activity for the years ending December 31, 2008, 2007 and 2006 is as follows (stock options and SARs in thousands):

	Stock Options and SARs	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (years)	Aggregate Intrinsic Value (In millions)
<b>1994 Incentive Equity Plan</b>				
Balance at December 31, 2005	1,267	\$ 38.28		
Granted	—	—		
Exercised	(455)	23.64		
Forfeited	—	—		
Expired	(62)	50.93		
Balance at December 31, 2006	750	\$ 46.10		
Granted	—	—		
Exercised	(30)	40.93		
Forfeited	—	—		
Expired	(75)	46.38		
Balance at December 31, 2007	645	\$ 46.30		
Granted	—	—		
Exercised	(2)	9.21		
Forfeited	—	—		
Expired	(244)	55.35		
Balance at December 31, 2008	399	\$ 40.96	1.04	\$ —
Vested or expected to vest at December 31, 2008	399	\$ 40.96	1.04	\$ —
Exercisable at December 31, 2008	399	\$ 40.96	1.04	\$ —
<b>2002 Incentive Equity Plan</b>				
Balance at December 31, 2005	2,048	\$ 16.98		
Granted	—	—		
Exercised	(1,250)	16.12		
Forfeited	—	—		
Expired	—	—		
Balance at December 31, 2006	798	\$ 18.33		
Granted	—	—		
Exercised	(36)	14.36		
Forfeited	—	—		
Expired	—	—		
Balance at December 31, 2007	762	\$ 18.52		
Granted	—	—		
Exercised	(2)	6.42		
Forfeited	—	—		
Expired	(23)	25.08		
Balance at December 31, 2008	737	\$ 18.34	4.95	\$ —
Vested or expected to vest at December 31, 2008	735	\$ 18.33	4.95	\$ —
Exercisable at December 31, 2008	686	\$ 18.15	4.83	\$ —

US Airways Group, Inc.

Notes to Consolidated Financial Statements — (Continued)

	Stock Options and SARs	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (years)	Aggregate Intrinsic Value (In millions)
<b>2005 Equity Incentive Plan</b>				
Balance at December 31, 2005	1,973	\$ 23.15		
Granted	1,310	40.30		
Exercised	(701)	24.49		
Forfeited	(87)	30.34		
Expired	—	—		
Balance at December 31, 2006	2,495	\$ 31.53		
Granted	1,123	42.23		
Exercised	(92)	29.74		
Forfeited	(93)	35.00		
Expired	(63)	37.48		
Balance at December 31, 2007	3,370	\$ 34.96		
Granted	1,959	9.11		
Exercised	(5)	8.84		
Forfeited	(200)	30.18		
Expired	(218)	32.76		
Balance at December 31, 2008	4,906	\$ 24.93	8.02	\$ —
Vested or expected to vest at December 31, 2008	4,720	\$ 25.28	7.96	\$ —
Exercisable at December 31, 2008	2,100	\$ 31.94	7.04	\$ —
<b>2008 Equity Incentive Plan</b>				
Balance at December 31, 2007	—	\$ —		
Granted	2,389	6.64		
Exercised	—	—		
Forfeited	(56)	6.70		
Expired	—	—		
Balance at December 31, 2008	2,333	\$ 6.64	6.63	\$ 3
Vested or expected to vest at December 31, 2008	2,104	\$ 6.64	6.63	\$ 2
Exercisable at December 31, 2008	5	\$ 6.70	6.59	\$ —

The fair value of stock options and SARs is determined at the grant date using a Black-Scholes option pricing model, which requires several assumptions. The risk-free interest rate is based on the U.S. Treasury yield curve in effect for the expected term of the stock option or SAR at the time of grant. The dividend yield is assumed to be zero since the Company does not pay dividends and has no current plans to do so in the future. The volatility is based on the historical volatility of the Company's common stock over a time period equal to the expected term of the stock option or SAR. The expected life of stock options and SARs is based on the historical experience of the Company.

The per share weighted-average grant-date fair value of stock options and SARs granted and the weighted-average assumptions used for the years ended December 31, 2008, 2007 and 2006 were as follows:

	Year Ended		
	December 31, 2008	December 31, 2007	December 31, 2006
Weighted average fair value	\$ 3.28	\$ 16.57	\$ 16.77
Risk free interest rate	2.5%	4.5%	4.8%
Expected dividend yield	—	—	—
Expected life	3.0 years	3.0 years	2.9 years
Volatility	62%	52%	57%

**US Airways Group, Inc.**

**Notes to Consolidated Financial Statements — (Continued)**

As of December 31, 2008, there were \$20 million of total unrecognized compensation costs related to stock options and SARs. These costs are expected to be recognized over a weighted average period of 1.3 years.

The total intrinsic value of stock options and SARs exercised during the years ended December 31, 2008, 2007 and 2006 was \$0.1 million, \$4 million and \$68 million, respectively. Cash received from stock option and SAR exercises during the years ended December 31, 2008, 2007 and 2006 was \$0.1 million, \$2 million and \$31 million, respectively.

*Agreements with the Air Line Pilots Association (“ALPA”)—* US Airways Group and US Airways have a letter of agreement with ALPA, the US Airways’ pilot union through April 18, 2008, that provides that US Airways’ pilots designated by ALPA receive stock options to purchase 1.1 million shares of the Company’s common stock. The first tranche of 500,000 stock options was granted on January 31, 2006 with an exercise price of \$33.65. The second tranche of 300,000 stock options was granted on January 31, 2007 with an exercise price of \$56.90. The third and final tranche of 300,000 stock options was granted on January 31, 2008 with an exercise price of \$12.50. The stock options granted to ALPA pilots do not reduce the shares available for grant under any equity incentive plan. Any of these ALPA stock options that are forfeited or that expire without being exercised will not become available for grant under any of the Company’s plans.

The per share fair value of the ALPA pilot stock options and assumptions used for the January 31, 2008, 2007 and 2006 grants were as follows:

	<u>January 31,</u> <u>2008</u>	<u>January 31,</u> <u>2007</u>	<u>January 31,</u> <u>2006</u>
Per share fair value	\$ 3.02	\$ 18.02	\$ 17.11
Risk free interest rate	2.2%	4.9%	4.4%
Expected dividend yield	—	—	—
Contractual term	2.0 years	2.0 years	5.0 years
Volatility	55%	53%	70%

As of December 31, 2008, there were no unrecognized compensation costs related to stock options granted to ALPA pilots as the stock options were fully vested on the grant date. No ALPA stock options were exercised in 2008. There were 25,029 and 315,390 ALPA stock options exercised during 2007 and 2006, respectively, pursuant to this agreement. The total intrinsic value of ALPA stock options exercised during 2007 and 2006 was \$1 million and \$5 million, respectively. Cash received from ALPA stock options exercised during the years ended December 31, 2007 and 2006 totaled \$1 million and \$10 million, respectively.

US Airways Group, Inc.

Notes to Consolidated Financial Statements — (Continued)

16. Valuation and qualifying accounts (in millions)

Description	Balance at Beginning of Period	Additions	Deductions	Balance at End of Period
Allowance for doubtful receivables:				
Year ended December 31, 2008	\$ 4	\$ 10	\$ 8	\$ 6
Year ended December 31, 2007	\$ 8	\$ 9	\$ 13	\$ 4
Year ended December 31, 2006	\$ 10	\$ 7	\$ 9	\$ 8
Allowance for inventory obsolescence:				
Year ended December 31, 2008	\$ 40	\$ 21	\$ 10	\$ 51
Year ended December 31, 2007	\$ 30	\$ 12	\$ 2	\$ 40
Year ended December 31, 2006	\$ 24	\$ 10	\$ 4	\$ 30
Valuation allowance on deferred tax asset, net:				
Year ended December 31, 2008	\$ 77	\$ 573	\$ —	\$ 650
Year ended December 31, 2007	\$ 263	\$ —	\$ 186	\$ 77
Year ended December 31, 2006	\$ 446	\$ —	\$ 183	\$ 263

17. Selected quarterly financial information (unaudited)

Summarized quarterly financial information for 2008 and 2007 is as follows (in millions):

	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
<b>2008</b>				
Operating revenues	\$ 2,840	\$ 3,257	\$ 3,261	\$ 2,761
Operating expenses	3,036	3,793	3,950	3,139
Operating loss	(196)	(536)	(689)	(378)
Nonoperating expenses, net	(40)	(31)	(173)	(166)
Income tax provision (benefit)	—	—	3	(3)
Net loss	(236)	(567)	(865)	(541)
Loss per common share:				
Basic:	\$ (2.56)	\$ (6.16)	\$ (8.45)	\$ (4.74)
Diluted:	\$ (2.56)	\$ (6.16)	\$ (8.45)	\$ (4.74)
Shares used for computation (in thousands):				
Basic	92,023	92,137	102,406	114,106
Diluted	92,023	92,137	102,406	114,106
<b>2007</b>				
Operating revenues	\$ 2,732	\$ 3,155	\$ 3,036	\$ 2,776
Operating expenses	2,616	2,866	2,834	2,850
Operating income (loss)	116	289	202	(74)
Nonoperating expenses, net	(47)	(18)	(21)	(13)
Income tax provision (benefit)	3	8	4	(8)
Net income (loss)	66	263	177	(79)
Earnings (loss) per common share:				
Basic:	\$ 0.73	\$ 2.88	\$ 1.93	\$ (0.87)
Diluted:	\$ 0.70	\$ 2.77	\$ 1.87	\$ (0.87)
Shares used for computation (in thousands):				
Basic	91,363	91,477	91,542	91,761
Diluted	96,223	95,613	95,492	91,761



**US Airways Group, Inc.**

**Notes to Consolidated Financial Statements — (Continued)**

**18. Subsequent events**

On January 15, 2009, US Airways flight 1549 was involved in an accident in New York that resulted in the aircraft landing in the Hudson River. The Airbus A320 aircraft was en route to Charlotte from LaGuardia with 150 passengers and a crew of 5 (2 pilots and 3 flight attendants) onboard. All aboard survived and there were no serious injuries. US Airways has insurance coverage for this aircraft (which is a total loss) as well as costs resulting from the accident, and there are no applicable deductibles.

On January 16, 2009, US Airways exercised its right to obtain new loan commitments and incur additional loans under the spare parts loan agreement. In connection with the exercise of that right, Airbus Financial Services funded \$50 million in satisfaction of a previous commitment. This loan will mature on October 20, 2014, will bear interest at a rate of LIBOR plus a margin and will be secured by the collateral securing loans under the spare parts loan agreement. In addition, in connection with the incurrence of this loan, US Airways and Airbus entered into amendments to the A320 Family Aircraft Purchase Agreement, the A330 Aircraft Purchase Agreement and the A350 XWB Purchase Agreement. Pursuant to these amendments, the existing cross-default provisions of the applicable aircraft purchase agreements were amended and restated to, among other things, specify the circumstances under which a default under the loan would constitute a default under the applicable aircraft purchase agreement.

**Item 8B. Consolidated Financial Statements and Supplementary Data of US Airways, Inc.**

**Management's Annual Report on Internal Control over Financial Reporting**

Management of US Airways, Inc. is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934, as amended. US Airways' internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. US Airways' internal control over financial reporting includes those policies and procedures that:

- pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of US Airways;
- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of US Airways are being made only in accordance with authorizations of management and directors of US Airways; and
- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of US Airways' assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management assessed the effectiveness of US Airways' internal control over financial reporting as of December 31, 2008. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control-Integrated Framework.

Based on our assessment and those criteria, management concludes that US Airways maintained effective internal control over financial reporting as of December 31, 2008.

US Airways' independent registered public accounting firm has issued an audit report on the effectiveness of US Airways' internal control over financial reporting. That report has been included herein.

**Report of Independent Registered Public Accounting Firm**

The Board of Directors and Stockholder  
US Airways, Inc.:

We have audited US Airways, Inc. and subsidiaries' (US Airways or the Company) internal control over financial reporting as of December 31, 2008 based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying management's annual report on internal control over financial reporting. Our responsibility is to express an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control over financial reporting based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, US Airways, Inc. and subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2008, based on criteria established in *Internal Control — Integrated Framework* issued by COSO.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of US Airways, Inc. and subsidiaries as of December 31, 2008 and 2007, and the related consolidated statements of operations, stockholder's equity (deficit) and cash flows for each of the years in the three-year period ended December 31, 2008, and our report dated February 17, 2009 expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG LLP

Phoenix, Arizona  
February 17, 2009

**Report of Independent Registered Public Accounting Firm**

The Board of Directors and Stockholder  
US Airways, Inc.:

We have audited the accompanying consolidated balance sheets of US Airways, Inc. and subsidiaries (US Airways) as of December 31, 2008 and 2007, and the related consolidated statements of operations, stockholder's equity (deficit), and cash flows for each of the years in the three-year period ended December 31, 2008. These consolidated financial statements are the responsibility of US Airways' management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of US Airways, Inc. and subsidiaries as of December 31, 2008 and 2007, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2008, in conformity with U.S. generally accepted accounting principles.

As discussed in Note 1 to the consolidated financial statements, effective January 1, 2008, US Airways adopted the provisions of Statement of Financial Accounting Standards (SFAS) No. 157, *Fair Value Measurements*, and the measurement date provisions of SFAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), US Airways' internal control over financial reporting as of December 31, 2008, based on criteria established in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated February 17, 2009 expressed an unqualified opinion on the effectiveness of US Airways' internal control over financial reporting.

/s/ KPMG LLP

Phoenix, Arizona  
February 17, 2009

**US Airways, Inc.**  
**Consolidated Statements of Operations**  
**For the Years Ended December 31, 2008, 2007 and 2006**

	<u>2008</u>	<u>2007</u>	<u>2006</u>
	(In millions)		
<b>Operating revenues:</b>			
Mainline passenger	\$ 8,183	\$ 8,135	\$ 7,966
Express passenger	2,879	2,698	2,744
Cargo	144	138	153
Other	<u>1,038</u>	<u>842</u>	<u>829</u>
Total operating revenues	12,244	11,813	11,692
<b>Operating expenses:</b>			
Aircraft fuel and related taxes	3,618	2,630	2,518
Loss (gain) on fuel hedging instruments, net	356	(245)	79
Salaries and related costs	2,231	2,302	2,090
Express expenses	3,139	2,727	2,670
Aircraft rent	724	727	732
Aircraft maintenance	783	635	582
Other rent and landing fees	562	536	568
Selling expenses	439	453	446
Special items, net	76	99	38
Depreciation and amortization	224	198	184
Goodwill impairment	622	—	—
Other	<u>1,243</u>	<u>1,227</u>	<u>1,228</u>
Total operating expenses	<u>14,017</u>	<u>11,289</u>	<u>11,135</u>
Operating income (loss)	(1,773)	524	557
<b>Nonoperating income (expense):</b>			
Interest income	83	172	153
Interest expense, net	(218)	(229)	(268)
Other, net	<u>(240)</u>	<u>18</u>	<u>4</u>
Total nonoperating expense, net	<u>(375)</u>	<u>(39)</u>	<u>(111)</u>
Income (loss) before income taxes and cumulative effect of change in accounting principle	(2,148)	485	446
Income tax provision	<u>—</u>	<u>7</u>	<u>98</u>
Income (loss) before cumulative effect of change in accounting principle	(2,148)	478	348
Cumulative effect of change in accounting principle, net	<u>—</u>	<u>—</u>	<u>1</u>
Net income (loss)	<u>\$ (2,148)</u>	<u>\$ 478</u>	<u>\$ 349</u>

See accompanying notes to consolidated financial statements.

**US Airways, Inc.**  
**Consolidated Balance Sheets**  
**December 31, 2008 and 2007**

	<u>2008</u>	<u>2007</u>
(In millions, except share and per share amounts)		
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 1,026	\$ 1,940
Investments in marketable securities	20	226
Restricted cash	186	2
Accounts receivable, net	291	366
Materials and supplies, net	163	197
Prepaid expenses and other	673	524
Total current assets	<u>2,359</u>	<u>3,255</u>
Property and equipment		
Flight equipment	3,017	2,295
Ground property and equipment	791	681
Less accumulated depreciation and amortization	(914)	(729)
	<u>2,894</u>	<u>2,247</u>
Equipment purchase deposits	267	128
Total property and equipment	<u>3,161</u>	<u>2,375</u>
Other assets		
Other intangibles, net of accumulated amortization of \$81 million and \$58 million, respectively	508	514
Restricted cash	540	466
Investments in marketable securities	187	353
Goodwill	—	622
Other assets, net	199	202
Total other assets	<u>1,434</u>	<u>2,157</u>
Total assets	<u>\$ 6,954</u>	<u>\$ 7,787</u>
<b>LIABILITIES &amp; STOCKHOLDER'S EQUITY (DEFICIT)</b>		
Current liabilities		
Current maturities of debt and capital leases	\$ 346	\$ 101
Accounts payable	781	333
Payables to related parties, net	985	1,067
Air traffic liability	698	832
Accrued compensation and vacation	147	214
Accrued taxes	142	158
Other accrued expenses	867	841
Total current liabilities	<u>3,966</u>	<u>3,546</u>
Noncurrent liabilities and deferred credits		
Long-term debt and capital leases, net of current maturities	2,236	1,373
Deferred gains and credits, net	284	318
Postretirement benefits other than pensions	107	137
Employee benefit liabilities and other	582	563
Total noncurrent liabilities and deferred credits	<u>3,209</u>	<u>2,391</u>
Commitments and contingencies (Note 8)		
Stockholder's equity (deficit)		
Common stock, \$1 par value, 1,000 shares issued and outstanding	—	—
Additional paid-in capital	1,845	1,845
Accumulated other comprehensive income (loss)	78	(1)
Retained earnings (deficit)	(2,144)	6
Total stockholder's equity (deficit)	<u>(221)</u>	<u>1,850</u>
Total liabilities and stockholder's equity (deficit)	<u>\$ 6,954</u>	<u>\$ 7,787</u>

See accompanying notes to consolidated financial statements.

**US Airways, Inc.**  
**Consolidated Statements of Cash Flows**  
**For the Years Ended December 31, 2008, 2007 and 2006**

	<u>2008</u>	<u>2007</u>	<u>2006</u>
	(In millions)		
<b>Cash flows from operating activities:</b>			
Net income (loss)	\$(2,148)	\$ 478	\$ 349
<b>Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:</b>			
Cumulative effect of change in accounting principle	—	—	(1)
Depreciation and amortization	224	198	183
Loss (gain) on dispositions of property and equipment	7	—	(1)
Gain on forgiveness of debt	(8)	—	(90)
Gain on sale of investments	(1)	(17)	—
Goodwill impairment	622	—	—
Impairment on auction rate securities	214	10	—
Impairment on fixed assets	13	—	—
Utilization of acquired net operating loss carryforwards	—	7	85
Change in the fair value of fuel hedging instruments, net	496	(187)	70
Amortization of deferred credits and rent	(40)	(40)	(38)
Amortization of debt discount and issuance costs	15	13	13
Amortization of actuarial gains	(2)	—	—
Debt extinguishment costs	6	—	5
<b>Changes in operating assets and liabilities:</b>			
Decrease (increase) in restricted cash	(184)	(1)	6
Decrease (increase) in accounts receivables, net	68	17	(36)
Decrease (increase) in materials and supplies, net	35	(2)	(16)
Decrease (increase) in prepaid expenses and other	(270)	(55)	37
Decrease (increase) in other assets, net	3	(5)	8
Increase (decrease) in accounts payable	114	(26)	16
Decrease in payables to related parties, net	(31)	(28)	—
Increase (decrease) in air traffic liability	(134)	(22)	59
Increase (decrease) in accrued compensation and vacation	(67)	(36)	49
Increase (decrease) in accrued taxes	(16)	(22)	36
Increase (decrease) in other liabilities	59	151	(82)
Net cash provided by (used in) operating activities	<u>(1,025)</u>	<u>433</u>	<u>652</u>
<b>Cash flows from investing activities:</b>			
Purchases of property and equipment	(902)	(486)	(222)
Purchases of marketable securities	(299)	(2,591)	(2,583)
Sales of marketable securities	505	3,203	1,785
Proceeds from sale of other investments	4	56	—
Decrease (increase) in long-term restricted cash	(74)	200	128
Proceeds from dispositions of property and equipment	16	4	7
Increase in equipment purchase deposits	(139)	(80)	(8)
Net cash provided by (used in) investing activities	<u>(889)</u>	<u>306</u>	<u>(893)</u>
<b>Cash flows from financing activities:</b>			
Repayments of debt and capital lease obligations	(318)	(105)	(100)
Proceeds from issuance of debt	1,386	198	92
Deferred financing costs	(17)	(3)	(3)
Increase (decrease) in payables to related parties, net	(51)	—	247
Net cash provided by financing activities	<u>1,000</u>	<u>90</u>	<u>236</u>
Net increase (decrease) in cash and cash equivalents	(914)	829	(5)
Cash and cash equivalents at beginning of year	1,940	1,111	1,116
Cash and cash equivalents at end of year	<u>\$ 1,026</u>	<u>\$ 1,940</u>	<u>\$ 1,111</u>

See accompanying notes to consolidated financial statements.



**US Airways, Inc.**  
**Consolidated Statements of Stockholder's Equity (Deficit)**  
**For the Years Ended December 31, 2008, 2007 and 2006**

	<u>Common Stock</u>	<u>Additional Paid-In Capital</u>	<u>Retained Earnings (Deficit)</u>	<u>Accumulated Other Comprehensive Income (Loss)</u>	<u>Total</u>
	(In millions)				
<b>Balance at December 31, 2005</b>	\$ —	\$ 11	\$ (821)	\$ —	\$ (810)
Net income	—	—	349	—	349
<b>Balance at December 31, 2006</b>	—	11	(472)	—	(461)
Net income	—	—	478	—	478
Forgiveness of intercompany payable to US Airways Group	—	1,834	—	—	1,834
Unrealized loss on available for sale securities, net	—	—	—	(48)	(48)
Actuarial gain associated with pension and other postretirement benefits, net of current period amortization	—	—	—	47	47
<b>Balance at December 31, 2007</b>	—	1,845	6	(1)	1,850
Net loss	—	—	(2,148)	—	(2,148)
Recognition of previous unrealized loss on available for sale securities, net now deemed other than temporary	—	—	—	48	48
Adjustment to initially apply the measurement provisions of SFAS No. 158	—	—	(2)	—	(2)
Actuarial gain associated with pension and other postretirement benefits, net of current period amortization	—	—	—	31	31
<b>Balance at December 31, 2008</b>	<u>\$ —</u>	<u>\$ 1,845</u>	<u>\$ (2,144)</u>	<u>\$ 78</u>	<u>\$ (221)</u>

See accompanying notes to consolidated financial statements.

**US Airways, Inc.**

**Notes to Consolidated Financial Statements**

**1. Basis of presentation and summary of significant accounting policies**

**(a) Nature of Operations and Operating Environment**

US Airways, Inc. ("US Airways") is a Delaware corporation whose primary business activity is the operation of a major network air carrier. US Airways is a wholly owned subsidiary of US Airways Group, Inc. ("US Airways Group"), which owns all of US Airways' outstanding common stock, par value \$1 per share. On May 19, 2005, US Airways Group signed a merger agreement with America West Holdings Corporation ("America West Holdings") pursuant to which America West Holdings merged with a wholly owned subsidiary of US Airways Group. The merger agreement was amended by a letter of agreement on July 7, 2005. The merger became effective upon US Airways Group's emergence from bankruptcy on September 27, 2005.

On September 26, 2007, as part of the integration efforts following the merger, America West Airlines ("AWA") surrendered its Federal Aviation Administration ("FAA") operating certificate. As a result, all mainline airline operations are now being conducted under US Airways' FAA operating certificate. In connection with the combination of all mainline airline operations under one FAA operating certificate, US Airways Group contributed 100% of its equity interest in America West Holdings, the parent company of AWA, to US Airways. As a result, America West Holdings and AWA are now wholly owned subsidiaries of US Airways. In addition, AWA transferred substantially all of its assets and liabilities to US Airways. All off-balance sheet commitments of AWA were also transferred to US Airways.

Most of US Airways' operations are in competitive markets. Competitors include other air carriers along with other modes of transportation. US Airways operates the fifth largest airline in the United States as measured by domestic mainline revenue passenger miles ("RPMs") and available seat miles ("ASMs"). US Airways has primary hubs in Charlotte, Philadelphia and Phoenix and secondary hubs/focus cities in New York, Washington, D.C., Boston and Las Vegas. US Airways offers scheduled passenger service on more than 3,100 flights daily to 200 communities in the United States, Canada, Europe, the Caribbean and Latin America. US Airways also has an established East Coast route network, including the US Airways Shuttle service, with a substantial presence at capacity constrained airports including New York's LaGuardia Airport and the Washington, D.C. area's Ronald Reagan Washington National Airport. US Airways had approximately 55 million passengers boarding its mainline flights in 2008. During 2008, US Airways' mainline operation provided regularly scheduled service or seasonal service at 135 airports. During 2008, the US Airways Express network served 187 airports in the United States, Canada and Latin America, including 77 airports also served by the mainline operation. During 2008, US Airways Express air carriers had approximately 27 million passengers boarding their planes. As of December 31, 2008, US Airways operated 354 mainline jets and is supported by US Airways Group's regional airline subsidiaries and affiliates operating as US Airways Express either under capacity purchase or prorate agreements, which operate approximately 238 regional jets and 74 turboprops.

As of December 31, 2008, US Airways employed approximately 32,700 active full-time equivalent employees. Approximately 86% of US Airways' employees are covered by collective bargaining agreements with various labor unions. US Airways' pilots and flight attendants are currently working under the terms of their respective US Airways or AWA collective bargaining agreements, as modified by transition agreements reached in connection with the merger. In 2008, US Airways reached final single labor agreements covering fleet service employees, maintenance and related employees and maintenance training instructors, each represented by the International Association of Machinists & Aerospace Workers.

**(b) Basis of Presentation**

The transfer of assets between US Airways and AWA described above constitutes a transfer of assets between entities under common control and was accounted for in a manner similar to the pooling of interests method of accounting. Under this method, the carrying amount of net assets recognized in the balance sheets of each combining entity are carried forward to the balance sheet of the combined entity, and no other assets or liabilities are

**US Airways, Inc.****Notes to Consolidated Financial Statements — (Continued)**

recognized as a result of the contribution of shares. The accompanying consolidated financial statements in this annual report on Form 10-K are presented as though the transfer had occurred at the time of US Airways emergence from bankruptcy in September 2005.

The accompanying consolidated financial statements include the accounts of US Airways and its wholly owned subsidiaries. US Airways Group has the ability to move funds freely between its operating subsidiaries to support operations. These transfers are recognized as intercompany transactions. In the accompanying consolidated statements of cash flows, these intercompany transactions are designated as payables to related parties, net and are classified as operating or financing activities depending upon the nature of the transaction. All significant intercompany accounts and transactions between US Airways and its wholly owned subsidiaries have been eliminated.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The principal areas of judgment relate to passenger revenue recognition, impairment of goodwill, impairment of long-lived and intangible assets, valuation of investments in marketable securities, the frequent traveler program and the deferred tax valuation allowance.

Certain prior year amounts have been reclassified to conform with the 2008 presentation.

**(c) Cash and Cash Equivalents**

Cash equivalents consist primarily of cash in money market securities and highly liquid debt instruments. All highly liquid investments purchased within three months of maturity are classified as cash equivalents. Cash equivalents are stated at cost, which approximates fair value due to the highly liquid nature and short-term maturities of the underlying securities.

As of December 31, 2008 and 2007, US Airways' cash and cash equivalents are as follows (in millions):

	<u>2008</u>	<u>2007</u>
Cash and money market funds	\$ 1,016	\$ 1,850
Corporate bonds	10	90
Total cash and cash equivalents	<u>\$ 1,026</u>	<u>\$ 1,940</u>

**(d) Investments in Marketable Securities**

All highly liquid investments with maturities greater than three months but less than one year are classified as current investments in marketable securities. Investments in marketable securities classified as noncurrent assets on US Airways' balance sheet represent investments expected to be converted to cash after 12 months. Debt securities, other than auction rate securities, are classified as held to maturity in accordance with Statement of Financial Accounting Standards ("SFAS") No. 115, "Accounting for Certain Investments in Debt and Equity Securities." Held to maturity investments are carried at amortized cost, which approximates fair value. Investments in auction rate securities are classified as available for sale and recorded at fair value.

US Airways, Inc.

Notes to Consolidated Financial Statements — (Continued)

As of December 31, 2008 and 2007, US Airways' investments in marketable securities are classified as follows (in millions):

	<u>2008</u>	<u>2007</u>
Held to maturity securities:		
Corporate bonds	\$ 20	\$ 125
U.S. government sponsored enterprises	—	81
Certificates of deposit	—	20
Total investments in marketable securities-current	<u>\$ 20</u>	<u>\$ 226</u>
Available for sale securities:		
Auction rate securities	<u>187</u>	<u>353</u>
Total investments in marketable securities-noncurrent	<u>\$ 187</u>	<u>\$ 353</u>

See Note 5(b) for more information on US Airways' investments in marketable securities.

**(e) Restricted Cash**

Restricted cash includes deposits in trust accounts primarily to fund certain taxes and fees and workers' compensation claims, deposits securing certain letters of credit and surety bonds and deposits held by institutions that process credit card sales transactions. Restricted cash is stated at cost, which approximates fair value.

**(f) Materials and Supplies, Net**

Inventories of materials and supplies are valued at the lower of cost or fair value. Costs are determined using average costing methods. An allowance for obsolescence is provided for flight equipment expendable and repairable parts. These items are generally charged to expense when issued for use. During 2008, US Airways recorded a \$5 million write down related to its Boeing 737 spare parts inventory to reflect lower of cost or fair value. See Note 1(g) below for further discussion of the decline in value of Boeing 737 parts.

**(g) Property and Equipment**

Property and equipment are recorded at cost. Interest expense related to the acquisition of certain property and equipment is capitalized as an additional cost of the asset or as a leasehold improvement if the asset is leased. Interest capitalized for the years ended December 31, 2008, 2007 and 2006 was \$6 million, \$4 million and \$2 million, respectively. Property and equipment is depreciated and amortized to residual values over the estimated useful lives or the lease term, whichever is less, using the straight-line method. Costs of major improvements that enhance the usefulness of the asset are capitalized and depreciated over the estimated useful life of the asset or the modifications, whichever is less.

The estimated useful lives of owned aircraft, jet engines, flight equipment and rotatable parts range from five to 30 years. Leasehold improvements relating to flight equipment and other property on operating leases are amortized over the life of the lease or the life of the asset, whichever is shorter, on a straight-line basis. The estimated useful lives for other owned property and equipment range from three to 12 years and range from 18 to 30 years for training equipment and buildings.

US Airways records impairment losses on long-lived assets used in operations when events and circumstances indicate that the assets might be impaired as defined by SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to undiscounted future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying

**US Airways, Inc.**

**Notes to Consolidated Financial Statements — (Continued)**

amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less cost to sell.

In connection with completing step two of US Airways' interim goodwill impairment analysis in the second quarter of 2008 as further discussed in Note 1(i) below, US Airways also assessed the current fair values of its other significant assets including owned aircraft, aircraft leases and aircraft spare parts. US Airways concluded that the only impairment indicated was associated with the decline in fair value of certain spare parts associated with its Boeing 737 fleet. Due to record high fuel prices and the industry environment in 2008, demand for the Boeing 737 aircraft type declined given its lower fuel efficiency as compared to other aircraft types. The fair value of these spare parts was determined using a market approach on the premise of continued use of the aircraft through US Airways' final scheduled lease return.

In accordance with SFAS No. 144, US Airways determined that the carrying amount of the Boeing 737 spare parts classified as long-lived assets was not recoverable as the carrying amount of the Boeing 737 assets was greater than the sum of the undiscounted cash flows expected from the use and disposition of these assets. As a result of this impairment analysis, US Airways recorded a \$13 million impairment charge in 2008 related to Boeing 737 rotatable parts included in flight equipment on its consolidated balance sheet. US Airways recorded no impairment charges in the years ended December 31, 2007 and 2006.

**(h) Income Taxes**

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. A valuation allowance is established, if necessary, for the amount of any tax benefits that, based on available evidence, are not expected to be realized.

**(i) Goodwill and Other Intangibles, Net**

*Goodwill*

SFAS No. 142, "Goodwill and Other Intangible Assets," requires that goodwill be tested for impairment at the reporting unit level on an annual basis and between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of the reporting unit below its carrying value. Goodwill represents the purchase price in excess of the net amount assigned to assets acquired and liabilities assumed by America West Holdings on September 27, 2005. US Airways has two reporting units consisting of its mainline and Express operations. All of US Airways' goodwill was allocated to the mainline reporting unit.

In accordance with SFAS No. 142, US Airways concluded that events had occurred and circumstances had changed during the second quarter of 2008 which required US Airways to perform an interim period goodwill impairment test. Subsequent to the first quarter of 2008, US Airways experienced a significant decline in market capitalization due to overall airline industry conditions driven by record high fuel prices. The price of fuel became less volatile in the second quarter of 2008, and there was a sustained surge in fuel prices. On May 21, 2008, the price per barrel of oil hit a then record high of \$133 per barrel and from that date through June 30, 2008 stayed at an average daily price of \$133 per barrel. US Airways' average mainline fuel price during the second quarter of 2008 was \$3.63 as compared to \$2.88 per gallon in the first quarter of 2008 and \$2.20 for the full year 2007. This increase in the price per gallon of fuel represented an increase of 26% and 65% as compared to the first quarter of 2008 and full year 2007, respectively. US Airways Group's average stock price in the second quarter of 2008 was \$6.13 as compared to an average of \$12.15 in the first quarter of 2008, a decline of 50%. In addition, US Airways announced in June 2008 that in response to the record high fuel prices, it planned to reduce fourth quarter 2008 and full year 2009 domestic mainline capacity.

US Airways, Inc.

Notes to Consolidated Financial Statements — (Continued)

During the second quarter of 2008, US Airways performed the first step of the two-step impairment test and compared the fair value of the mainline reporting unit to its carrying value. Consistent with US Airways' approach in its annual impairment testing, in assessing the fair value of the reporting unit, US Airways considered both the market approach and income approach. Under the market approach, the fair value of the reporting unit is based on quoted market prices and the number of shares outstanding for US Airways Group's common stock. Under the income approach, the fair value of the reporting unit is based on the present value of estimated future cash flows. The income approach is dependent on a number of significant management assumptions, including estimates of future capacity, passenger yield, traffic, fuel, other operating costs and discount rates. Due to current market conditions, greater weighting was attributed to the market approach, which was weighted 67% while the income approach was weighted 33% in arriving at the fair value of the reporting unit. US Airways determined that the fair value of the mainline reporting unit was less than the carrying value of the net assets of the reporting unit, and thus US Airways performed step two of the impairment test.

In step two of the impairment test, US Airways determined the implied fair value of the goodwill and compared it to the carrying value of the goodwill. US Airways allocated the fair value of the reporting unit to all of its assets and liabilities as if the reporting unit had been acquired in a business combination and the fair value of the mainline reporting unit was the price paid to acquire the reporting unit. The excess of the fair value of the reporting unit over the amounts assigned to its assets and liabilities is the implied fair value of goodwill. US Airways' step two analysis resulted in no implied fair value of goodwill, and therefore, US Airways recognized an impairment charge of \$622 million in the second quarter of 2008, representing a write off of the entire amount of US Airways' previously recorded goodwill.

The following table reflects the change in the carrying amount of goodwill from December 31, 2007 (in millions):

	<u>Goodwill</u>
Balance at December 31, 2007	\$ 622
Impairment charge	<u>(622)</u>
Balance at December 31, 2008	<u>\$ —</u>

*Other intangible assets*

Other intangible assets consist primarily of trademarks, international route authorities and airport take-off and landing slots and airport gates.

SFAS No. 142 requires that intangible assets with estimable useful lives be amortized over their respective estimated useful lives to their estimated residual values, and reviewed for impairments in accordance with SFAS No. 144. The following table provides information relating to US Airways' intangible assets subject to amortization as of December 31, 2008 and 2007 (in millions):

	<u>2008</u>	<u>2007</u>
Airport take-off and landing slots	\$452	\$435
Airport gate leasehold rights	52	52
Accumulated amortization	<u>(81)</u>	<u>(58)</u>
Total	<u>\$423</u>	<u>\$429</u>

The intangible assets subject to amortization generally are amortized over 25 years for airport take-off and landing slots and over the term of the lease for airport gate leasehold rights on a straight-line basis and are included in depreciation and amortization on the consolidated statements of operations. For the years ended December 31, 2008, 2007 and 2006, US Airways recorded amortization expense of \$23 million, \$23 million and \$27 million, respectively, related to its intangible assets. US Airways expects to record annual amortization expense of

**US Airways, Inc.**

**Notes to Consolidated Financial Statements — (Continued)**

\$24 million in 2009, \$24 million in year 2010, \$21 million in year 2011, \$20 million in year 2012, \$20 million in year 2013 and \$314 million thereafter related to these intangible assets.

Under SFAS No. 142, indefinite lived assets are not amortized but instead are reviewed for impairment annually and more frequently if events or circumstances indicate that the asset may be impaired. As of December 31, 2008 and 2007, US Airways had \$55 million of international route authorities and \$30 million of trademarks on its balance sheets, which are classified as indefinite lived assets.

In connection with completing step two of US Airways' goodwill impairment analysis in the second quarter of 2008, US Airways assessed the fair values of its significant intangible assets. US Airways considered the potential impairment of these other intangible assets in accordance with SFAS No. 142 and SFAS No. 144, as applicable. The fair values of airport take-off and landing slots and international route authorities were assessed using the market approach. The market approach took into consideration relevant supply and demand factors at the related airport locations as well as available market sale and lease data. For trademarks, US Airways utilized a form of the income approach known as the relief-from-royalty method. As a result of these assessments, no impairment was indicated.

In addition, US Airways performed the annual impairment test on its international route authorities and trademarks during the fourth quarter of 2008, at which time it concluded that no impairment exists. US Airways will perform its next annual impairment test on October 1, 2009.

**(j) Other Assets, Net**

Other assets, net consists of the following as of December 31, 2008 and 2007 (in millions):

	<u>2008</u>	<u>2007</u>
Deposits	\$ 40	\$ 46
Debt issuance costs, net	19	7
Long term investments	11	12
Deferred rent	46	48
Aircraft leasehold interest, net	83	89
Total other assets, net	<u>\$199</u>	<u>\$202</u>

In connection with fresh-start reporting for US Airways following its emergence from bankruptcy in September 2005, aircraft operating leases were adjusted to fair value and \$101 million of assets were established for leasehold interests in aircraft for aircraft leases with rental rates deemed to be below market rates. These leasehold interests are amortized on a straight-line basis as an increase to aircraft rent expense over the applicable remaining lease periods. US Airways expects to amortize \$6 million per year in 2009-2013 and \$53 million thereafter to aircraft rent expense related to these leasehold interests.

**(k) Frequent Traveler Program**

Members of the Dividend Miles program, the US Airways frequent traveler program, can redeem miles on US Airways or other members of the Star Alliance. The estimated cost of providing the travel award, using the incremental cost method as adjusted for estimated redemption rates, is recognized as a liability and charged to operations as program members accumulate mileage. For travel awards on partner airlines, the liability is based on the average contractual amount to be paid to the other airline per redemption. As of December 31, 2008, Dividend Miles members had accumulated mileage credits for approximately 2.6 million awards. The liability for the future travel awards accrued on US Airways' consolidated balance sheets within other accrued expenses was \$151 million and \$161 million as of December 31, 2008 and 2007, respectively.

US Airways sells mileage credits to participating airline and non-airline business partners. Revenue earned from selling mileage credits to other companies is recognized in two components. A portion of the revenue from



**US Airways, Inc.**

**Notes to Consolidated Financial Statements — (Continued)**

these sales is deferred, representing the estimated fair value of the transportation component of the sold mileage credits. The deferred revenue for the transportation component is amortized on a straight-line basis over the period in which the credits are expected to be redeemed for travel as passenger revenue, which is currently estimated to be 28 months. The marketing component, which is earned at the time the miles are sold, is recognized in other revenues at the time of the sale. As of December 31, 2008 and 2007, US Airways had \$240 million and \$241 million, respectively, in deferred revenue from the sale of mileage credits included in other accrued expenses on its consolidated balance sheets.

**(l) Derivative Instruments**

US Airways currently utilizes heating oil-based derivative instruments to hedge a portion of its exposure to jet fuel price increases. These instruments consist of no premium collars. SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," requires that all derivatives be marked to fair value and recorded on the balance sheet. Derivatives that do not qualify for hedge accounting must be adjusted to fair value through the income statement. US Airways does not purchase or hold any derivative financial instruments for trading purposes. As of December 31, 2008 and 2007, US Airways had open fuel hedging instruments in place, which do not currently qualify for hedge accounting under SFAS 133. Accordingly, the derivative hedging instruments are recorded as an asset or liability on the consolidated balance sheets at fair value and any changes in fair value are recorded as gains or losses on fuel hedging instruments, net in operating expenses in the accompanying consolidated statements of operations in the period of change. See Note 5(a) for additional information on US Airways' fuel hedging instruments.

**(m) Deferred Gains and Credits, Net**

In 2005, US Airways' affinity credit card provider, Barclays Bank Delaware, formerly Juniper Bank, paid AWA \$150 million in bonuses, consisting of a \$20 million bonus pursuant to AWA's original credit card agreement with Juniper and a \$130 million bonus following the effectiveness of the merger, subject to certain conditions.

In the event Barclays, at its option, terminates the amended agreement prior to April 1, 2009 due to US Airways' breach of its obligations under the amended credit card agreement, or upon the occurrence of certain other events, then US Airways must repay all of the bonus payments. If Barclays terminates the amended agreement any time thereafter through March 31, 2013 for the same reasons, US Airways must repay a reduced amount that declines monthly according to a formula. US Airways will have no obligation to repay any portion of the bonus payments after March 31, 2013.

At the time of payment, the entire \$150 million was recorded as deferred revenue. US Airways will begin recognizing revenue from the bonus payments on April 1, 2009. The revenue from the bonus payments will be recognized on a straight-line basis through March 31, 2017, the expiration date of the amended Barclays co-branded credit card agreement.

In connection with fresh-start reporting and purchase accounting for US Airways' in 2005 and fresh-start reporting for AWA upon emergence from bankruptcy in 1994, aircraft operating leases were adjusted to fair value and deferred credits were established in the accompanying consolidated balance sheets, which represented the net present value of the difference between the stated lease rates and the fair market rates. These deferred credits will be amortized on a straight-line basis as a reduction in rent expense over the applicable lease periods. At December 31, 2008 and 2007, the unamortized balance of the deferred credits was \$93 million and \$134 million, respectively. US Airways expects to amortize \$21 million in 2009, \$13 million in 2010, \$9 million in 2011, \$8 million in 2012, \$7 million in 2013 and \$35 million thereafter to aircraft rent expense related to these leasehold interests.

US Airways, Inc.

Notes to Consolidated Financial Statements — (Continued)

**(n) Revenue Recognition**

*Passenger Revenue*

Passenger revenue is recognized when transportation is provided. Ticket sales for transportation that has not yet been provided are initially recorded as air traffic liability on the consolidated balance sheets. The air traffic liability represents tickets sold for future travel dates and estimated future refunds and exchanges of tickets sold for past travel dates. The majority of tickets sold are nonrefundable. A small percentage of tickets, some of which are partially used tickets, expire unused. Due to complex pricing structures, refund and exchange policies, and interline agreements with other airlines, certain amounts are recognized in revenue using estimates regarding both the timing of the revenue recognition and the amount of revenue to be recognized. These estimates are generally based on the analysis of US Airways' historical data. US Airways and members of the airline industry have consistently applied this accounting method to estimate revenue from forfeited tickets at the date travel was to be provided. Estimated future refunds and exchanges included in the air traffic liability are routinely evaluated based on subsequent activity to validate the accuracy of US Airways' estimates. Any adjustments resulting from periodic evaluations of the estimated air traffic liability are included in results of operations during the period in which the evaluations are completed.

Passenger traffic commissions and related fees are expensed when the related revenue is recognized. Passenger traffic commissions and related fees not yet recognized are included as a prepaid expense.

US Airways purchases capacity, or ASMs, generated by US Airways Group's wholly owned regional air carriers and the capacity of Air Wisconsin Airlines Corp. ("Air Wisconsin"), Republic Airways Holdings ("Republic"), Mesa Airlines, Inc. ("Mesa") and Chautauqua Airlines, Inc. ("Chautauqua") in certain markets. Air Wisconsin, Republic, Mesa and Chautauqua operate regional jet aircraft in these markets as part of US Airways Express. US Airways classifies revenues related to capacity purchase arrangements as Express passenger revenues. Liabilities related to tickets sold for travel on these air carriers are also included in US Airways' air traffic liability and are subsequently relieved in the same manner as described above.

US Airways collects various excise taxes on its ticket sales, which are accounted for on a net basis.

*Cargo Revenue*

Cargo revenue is recognized when shipping services for mail and other cargo are provided.

*Other Revenue*

Other revenue includes checked and excess baggage charges, beverage sales, ticket change and service fees, commissions earned on tickets sold for flights on other airlines and sales of tour packages by the US Airways Vacations division, which are recognized when the services are provided. Other revenues also include processing fees for travel awards issued through the Dividend Miles frequent traveler program and the marketing component earned from selling mileage credits to partners, as discussed in Note 1(k).

**(o) Maintenance and Repair Costs**

Maintenance and repair costs for owned and leased flight equipment are charged to operating expense as incurred.

**(p) Selling Expenses**

Selling expenses include commissions, credit card fees, computerized reservations systems fees, advertising and promotional expenses. Advertising and promotional expenses are expensed when incurred. Advertising and promotional expenses for the years ended December 31, 2008, 2007 and 2006 were \$10 million, \$16 million and \$16 million, respectively.

US Airways, Inc.

Notes to Consolidated Financial Statements — (Continued)

**(q) Stock-based Compensation**

US Airways accounts for its stock-based compensation plans in accordance with SFAS No. 123(R), “Share-Based Payment.” Compensation expense is based on the fair value of the stock award at the time of grant and is recognized ratably over the respective vesting period of the stock award. The fair value of stock options and stock appreciation rights is estimated using a Black-Scholes option pricing model. The fair value of restricted stock units is based on the market price of the underlying shares of common stock on the date of grant. See Note 13 for further discussion of stock-based compensation.

**(r) Express Expenses**

Expenses associated with US Airways Group’s wholly owned regional airlines, affiliate regional airlines operating as US Airways Express and US Airways’ former MidAtlantic division are classified as Express expenses on the consolidated statements of operations. Effective May 27, 2006, the transfer of certain MidAtlantic assets to Republic was complete, and Republic assumed the operations of the aircraft as a US Airways affiliate Express carrier. Express expenses consist of the following (in millions):

	Year Ended December 31, 2008	Year Ended December 31, 2007	Year Ended December 31, 2006
Aircraft fuel and related taxes	\$ 1,137	\$ 765	\$ 764
Salaries and related costs	21	20	36
Capacity purchases	1,621	1,599	1,551
Aircraft rent	—	—	9
Aircraft maintenance	—	—	2
Other rent and landing fees	96	93	97
Selling expenses	163	157	148
Other expenses	101	93	63
Express expenses	<u>\$ 3,139</u>	<u>\$ 2,727</u>	<u>\$ 2,670</u>

**(s) Variable Interest Entities**

US Airways determined that certain entities with which US Airways has capacity purchase agreements are considered variable interest entities under Financial Accounting Standards Board (“FASB”) Interpretation (“FIN”) No. 46(R), “Consolidation of Variable Interest Entities — An Interpretation of ARB No. 51.” US Airways has determined that it is not the primary beneficiary of any of these variable interest entities and, accordingly, does not consolidate any of the entities with which it has jet service agreements. See Note 8(d) for further discussion.

**(t) Recent Accounting Pronouncements**

In September 2006, the FASB issued SFAS No. 157, “Fair Value Measurements.” This standard defines fair value, establishes a framework for measuring fair value in accounting principles generally accepted in the United States of America, and expands disclosure about fair value measurements. This pronouncement applies to other accounting standards that require or permit fair value measurements. Accordingly, this statement does not require any new fair value measurement. This statement is effective for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. In December of 2007, the FASB agreed to a one year deferral of SFAS No. 157’s fair value measurement requirements for nonfinancial assets and liabilities that are not required or permitted to be measured at fair value on a recurring basis. As such, US Airways did not apply the fair value measurement requirements of SFAS No. 157 for nonfinancial assets and liabilities when performing its goodwill and other assets impairment test as discussed in Note 1(i). US Airways adopted SFAS No. 157 on January 1, 2008,

**US Airways, Inc.**

**Notes to Consolidated Financial Statements — (Continued)**

which had no effect on US Airways' consolidated financial statements. Refer to Note 6 for additional information related to the adoption of SFAS No. 157.

In December 2007, the FASB issued SFAS No. 141 (Revised 2007), "Business Combinations." SFAS No. 141R is effective for fiscal years beginning after December 15, 2008 and adjusts certain guidance related to recording nearly all transactions where one company gains control of another. The statement revises the measurement principle to require fair value measurements on the acquisition date for recording acquired assets and liabilities. It also changes the requirements for recording acquisition-related costs and liabilities. Additionally, the statement revises the treatment of valuation allowance adjustments related to income tax benefits in existence prior to a business combination. The current standard, SFAS No. 141, requires that adjustments to these valuation allowances be recorded as adjustments to goodwill or intangible assets if no goodwill exists, while the new standard will require companies to adjust current income tax expense. Effective January 1, 2009, US Airways adopted the provisions of SFAS No. 141R and all future decreases in the valuation allowance established in purchase accounting as a result of the merger will be recognized as a reduction to income tax expense.

On January 1, 2008, US Airways adopted the measurement date provisions of SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106, and 132(R)." The measurement date provisions require plan assets and obligations to be measured as of the employer's balance sheet date. US Airways previously measured its other postretirement benefit obligations as of September 30 each year. As a result of the adoption of the measurement date provisions, US Airways recorded a \$2 million increase to its postretirement benefit liability and a \$2 million increase to accumulated deficit, representing the net periodic benefit cost for the period between the measurement date utilized in 2007 and the beginning of 2008. The adoption of the measurement provisions of SFAS No. 158 had no effect on US Airways' consolidated statements of operations.

In October 2008, the FASB issued FASB Staff Position ("FSP") FAS 157-3, "Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active." FSP FAS 157-3 clarifies the application of SFAS No. 157 in a market that is not active and provides an example to illustrate key considerations in determining the fair value of a financial asset when the market for that financial asset is not active. FSP FAS 157-3 is effective upon issuance, including prior periods for which financial statements have not been issued. Revisions resulting from a change in the valuation technique or its application should be accounted for as a change in accounting estimate following the guidance in SFAS No. 154, "Accounting Changes and Error Corrections." FSP FAS 157-3 is effective October 10, 2008, and the application of FSP FAS 157-3 had no impact on US Airways' consolidated financial statements.

**2. Special items, net**

Special items, net as shown on the consolidated statements of operations include the following charges (credits) (in millions):

	<b>Year Ended December 31,</b>		
	<b>2008</b>	<b>2007</b>	<b>2006</b>
Merger related transition expenses(a)	\$ 35	\$ 99	\$ 131
Asset impairment charges(b)	18	—	—
Lease return costs and penalties(c)	14	—	—
Severance charges(d)	9	—	—
Airbus restructuring(e)	—	—	(90)
Settlement of bankruptcy claims(f)	—	—	(3)
<b>Total</b>	<b>\$76</b>	<b>\$99</b>	<b>\$ 38</b>

**US Airways, Inc.**

**Notes to Consolidated Financial Statements — (Continued)**

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- (a) In 2008, in connection with the effort to consolidate functions and integrate organizations, procedures and operations with AWA, US Airways incurred \$35 million of merger related transition expenses. These expenses included \$12 million in uniform costs to transition employees to the new US Airways uniforms; \$5 million in applicable employment tax expenses related to contractual benefits granted to certain current and former employees as a result of the merger; \$6 million in compensation expenses for equity awards granted in connection with the merger to retain key employees through the integration period; \$5 million of aircraft livery costs; \$4 million in professional and technical fees related to the integration of airline operations systems and \$3 million in other expenses.
- In 2007, US Airways incurred \$99 million of merger related transition expenses. These expenses included \$13 million in training and related expenses; \$19 million in compensation expenses for equity awards granted in connection with the merger to retain key employees through the integration period; \$20 million of aircraft livery costs; \$37 million in professional and technical fees related to the integration of airline operations systems; \$1 million in employee moving expenses; \$4 million related to reservation system migration expenses and \$5 million of other expenses.
- In 2006, US Airways incurred \$131 million of merger related transition expenses. These items included \$6 million in training and related expenses; \$41 million in compensation expenses primarily for severance, retention payments and equity awards granted in connection with the merger to retain key employees through the integration period; \$17 million of aircraft livery costs; \$38 million in professional and technical fees, including continuing professional fees associated with US Airways' bankruptcy proceedings and fees related to the integration of airline operations systems; \$7 million of employee moving expenses; \$11 million of net costs associated with the integration of the AWA FlightFund and US Airways Dividend Miles frequent traveler programs; \$2 million in merger related aircraft lease return expenses and \$9 million of other expenses.
- (b) In 2008, US Airways recorded \$18 million in non-cash charges related to the decline in fair value of certain spare parts associated with its Boeing 737 aircraft fleet. See Note 1(f) and (g) for further discussion of these charges.
- (c) In 2008, US Airways recorded \$14 million in charges for lease return costs and penalties related to certain Airbus aircraft as a result of the planned fleet reductions.
- (d) In 2008, in connection with planned capacity reductions, US Airways recorded \$9 million in charges related to involuntary furloughs as well as terminations of non-union administrative and management staff. Of this amount, \$6 million was paid out in 2008. US Airways expects that the remaining \$3 million will be substantially paid by the end of the first quarter of 2009.
- (e) In connection with the merger and the Airbus Memorandum of Understanding (the "Airbus MOU") executed between AVSA S.A.R.L., an affiliate of Airbus S.A.S. ("Airbus"), US Airways Group, US Airways and AWA, certain aircraft firm orders were restructured. In connection with the Airbus MOU, US Airways and AWA entered into two loan agreements with aggregate commitments of up to \$161 million and \$89 million. On March 31, 2006, the outstanding principal and accrued interest on the \$89 million loan was forgiven upon repayment in full of the \$161 million loan in accordance with terms of the Airbus loans. As a result, in 2006, US Airways recognized a gain associated with the return of these equipment deposits upon forgiveness of the loan totaling \$90 million, consisting of the \$89 million in equipment deposits and accrued interest of \$1 million.
- (f) In 2006, US Airways recognized \$3 million in gains in connection with the settlement of bankruptcy claims.

US Airways, Inc.

Notes to Consolidated Financial Statements — (Continued)

3. Debt

The following table details US Airways' debt as of December 31, 2008 and 2007 (in millions). Variable interest rates listed are the rates as of December 31, 2008 unless noted.

	December 31, 2008	December 31, 2007
<i>Secured</i>		
Equipment loans, aircraft pre-delivery payment financings and other notes payable, fixed and variable interest rates ranging from 1.87% to 12.15%, averaging 5.75% as of December 31, 2008, maturing from 2010 to 2020(a)	\$ 1,674	\$ 802
Aircraft enhanced equipment trust certificates ("EETCs"), fixed interest rates ranging from 7.08% to 9.01%, averaging 7.79% as of December 31, 2008, maturing from 2015 to 2022(b)	540	576
Slot financing, fixed interest rate of 8.08%, interest only payments until due in 2015(c)	47	47
Capital lease obligations, interest rate of 8%, installments due through 2021(d)	39	41
Senior secured discount notes, variable interest rate of 5.34%, due in 2009(e)	32	32
Capital lease obligations, computer software	—	1
	<u>2,332</u>	<u>1,499</u>
<i>Unsecured</i>		
Airbus advance, repayments beginning in 2010 through 2018(f)	207	—
Engine maintenance notes(g)	72	57
Industrial development bonds, fixed interest rate of 6.3%, interest only payments until due in 2023(h)	29	29
Note payable to Pension Benefit Guaranty Corporation, fixed interest rate of 6%, interest only payments until due in 2012(i)	10	10
Other notes payable, due in 2009	45	—
	<u>363</u>	<u>96</u>
Total long-term debt and capital lease obligations	2,695	1,595
Less: Total unamortized discount on debt	(113)	(121)
Current maturities, less \$10 million of unamortized discount on debt at December 31, 2008	(346)	(101)
Long-term debt and capital lease obligations, net of current maturities	<u>\$ 2,236</u>	<u>\$ 1,373</u>

(a) The following are the significant secured financing agreements entered into in 2008:

On February 1, 2008, US Airways entered into a loan agreement for \$145 million, secured by six Bombardier CRJ-700 aircraft, three Boeing 757 aircraft and one spare engine. The loan bears interest at a rate of LIBOR plus an applicable margin and is amortized over ten years. The proceeds of the loan were used to repay \$97 million of the equipment notes previously secured by the six Bombardier CRJ-700 aircraft and three Boeing 757 aircraft.

On February 29, 2008, US Airways entered into a credit facility agreement for \$88 million to finance certain pre-delivery payments required by US Airways' purchase agreements with Airbus. As of December 31, 2008, the outstanding balance of this credit facility agreement is \$73 million. The remaining amounts under this facility will be drawn as pre-delivery payments come due. The loan bears interest at a rate of LIBOR plus an applicable margin and is repaid as the related aircraft are delivered with a final maturity date of the loan in November 2010.

In the second quarter of 2008, US Airways entered into facility agreements with three lenders in the amounts of \$199 million, \$198 million, and \$119 million to finance the acquisition of certain Airbus A320 family aircraft deliveries starting in the second half of 2008. The loans bear interest at a rate of LIBOR plus an applicable

**US Airways, Inc.**

**Notes to Consolidated Financial Statements — (Continued)**

margin, contain default and other covenants that are typical in the industry for similar financings, and are amortized over twelve years with balloon payments at maturity.

On October 20, 2008, US Airways entered into a \$270 million spare parts loan agreement and an \$85 million engines loan agreement. The proceeds of the term loans made under these loan agreements were used to repay a portion of the outstanding indebtedness of US Airways Group under its Citicorp credit facility.

US Airways' obligations under the spare parts loan agreement are secured by a first priority security interest in substantially all of US Airways' rotatable, repairable and expendable aircraft spare parts. The obligations under the engines loan agreement are secured by a first priority security interest in 36 of US Airways' aircraft engines. US Airways has also agreed that other obligations owed by it or its affiliates to the administrative agent for the loan agreements or its affiliates (including the loans under these loan agreements held by such administrative agent or its affiliates) will be secured on a second priority basis by the collateral for both loan agreements and certain other engines and aircraft.

The term loans under these loan agreements will bear interest at a rate equal to LIBOR plus a margin per annum, subject to adjustment in certain circumstances.

These loan agreements contain customary representations and warranties, events of default and covenants for financings of this nature, including obligations to maintain compliance with covenants tied to the appraised value of US Airways' spare parts and the appraised value and maintenance condition of US Airways' engines, respectively.

The spare parts loan agreement matures on the sixth anniversary of the closing date, and is subject to quarterly amortization in amounts ranging from \$8 million to \$15 million. The spare parts loan agreement may not be voluntarily prepaid during the first three years of the term; however, the loan agreement provided that in certain circumstances US Airways could prepay \$100 million of the loans under the agreement. The engines loan agreement, which may not be voluntarily prepaid prior to the third anniversary of the closing date, matures on the sixth anniversary of the closing date, and is subject to amortization in 24 equal quarterly installments.

On December 5, 2008, US Airways prepaid \$100 million of principal outstanding under the spare parts loan agreement. In connection with this prepayment and pursuant to an amendment to the spare parts loan agreement, subject to certain conditions, US Airways obtained the right to incur up to \$100 million in new loans. The right to incur new loans expires on April 1, 2009.

- (b) The equipment notes underlying the EETCs are the direct obligations of US Airways and cover the financing of 19 aircraft. See Note 8(c) for further discussion.
- (c) In September 2005, US Airways entered into an agreement with Republic to sell and leaseback certain of its commuter slots at Ronald Reagan Washington National Airport and New York LaGuardia Airport. US Airways continues to hold the right to repurchase the slots anytime after the second anniversary of the slot sale-leaseback transaction. These transactions were accounted for as secured financings. Installments are due monthly through 2015. In December 2006, Republic and US Airways modified terms of the agreement to conform to subsequent regulatory changes at LaGuardia, and the LaGuardia slots were returned to US Airways. The need for a subsequent modification was fully contemplated in the original agreement.
- (d) Capital lease obligations consist principally of certain airport maintenance and facility leases which expire in 2018 and 2021.
- (e) On December 27, 2004, AWA raised additional capital by financing its Phoenix maintenance facility and flight training center. The flight training center was previously unencumbered, and the maintenance facility became unencumbered earlier in 2004 when AWA refinanced its term loan. Using its leasehold interest in these two facilities as collateral, AWA, through a wholly owned subsidiary named FTCHP LLC, raised \$31 million through the issuance of senior secured discount notes. The notes were issued by FTCHP at a discount pursuant to the terms of a senior secured term loan agreement among AWA, FTCHP, Heritage Bank SSB, as administrative agent, Citibank, N.A., as the initial lender, and the other lenders from time to time party thereto. Citibank, N.A. subsequently assigned all of its interests in the notes to third party lenders.



**US Airways, Inc.**

**Notes to Consolidated Financial Statements — (Continued)**

AWA fully and unconditionally guaranteed the payment and performance of FTCHP's obligations under the notes and the loan agreement. The notes require aggregate principal payments of \$36 million with principal payments of \$2 million due on each of the first two anniversary dates and the remaining principal amount due on the fifth anniversary date. The notes may be prepaid in full at any time (subject to customary LIBOR breakage costs) and in partial amounts of \$2 million on the third and fourth anniversary dates. The unpaid principal amount of the notes bears interest based on LIBOR plus a margin subject to adjustment based on a loan to collateral value ratio.

The loan agreement contains customary covenants applicable to loans of this type, including obligations relating to the preservation of the collateral and restrictions on the activities of FTCHP. In addition, the loan agreement contains events of default, including payment defaults, cross-defaults to other debt of FTCHP, if any, breach of covenants, bankruptcy and insolvency defaults and judgment defaults.

In connection with this financing, AWA sold all of its leasehold interests in the maintenance facility and flight training center to FTCHP and entered into subleases for the facilities with FTCHP at lease rates expected to approximate the interest payments due under the notes. In addition, AWA agreed to make future capital contributions to FTCHP in amounts sufficient to cover principal payments and other amounts owing pursuant to the notes and the loan agreement. As part of the transfer of substantially all of AWA's assets and liabilities to US Airways in connection with the combination of all mainline airline operations under one FAA operating certificate on September 26, 2007, AWA assigned its subleases for the facilities with FTCHP to US Airways. In addition, US Airways assumed all of the obligations of AWA in connection with the financing and joined the guarantee of the payment and performance of FTCHP's obligations under the notes and the loan agreement.

- (f) On October 20, 2008, US Airways and Airbus entered into amendments to the A320 Family Aircraft Purchase Agreement, the A330 Aircraft Purchase Agreement, and the A350 XWB Purchase Agreement. In exchange for US Airways' agreement to enter into these amendments, Airbus advanced US Airways \$200 million in consideration of aircraft deliveries under the various related purchase agreements. Under the terms of each of the amendments, US Airways has agreed to maintain a level of unrestricted cash in the same amount required by the US Airways Group Citicorp credit facility. This transaction was treated as a financing transaction for accounting purposes with an effective interest rate commensurate with US Airways' credit rating. There are no stated interest payments.
- (g) In December 2004, deferred charges under US Airways' maintenance agreements with GE Engine Services, Inc. were converted into an unsecured term note. Interest on the note accrues at LIBOR plus 4%, and became payable beginning in January 2008, with principal and interest payments due in 48 monthly installments through 2011. The outstanding balance on the note at December 31, 2008 was \$39 million at an interest rate of 6.6%.

In October 2008, US Airways entered into a promissory note with GE Engine Services, Inc. pursuant to which maintenance payments up to \$40 million due from October 2008 through March 2009 under US Airways' Engine Service Agreement are deferred. Interest on the note accrues at 14%, and becomes payable beginning in April 2009, at which time principal and interest payments are due in 12 monthly installments. The deferred balance on the note at December 31, 2008 was \$33 million.

- (h) The industrial development revenue bonds are due April 2023. Interest at 6.3% is payable semiannually on April 1 and October 1. The bonds are subject to optional redemption prior to the maturity date on or after April 1, 2008, in whole or in part, on any interest payment date at the following redemption prices: 102% on April 1 or October 1, 2008; 101% on April 1 or October 1, 2009; and 100% on April 1, 2010 and thereafter.
- (i) In connection with US Airways' emergence from bankruptcy in September 2005, it reached a settlement with the Pension Benefit Guaranty Corporation ("PBGC") related to the termination of three of its defined benefit pension plans. The settlement included the issuance of a \$10 million note which matures in 2012 and bears interest at 6% payable annually in arrears.

## US Airways, Inc.

## Notes to Consolidated Financial Statements — (Continued)

Secured financings are collateralized by assets, primarily aircraft, engines, simulators, rotatable aircraft parts and hangar and maintenance facilities. At December 31, 2008, the estimated maturities of long-term debt and capital leases are as follows (in millions):

2009	\$ 356
2010	221
2011	257
2012	246
2013	192
Thereafter	1,423
	<u>\$2,695</u>

Certain of US Airways' long-term debt agreements contain minimum cash balance requirements and other covenants with which US Airways was in compliance at December 31, 2008. Certain of US Airways' long-term debt agreements contain cross-default provisions, which may be triggered by defaults by US Airways under other agreements relating to indebtedness.

#### 4. Income taxes

US Airways accounts for income taxes using the asset and liability method. US Airways and its wholly owned subsidiaries are part of the US Airways Group consolidated income tax return. US Airways Group allocates tax and tax items, such as net operating losses ("NOL") and net tax credits, between members of the group based on their proportion of taxable income and other items. Accordingly, US Airways' tax expense is based on taxable income, taking into consideration allocated tax loss carryforwards/carrybacks and tax credit carryforwards.

US Airways reported a loss for 2008, which increased its NOL, and has not recorded a tax provision for 2008. As of December 31, 2008, US Airways has approximately \$1.41 billion of gross NOL to reduce future federal taxable income. Of this amount, approximately \$1.37 billion is available to reduce federal taxable income in the calendar year 2009. The NOL expires during the years 2022 through 2028. US Airways' deferred tax asset, which includes \$1.33 billion of the NOL discussed above, has been subject to a full valuation allowance. US Airways also has approximately \$72 million of tax-effected state NOL as of December 31, 2008.

In assessing the realizability of the deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will be realized. US Airways has recorded a valuation allowance against its net deferred tax asset. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income (including reversals of deferred tax liabilities) during the periods in which those temporary differences will become deductible.

At December 31, 2008, the federal valuation allowance is \$563 million, all of which will reduce future tax expense when recognized. The state valuation allowance is \$80 million, of which \$56 million was established through the recognition of tax expense. The remaining \$24 million was established in purchase accounting. Effective January 1, 2009, US Airways adopted SFAS No. 141R. In accordance with SFAS No. 141R, all future decreases in the valuation allowance established in purchase accounting will be recognized as a reduction of tax expense. In addition, US Airways has \$28 million and \$2 million, respectively, of unrealized federal and state tax benefit related to amounts recorded in other comprehensive income.

Throughout 2006 and 2007, US Airways utilized NOL that was generated prior to the merger. Utilization of the NOL results in a corresponding decrease in the valuation allowance. As this valuation allowance was established through the recognition of tax expense, the decrease in valuation allowance offsets US Airways' tax provision dollar for dollar. US Airways recognized \$7 million and \$85 million of non-cash income tax expense for the years ended December 31, 2007 and 2006, respectively, as US Airways utilized NOL that was generated prior to the merger. As

**US Airways, Inc.**

**Notes to Consolidated Financial Statements — (Continued)**

this was acquired NOL, the decrease in the valuation allowance associated with this NOL reduced goodwill instead of the provision for income taxes.

US Airways is subject to Alternative Minimum Tax liability (“AMT”). In most cases, the recognition of AMT does not result in tax expense. However, since US Airways’ net deferred tax asset is subject to a full valuation allowance, any liability for AMT is recorded as tax expense. US Airways recorded AMT expense of \$1 million and \$10 million for the years ended December 31, 2007 and 2006, respectively. US Airways also recorded \$1 million and \$2 million of state income tax related to certain states where NOL was not available or limited, for the years ended December 31, 2007 and 2006, respectively.

The components of the provision for income taxes are as follows (in millions):

	<b>Year Ended December 31,</b>		
	<b>2008</b>	<b>2007</b>	<b>2006</b>
<b>Current provision:</b>			
Federal	\$ 1	\$ 1	\$ 10
State	—	1	2
Total current	1	2	12
<b>Deferred provision:</b>			
Federal	—	(1)	77
State	(1)	6	9
Total deferred	(1)	5	86
<b>Provision for income taxes</b>	<b>\$ —</b>	<b>\$ 7</b>	<b>\$ 98</b>

Income tax expense (benefit) differs from amounts computed at the federal statutory income tax rate as follows (in millions):

	<b>Year Ended December 31,</b>		
	<b>2008</b>	<b>2007</b>	<b>2006</b>
Income tax expense (benefit) at the federal statutory income tax rate	\$(752)	\$ 170	\$ 155
Book expenses not deductible for tax purposes	229	12	(5)
State income tax expense, net of federal income tax expense (benefit)	(38)	7	10
Change in valuation allowance	560	(180)	(73)
AMT provision	1	1	10
Other, net	—	(3)	1
<b>Total</b>	<b>\$ —</b>	<b>\$ 7</b>	<b>\$ 98</b>
Effective tax rate	—%	1.4%	22.1%

**US Airways, Inc.**

**Notes to Consolidated Financial Statements — (Continued)**

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and liabilities as of December 31, 2008 and 2007 are as follows (in millions):

	<u>2008</u>	<u>2007</u>
Deferred tax assets:		
Net operating loss carryforwards	\$ 515	\$ 263
Property, plant and equipment	21	21
Investments	95	19
Financing transactions	25	18
Employee benefits	338	335
Dividend Miles awards	144	153
AMT credit carryforward	38	38
Other deferred tax assets	197	15
Valuation allowance	(643)	(83)
Net deferred tax assets	<u>730</u>	<u>779</u>
Deferred tax liabilities:		
Depreciation and amortization	522	478
Sale and leaseback transactions and deferred rent	144	146
Leasing transactions	47	59
Long-lived intangibles	31	31
Other deferred tax liabilities	4	84
Total deferred tax liabilities	<u>748</u>	<u>798</u>
Net deferred tax liabilities	<u>18</u>	<u>19</u>
Less: current deferred tax liabilities	—	—
Non-current deferred tax liabilities	<u>\$ 18</u>	<u>\$ 19</u>

The reason for significant differences between taxable and pretax book income primarily relates to depreciation on fixed assets, employee pension and postretirement benefit costs, employee-related accruals and leasing transactions.

US Airways files tax returns in the U.S. federal jurisdiction, and in various states and foreign jurisdictions. All federal and state tax filings for US Airways and AWA for fiscal years through December 31, 2007 have been timely filed. There are currently no federal audits and one state audit in process. US Airways' federal income tax year 2004 was closed by operation of the statute of limitations expiring, and there were no extensions filed. US Airways is not currently under IRS examination. US Airways files tax returns in 44 states, and its major state tax jurisdictions are Arizona, California, Pennsylvania and North Carolina. Tax years up to 2003 for these state tax jurisdictions are closed by operation of the statute of limitations expiring, and there were no extensions filed.

US Airways believes that its income tax filing positions and deductions related to tax periods subject to examination will be sustained upon audit and does not anticipate any adjustments that will result in a material adverse effect on US Airways' financial condition, results of operations, or cash flow. Therefore, no reserves for uncertain income tax positions have been recorded pursuant to FIN 48, "Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109."

US Airways, Inc.

Notes to Consolidated Financial Statements — (Continued)

**5. Risk management and financial instruments**

US Airways operates in an industry whose economic prospects are heavily dependent upon two variables it cannot control: the health of the economy and the price of fuel. Due to the discretionary nature of business and leisure travel spending, airline industry revenues are heavily influenced by the condition of the U.S. economy and the economies in other regions of the world. Unfavorable economic conditions may result in decreased passenger demand for air travel, which in turn could have a negative effect on US Airways' revenues. Similarly, the airline industry may not be able to sufficiently raise ticket prices to offset increases in aviation jet fuel prices. These factors could impact US Airways' results of operations, financial performance and liquidity.

**(a) Fuel Price Risk**

Because US Airways' operations are dependent upon aviation fuel, significant increases in aviation fuel costs materially and adversely affect its liquidity, results of operations and financial condition. To manage the risk of changes in aviation fuel prices, US Airways periodically enters into derivative contracts comprised of heating oil-based derivative instruments to hedge a portion of its projected jet fuel requirements. As of December 31, 2008, US Airways had entered into no premium collars to hedge approximately 14% of its projected mainline and Express 2009 jet fuel requirements at a weighted average collar range of \$3.41 to \$3.61 per gallon of heating oil or \$131.15 to \$139.55 per barrel of estimated crude oil equivalent.

The fair value of US Airways' fuel hedging derivative instruments at December 31, 2008 was a liability of \$375 million recorded in accounts payable. The fair value of US Airways' fuel hedging derivative instruments at December 31, 2007 was an asset of \$121 million recorded in prepaid expenses and other. Refer to Note 6 for discussion on how US Airways determines the fair value of its fuel hedging derivative instruments. The net change in the fair value from an asset of \$121 million to a liability of \$375 million represents the unrealized loss of \$496 million for 2008. The unrealized loss was due to the significant decline in the price of oil in the latter part of 2008. The following table details US Airways' loss (gain) on fuel hedging instruments, net (in millions):

	Year Ended December 31, 2008	Year Ended December 31, 2007	Year Ended December 31, 2006
Realized loss (gain)	\$ (140)	\$ (58)	\$ 9
Unrealized loss (gain)	496	(187)	70
Loss (gain) on fuel hedging instruments, net	<u>\$ 356</u>	<u>\$ (245)</u>	<u>\$ 79</u>

**(b) Credit Risk**

*Fuel Hedging*

When US Airways' fuel hedging derivative instruments are in a net asset position, US Airways is exposed to credit losses in the event of non-performance by counterparties to its fuel hedging derivatives. The amount of such credit exposure is limited to the unrealized gains, if any, on US Airways' fuel hedging derivatives. To manage credit risks, US Airways carefully selects counterparties, conducts transactions with multiple counterparties which limits its exposure to any single counterparty, and monitors the market position of the program and its relative market position with each counterparty. US Airways also maintains industry-standard security agreements with all of its counterparties which may require the counterparty to post collateral if the value of the fuel hedging derivatives exceeds specified thresholds related to the counterparty's credit ratings.

When US Airways' fuel hedging derivative instruments are in a net liability position, US Airways is exposed to credit risks related to the return of collateral in situations in which US Airways has posted collateral with counterparties for unrealized losses. When possible, in order to mitigate this risk, US Airways provides letters of credit to certain counterparties in lieu of cash. At December 31, 2008, \$185 million related to letters of credit

**US Airways, Inc.**

**Notes to Consolidated Financial Statements — (Continued)**

collateralizing certain counterparties to US Airways' fuel hedging transactions is included in short-term restricted cash. In addition, at December 31, 2008, US Airways had \$276 million in cash deposits held by counterparties to its fuel hedging transactions. Since the third quarter of 2008, US Airways has not entered into any new transactions as part of its fuel hedging program due to the impact collateral requirements could have on its liquidity resulting from the significant decline in the price of oil and counterparty credit risk arising from global economic uncertainty.

Further declines in heating oil prices would result in additional collateral requirements with US Airways' counterparties, unrealized losses on its existing fuel hedging derivative instruments and realized losses at the time of settlement of these fuel hedging derivative instruments.

*Cash, Cash Equivalents and Investments in Marketable Securities*

US Airways invests available cash in money market securities and highly liquid debt instruments.

As of December 31, 2008, US Airways held auction rate securities totaling \$411 million at par value, which are classified as available for sale securities and noncurrent assets on US Airways' consolidated balance sheets. Contractual maturities for these auction rate securities range from eight to 44 years, with 62% of US Airways' portfolio maturing within the next ten years, 10% maturing within the next 20 years, 16% maturing within the next 30 years and 12% maturing thereafter through 2052. The interest rates are reset approximately every 28 days, except one security for which the auction process is currently suspended. Current yields range from 1.76% to 6.08%. With the liquidity issues experienced in the global credit and capital markets, all of US Airways' auction rate securities have experienced failed auctions since August 2007. The estimated fair value of these auction rate securities no longer approximates par value. However, US Airways has not experienced any defaults and continues to earn and receive interest at the maximum contractual rates. See Note 6 for discussion on how US Airways determines the fair value of its investments in auction rate securities.

At December 31, 2007, the \$411 million par value auction rate securities had a fair value of \$353 million, a \$58 million decline from par. Of this decline in fair value, \$48 million was deemed temporary and an unrealized loss in this amount was recorded to other comprehensive income. US Airways concluded \$10 million of the decline was an other than temporary impairment as a single security with subprime exposure experienced a severe decline in fair value during the period. Accordingly, the \$10 million impairment charge was recorded to other nonoperating expense, net in the fourth quarter of 2007.

At December 31, 2008, the fair value of US Airways' auction rate securities was \$187 million, representing a decline in fair value of \$166 million from December 31, 2007. The decline in fair value was caused by the significant deterioration in the financial markets in 2008. US Airways concluded that the 2008 decline in fair value of \$166 million as well as the previously deemed temporary declines recorded to other comprehensive income of \$48 million were now other than temporary. US Airways' conclusion for the other than temporary impairment was due to the length of time and extent to which the fair value has been less than cost for certain securities. All of these securities have experienced failed auctions for a period greater than one year, and there has been no recovery in their fair value. Accordingly, US Airways recorded \$214 million in impairment charges in other nonoperating expense, net related to the other than temporary impairment of its auction rate securities. US Airways continues to monitor the market for auction rate securities and consider its impact (if any) on the fair value of its investments. If the current market conditions deteriorate further, US Airways may be required to record additional impairment charges in other nonoperating expense, net in future periods.

*Accounts Receivable*

As of December 31, 2008, most of US Airways' receivables related to tickets sold to individual passengers through the use of major credit cards or to tickets sold by other airlines and used by passengers on US Airways or its regional airline affiliates. These receivables are short-term, mostly being settled within seven days after sale. Bad

US Airways, Inc.

Notes to Consolidated Financial Statements — (Continued)

debt losses, which have been minimal in the past, have been considered in establishing allowances for doubtful accounts. US Airways does not believe it is subject to any significant concentration of credit risk.

(c) **Interest Rate Risk**

US Airways has exposure to market risk associated with changes in interest rates related primarily to its variable rate debt obligations. Interest rates on \$1.42 billion principal amount of long-term debt as of December 31, 2008 are subject to adjustment to reflect changes in floating interest rates. The weighted average effective interest rate on US Airways' variable rate debt was 5.34% at December 31, 2008.

The fair value of US Airways' long-term debt was approximately \$2.28 billion and \$1.55 billion at December 31, 2008 and 2007, respectively. The fair values were estimated using quoted market prices where available. For long-term debt not actively traded, fair values were estimated using a discounted cash flow analysis, based on US Airways' current incremental borrowing rates for similar types of borrowing arrangements.

**6. Fair value measurements**

As described in Note 1(s), US Airways adopted SFAS No. 157 on January 1, 2008. SFAS No. 157, among other things, defines fair value, establishes a consistent framework for measuring fair value and expands disclosure for each major asset and liability category measured at fair value on either a recurring or nonrecurring basis. SFAS No. 157 clarifies that fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability. As a basis for considering such assumptions, SFAS No. 157 establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value as follows:

- Level 1. Observable inputs such as quoted prices in active markets;
- Level 2. Inputs, other than the quoted prices in active markets, that are observable either directly or indirectly; and
- Level 3. Unobservable inputs in which there is little or no market data, which require the reporting entity to develop its own assumptions.

Assets measured at fair value on a recurring basis are as follows (in millions):

	Fair Value December 31, 2008	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Valuation Technique
Investments in marketable securities (noncurrent)	\$ 187	\$ —	\$ —	\$ 187	(1)
Fuel hedging derivatives	(375)	—	(375)	—	(2)

- (1) US Airways estimated the fair value of these auction rate securities based on the following: (i) the underlying structure of each security; (ii) the present value of future principal and interest payments discounted at rates considered to reflect current market conditions; (iii) consideration of the probabilities of default, passing a future auction, or repurchase at par for each period; and (iv) estimates of the recovery rates in the event of default for each security. These estimated fair values could change significantly based on future market conditions. Refer to Note 5(b) for further discussion of US Airways' investments in marketable securities.
- (2) Since US Airways' fuel hedging derivative instruments are not traded on a market exchange, the fair values are determined using valuation models which include assumptions about commodity prices based on those observed in the underlying markets. The fair value of fuel hedging derivatives is recorded in accounts payable



US Airways, Inc.

Notes to Consolidated Financial Statements — (Continued)

on the consolidated balance sheets. Refer to Note 5(a) for further discussion of US Airways' fuel hedging derivatives.

Assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) are as follows (in millions):

	Investments in Marketable Securities (Noncurrent)
Balance at December 31, 2007	\$ 353
Losses deemed to be other than temporary reclassified from other comprehensive income to other nonoperating expense, net	48
Impairment losses included in other nonoperating expense, net	(214)
Balance at December 31, 2008	<u>\$ 187</u>

**7. Employee pension and benefit plans**

Substantially all of US Airways' employees meeting certain service and other requirements are eligible to participate in various pension, medical, dental, life insurance, disability and survivorship plans.

**(a) Other Postretirement Benefits Plan**

The following table sets forth changes in the fair value of plan assets, benefit obligations and the funded status of the plans and the amounts recognized in US Airways' consolidated balance sheets as of December 31, 2008 and 2007 (in millions).

	Year Ended December 31, 2008	Year Ended December 31, 2007
Fair value of plan assets at beginning of period	\$ —	\$ —
Actual return on plan assets	—	—
Employer contributions	15	23
Plan participants' contributions	22	28
Gross benefits paid	(37)	(51)
Fair value of plan assets at end of period	—	—
Benefit obligation at beginning of period	162	217
Service cost	2	3
Interest cost	9	12
Plan participants' contributions	22	28
Actuarial gain	(33)	(47)
Gross benefits paid	(37)	(51)
SFAS No. 158 adoption	(4)	—
Benefit obligation at end of period	121	162
Funded status of the plan	(121)	(162)
Contributions for October to December	—	6
Liability recognized in the consolidated balance sheet	<u>\$ (121)</u>	<u>\$ (156)</u>
Net actuarial gain recognized in accumulated other comprehensive income	<u>\$ 78</u>	<u>\$ 47</u>

As described in Note 1(s), US Airways adopted the measurement provisions of SFAS No. 158 on January 1, 2008. The change in US Airways' other postretirement benefit obligation reflects a \$4 million reduction for the

US Airways, Inc.

Notes to Consolidated Financial Statements — (Continued)

adoption of SFAS No. 158, which includes \$6 million of benefit payments, offset by \$2 million of net periodic benefit costs for the period between the measurement date utilized in 2007, September 30, and the beginning of 2008. The \$2 million of net periodic benefit costs was recorded as an adjustment to accumulated deficit.

The following table presents the weighted average assumptions used to determine benefit obligations:

	<u>Year Ended December 31, 2008</u>	<u>Year Ended December 31, 2007</u>
Discount rate	5.98%	5.94%

US Airways assumed discount rates for measuring its other postretirement benefit obligations, based on a hypothetical portfolio of high quality publicly traded U.S. bonds (Aa rated, non-callable or callable with make-whole provisions), for which the timing and cash outflows approximate the estimated benefit payments of the other postretirement benefit plans.

As of December 31, 2008, the assumed health care cost trend rates are 9% in 2009 and 8% in 2010, decreasing to 5.5% in 2015 and thereafter. As of September 30, 2007, the assumed health care cost trend rates are 10% in 2008 and 9% in 2009, decreasing to 5.5% in 2013 and thereafter. The assumed health care cost trend rates could have a significant effect on amounts reported for retiree health care plans. A one-percentage point change in the health care cost trend rates would have the following effects on other postretirement benefits as of December 31, 2008 (in millions):

	<u>1% Increase</u>	<u>1% Decrease</u>
Effect on total service and interest costs	\$ 1	\$ (1)
Effect on postretirement benefit obligation	6	(5)

Weighted average assumptions used to determine net periodic benefit cost were as follows:

	<u>Year Ended December 31, 2008</u>	<u>Year Ended December 31, 2007</u>	<u>Year Ended December 31, 2006</u>
Discount rate	5.94%	5.67%	5.3%

Components of the net and total periodic cost for other postretirement benefits are as follows (in millions):

	<u>Year Ended December 31, 2008</u>	<u>Year Ended December 31, 2007</u>	<u>Year Ended December 31, 2006</u>
Service cost	\$ 2	\$ 3	\$ 3
Interest cost	9	12	12
Amortization of actuarial gain	(2)	—	—
Total periodic cost	<u>\$ 9</u>	<u>\$ 15</u>	<u>\$ 15</u>

US Airways, Inc.

Notes to Consolidated Financial Statements — (Continued)

In 2009, US Airways expects to contribute \$14 million to its other postretirement plans. The following benefits, which reflect expected future service, as appropriate, are expected to be paid from the other postretirement plans (in millions):

	Other Postretirement Benefits before Medicare Subsidy	Medicare Subsidy
2009	\$ 14	\$ —
2010	12	—
2011	12	—
2012	11	—
2013	12	—
2014 to 2018	60	2

**(b) Defined Contribution Plans**

US Airways sponsors several defined contribution plans which cover a majority of its employee groups. US Airways makes contributions to these plans based on the individual plan provisions, including an employer non-discretionary contribution and an employer match. These contributions are generally made based upon eligibility, eligible earnings and employee group. Expenses related to these plans were \$92 million, \$78 million and \$89 million for the years ended December 31, 2008, 2007, and 2006, respectively.

**(c) Postemployment Benefits**

US Airways provides certain postemployment benefits to its employees. These benefits include disability-related and workers' compensation benefits for certain employees. US Airways accrues for the cost of such benefit expenses once an appropriate triggering event has occurred. In 2007, US Airways recorded a \$99 million charge to increase long-term disability obligations for US Airways' pilots as a result of a change in the FAA mandated retirement age for pilots from 60 to 65.

**(d) Profit Sharing Plans**

Most non-executive employees of US Airways are eligible to participate in the 2005 Profit Sharing Plan, an annual bonus program. Annual bonus awards are paid from a profit-sharing pool equal to (i) ten percent of the annual profits of US Airways Group (excluding unusual items) for pre-tax profit margins up to ten percent, plus (ii) 15% of the annual profits of US Airways Group (excluding unusual items) for pre-tax profit margins greater than ten percent. Awards are paid as a lump sum no later than March 15 after the end of each fiscal year. US Airways recorded no amounts in 2008 for profit sharing as US Airways had a net loss in 2008 excluding unusual items and recorded \$49 million and \$59 million for profit sharing in 2007 and 2006, respectively, which is recorded in salaries and related costs.

**8. Commitments and contingencies**

**(a) Commitments to Purchase Flight Equipment and Maintenance Services**

*Aircraft and Engine Purchase Commitments*

During 2008, US Airways took delivery of 14 Embraer 190 aircraft under its Amended and Restated Purchase Agreement with Embraer, which it financed through an existing facility agreement. As of December 31, 2008, US Airways has no remaining firm orders with Embraer. Under the terms of the Amended and Restated Purchase Agreement, US Airways has 32 additional Embraer 190 aircraft on order, which are conditional and subject to its

**US Airways, Inc.**

**Notes to Consolidated Financial Statements — (Continued)**

notification to Embraer. In 2008, US Airways amended the Amended and Restated Purchase Agreement to revise the delivery schedule for these 32 additional Embraer 190 aircraft.

In 2007, US Airways and Airbus executed definitive purchase agreements for the acquisition of 97 aircraft, including 60 single-aisle A320 family aircraft and 37 widebody aircraft (comprised of 22 A350 XWB aircraft and 15 A330-200 aircraft). These were in addition to orders for 37 single-aisle A320 family aircraft from the previous Airbus purchase agreement. In 2008, US Airways and Airbus entered into Amendment No. 1 to the Amended and Restated Airbus A320 Family Aircraft Purchase Agreement. The amendment provides for the conversion of 13 A319 aircraft to A320 aircraft, one A319 aircraft to an A321 aircraft and 11 A320 aircraft to A321 aircraft for deliveries during 2009 and 2010.

Deliveries of the A320 family aircraft commenced during 2008 with the delivery of five A321 aircraft, which were financed through an existing facility agreement. Deliveries of the A320 family aircraft will continue in 2009 through 2012. Deliveries of the A330-200 aircraft will begin in 2009. In 2008, US Airways amended the terms of the A350 XWB Purchase Agreement for deliveries of the 22 firm order A350 XWB aircraft to begin in 2015, rather than 2014, and extending through 2018.

In 2007, US Airways agreed to terms with an aircraft lessor to lease two used A330-200 aircraft. In 2008, US Airways terminated the two leases and did not take delivery of the two used A330-200 aircraft. Related to this termination, US Airways recorded a \$2 million lease cancellation charge.

In 2008, US Airways executed purchase agreements for the purchase of eight new IAE V2500-A5 spare engines scheduled for delivery through 2014 for use on the Airbus A320 family fleet, three new Trent 700 spare engines scheduled for delivery through 2011 for use on the Airbus A330-200 fleet and three new Trent XWB spare engines scheduled for delivery in 2015 through 2017 for use on the Airbus A350 XWB aircraft.

Under all of US Airways' aircraft and engine purchase agreements, US Airways' total future commitments as of December 31, 2008 are expected to be approximately \$6.83 billion through 2018 as follows: \$1.31 billion in 2009, \$1.34 billion in 2010, \$1.29 billion in 2011, \$768 million in 2012, \$36 million in 2013 and \$2.09 billion thereafter, which includes predelivery deposits and payments. US Airways expects to fund these payments through future financings.

*Engine Maintenance Commitments*

In connection with the merger, US Airways and AWA restructured their rate per engine hour agreements with General Electric Engine Services for overhaul maintenance services. Under the restructured agreements, the minimum monthly payment on account of accrued engine flight hours for both of the agreements together will equal \$3 million as long as both agreements remain in effect through October 2009. In September 2007, all engines covered under the AWA agreement were transferred to the US Airways agreement, and the AWA agreement was terminated. The minimum monthly payment of \$3 million remains unchanged.

**(b) Leases**

US Airways leases certain aircraft, engines, and ground equipment, in addition to the majority of its ground facilities and terminal space. As of December 31, 2008, US Airways had 291 mainline aircraft under operating leases, with remaining terms ranging from one month to approximately 15 years. Ground facilities include executive offices, maintenance facilities and ticket and administrative offices. Public airports are utilized for flight operations under lease arrangements with the municipalities or agencies owning or controlling such airports. Substantially all leases provide that the lessee must pay taxes, maintenance, insurance and certain other operating expenses applicable to the leased property. Some leases also include renewal and purchase options.

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Notes to Consolidated Financial Statements — (Continued)

As of December 31, 2008, obligations under noncancellable operating leases for future minimum lease payments were as follows (in millions):

2009	\$ 1,065
2010	974
2011	850
2012	769
2013	628
Thereafter	<u>3,227</u>
Total minimum lease payments	7,513
Less sublease rental receipts	<u>(860)</u>
Total minimum lease payments	<u>\$6,653</u>

For the years ended December 31, 2008, 2007 and 2006, rental expense under operating leases was \$1.32 billion, \$1.28 billion and \$1.28 billion, respectively.

US Airways leases certain flight equipment to related parties (see Note 11(b)) under noncancellable operating leases expiring in various years through year 2022. The future minimum rental receipts associated with these leases are \$78 million in each year 2009 through 2013 and \$470 million thereafter. The following amounts relate to owned aircraft leased under such agreements as reflected in flight equipment as of December 31, 2008 and 2007 (in millions):

	<u>2008</u>	<u>2007</u>
Flight equipment	\$286	\$286
Less accumulated amortization	<u>(33)</u>	<u>(23)</u>
	<u>\$ 253</u>	<u>\$ 263</u>

**(c) Off-Balance Sheet Arrangements**

US Airways has obligations with respect to pass through trust certificates, also known as “Enhanced Equipment Trust Certificates” or EETCs, issued by pass through trusts to cover the financing of 19 owned aircraft, 116 leased aircraft and three leased engines. These trusts are off-balance sheet entities, the primary purpose of which is to finance the acquisition of aircraft. Rather than finance each aircraft separately when such aircraft is purchased or delivered, these trusts allowed US Airways to raise the financing for several aircraft at one time and place such funds in escrow pending the purchase or delivery of the relevant aircraft. The trusts were also structured to provide for certain credit enhancements, such as liquidity facilities to cover certain interest payments, that reduce the risks to the purchasers of the trust certificates and, as a result, reduce the cost of aircraft financing to US Airways.

Each trust covered a set amount of aircraft scheduled to be delivered within a specific period of time. At the time of each covered aircraft financing, the relevant trust used the funds in escrow to purchase equipment notes relating to the financed aircraft. The equipment notes were issued, at US Airways’ election in connection with a mortgage financing of the aircraft or by a separate owner trust in connection with a leveraged lease financing of the aircraft. In the case of a leveraged lease financing, the owner trust then leased the aircraft to US Airways. In both cases, the equipment notes are secured by a security interest in the aircraft. The pass through trust certificates are not direct obligations of, nor are they guaranteed by, US Airways. However, in the case of mortgage financings, the equipment notes issued to the trusts are direct obligations of US Airways. As of December 31, 2008, \$540 million associated with these mortgage financings is reflected as debt in the accompanying consolidated balance sheet.

**US Airways, Inc.**

**Notes to Consolidated Financial Statements — (Continued)**

With respect to leveraged leases, US Airways evaluated whether the leases had characteristics of a variable interest entity as defined by FIN No. 46(R). US Airways concluded the leasing entities met the criteria for variable interest entities. US Airways then evaluated whether or not it was the primary beneficiary by evaluating whether or not it was exposed to the majority of the risks (expected losses) or whether it receives the majority of the economic benefits (expected residual returns) from the trusts' activities. US Airways does not provide residual value guarantees to the bondholders or equity participants in the trusts. Each lease does have a fixed price purchase option that allows US Airways to purchase the aircraft near the end of the lease term. However, the option price approximates an estimate of the aircraft's fair value at the option date. Under this feature, US Airways does not participate in any increases in the value of the aircraft. US Airways concluded it was not the primary beneficiary under these arrangements. Therefore, US Airways accounts for its EETC leverage lease financings as operating leases under the criteria of SFAS No. 13, "Accounting for Leases." US Airways' total obligations under these leveraged lease financings are \$3.57 billion as of December 31, 2008, which are included in the future minimum lease payments table in (b) above.

**(d) Regional Jet Capacity Purchase Agreements**

US Airways has entered into capacity purchase agreements with certain regional jet operators. The capacity purchase agreements provide that all revenues (passenger, mail and freight) go to US Airways. In return, US Airways agrees to pay predetermined fees to the regional airlines for operating an agreed upon number of aircraft, without regard to the number of passengers onboard. In addition, these agreements provide that certain variable costs, such as airport landing fees and passenger liability insurance, will be reimbursed 100% by US Airways. US Airways controls marketing, scheduling, ticketing, pricing and seat inventories. The regional jet capacity purchase agreements have expirations from 2012 to 2020 and provide for optional extensions at US Airways' discretion. The future minimum noncancellable commitments under the regional jet capacity purchase agreements are \$1.01 billion in 2009, \$1.01 billion in 2010, \$1.03 billion in 2011, \$902 million in 2012, \$731 million in 2013 and \$2.71 billion thereafter.

Certain entities with which US Airways has capacity purchase agreements are considered variable interest entities under FIN No. 46(R). In connection with its restructuring and emergence from bankruptcy, US Airways contracted with Air Wisconsin and Republic Airways to purchase a significant portion of these companies' regional jet capacity for a period of ten years. US Airways has determined that it is not the primary beneficiary of these variable interest entities, based on cash flow analyses. Additionally, US Airways has analyzed the arrangements with other carriers with which US Airways has long-term capacity purchase agreements and has concluded it is not required to consolidate any of these entities.

**(e) Legal Proceedings**

On September 12, 2004, US Airways Group and its domestic subsidiaries (collectively, the "Reorganized Debtors") filed voluntary petitions for relief under Chapter 11 of the Bankruptcy Code in the United States Bankruptcy Court for the Eastern District of Virginia, Alexandria Division (Case Nos. 04-13819-SSM through 03-13823-SSM) (the "2004 Bankruptcy"). On September 16, 2005, the Bankruptcy Court issued an order confirming the plan of reorganization submitted by the Reorganized Debtors and on September 27, 2005, the Reorganized Debtors emerged from the 2004 Bankruptcy. The Bankruptcy Court's order confirming the plan included a provision called the plan injunction, which forever bars other parties from pursuing most claims against the Reorganized Debtors that arose prior to September 27, 2005 in any forum other than the Bankruptcy Court. The great majority of these claims are pre-petition claims that, if paid out at all, will be paid out in common stock of the post-bankruptcy US Airways Group at a fraction of the actual claim amount.

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Notes to Consolidated Financial Statements — (Continued)

**(f) Guarantees and Indemnifications**

US Airways guarantees the payment of principal and interest on certain special facility revenue bonds issued by municipalities to build or improve certain airport and maintenance facilities which are leased to US Airways. Under such leases, US Airways is required to make rental payments through 2023, sufficient to pay maturing principal and interest payments on the related bonds. As of December 31, 2008, the principal amount outstanding on these bonds was \$90 million. Remaining lease payments guaranteeing the principal and interest on these bonds are \$145 million.

US Airways enters into real estate leases in substantially all cities that it serves. It is common in such commercial lease transactions for US Airways as the lessee to agree to indemnify the lessor and other related third parties for tort liabilities that arise out of or relate to the use or occupancy of the leased premises. In some cases, this indemnity extends to related liabilities arising from the negligence of the indemnified parties, but usually excludes any liabilities caused by their gross negligence or willful misconduct. With respect to certain special facility bonds, US Airways agreed to indemnify the municipalities for any claims arising out of the issuance and sale of the bonds and use or occupancy of the concourses financed by these bonds. Additionally, US Airways typically indemnifies such parties for any environmental liability that arises out of or relates to its use or occupancy of the leased premises.

US Airways is the lessee under many aircraft financing agreements (including leveraged lease financings of aircraft under pass through trusts). It is common in such transactions for US Airways as the lessee to agree to indemnify the lessor and other related third parties for the manufacture, design, ownership, financing, use, operation and maintenance of the aircraft, and for tort liabilities that arise out of or relate to US Airways' use or occupancy of the leased asset. In some cases, this indemnity extends to related liabilities arising from the negligence of the indemnified parties, but usually excludes any liabilities caused by their gross negligence or willful misconduct. In aircraft financing agreements structured as leveraged leases, US Airways typically indemnifies the lessor with respect to adverse changes in U.S. tax laws.

US Airways has long-term operating leases at a number of airports, including leases where US Airways is also the guarantor of the underlying debt. Such leases are typically with municipalities or other governmental entities. The arrangements are not required to be consolidated based on the provisions of FIN No. 46(R).

US Airways Group's 7% Senior Convertible Notes are fully and unconditionally guaranteed, jointly and severally and on a senior unsecured basis, by US Airways and AWA. In addition, US Airways is a guarantor of US Airways Group's Citicorp credit facility.

**9. Other comprehensive income (loss)**

US Airways' other comprehensive income (loss) consisted of the following (in millions):

	<b>Year Ended December 31,</b>		
	<b>2008</b>	<b>2007</b>	<b>2006</b>
Net income (loss)	\$ (2,148)	\$ 478	\$ 349
Unrealized losses on available for sale securities	—	(48)	—
Recognition of previous unrealized losses now deemed other than temporary	48	—	—
Actuarial gains associated with pension and other postretirement benefits, net of current period amortization	31	47	—
<b>Total comprehensive income (loss)</b>	<b>\$ (2,069)</b>	<b>\$ 477</b>	<b>\$ 349</b>



US Airways, Inc.

Notes to Consolidated Financial Statements — (Continued)

The components of accumulated other comprehensive income (loss) were as follows (in millions):

	December 31, 2008	December 31, 2007
Accumulated net unrealized losses on available for sale securities	\$ —	\$ (48)
Actuarial gains associated with pension and other postretirement benefits, net of amortization	78	47
Accumulated other comprehensive income	<u>\$ 78</u>	<u>\$ (1)</u>

The accumulated other comprehensive income is not presented net of tax as any tax effects resulting from the items above have been immediately offset by the recording of a valuation allowance through the same financial statement caption.

**10. Supplemental cash flow information**

Supplemental disclosure of cash flow information and non-cash investing and financing activities were as follows (in millions):

	Year Ended December 31,		
	2008	2007	2006
Non-cash transactions:			
Interest payable converted to debt	\$ 7	\$ —	\$ —
Maintenance payable converted to debt	33	—	—
Forgiveness of intercompany payable to US Airways Group	—	1,834	—
Repayment of Barclays prepaid miles loan by US Airways Group	—	325	—
Unrealized loss on available for sale securities	—	48	—
Repayment of ATSB, Airbus and GECC loans by US Airways Group	—	—	981
Conversion of 7.5% convertible senior notes, net of discount of \$17 million to common stock	—	—	95
Loan proceeds received by US Airways Group	—	—	64
Notes payable canceled under the aircraft purchase agreement	—	—	4
Equipment purchases financed by capital lease	—	—	3
Cash transactions:			
Interest paid, net of amounts capitalized	124	122	170
Income taxes paid	—	4	12

**11. Related party transactions**

The following represents net payable balances with related parties (in millions):

	December 31,	
	2008	2007
US Airways Group	\$ 949	\$ 986
US Airways Group wholly owned subsidiaries	36	81
	<u>\$985</u>	<u>\$1,067</u>

US Airways, Inc.

Notes to Consolidated Financial Statements — (Continued)

**(a) Parent Company**

The decrease in the net payable to US Airways Group was the result of the 2008 financing transactions and US Airways Group's August 2008 equity offering.

US Airways recorded interest expense for the years ended December 31, 2008, 2007 and 2006 of \$61 million, \$86 million and \$70 million, respectively, related to the above transactions and other transactions with wholly owned subsidiaries of US Airways Group as described below. Interest is calculated at market rates, which are reset quarterly.

**(b) Subsidiaries of US Airways Group**

The net payable to US Airways Group's wholly owned subsidiaries consists of amounts due under regional capacity agreements with the other airline subsidiaries and fuel purchase arrangements with a non-airline subsidiary.

US Airways purchases all of the capacity (ASMs) generated by US Airways Group's wholly owned regional airline subsidiaries at a rate per ASM that is periodically determined by US Airways and, concurrently, recognizes revenues that result primarily from passengers being carried by these affiliated companies. The rate per ASM that US Airways pays is based on estimates of the costs incurred to supply the capacity. US Airways recognized US Airways Express capacity purchase expense for the years ended December 31, 2008, 2007 and 2006 of \$417 million, \$455 million and \$433 million, respectively, related to this program.

US Airways provides various services to these regional airlines, including passenger handling, maintenance and catering. US Airways recognized other operating revenues for the years ended December 31, 2008, 2007 and 2006 of \$89 million, \$95 million and \$96 million, respectively, related to these services. These regional airlines also perform passenger and ground handling services for US Airways at certain airports, for which US Airways recognized other operating expenses for the years ended December 31, 2008, 2007 and 2006 of \$154 million, \$156 million and \$145 million, respectively. US Airways also leases or subleases certain aircraft to these regional airline subsidiaries. US Airways recognized other operating revenues related to these arrangements for the years ended December 31, 2008, 2007 and 2006 of \$78 million, \$78 million and \$80 million, respectively.

US Airways purchases a portion of its aviation fuel from US Airways Group's wholly owned subsidiary, MSC, which acts as a fuel wholesaler to US Airways in certain circumstances. For the years ended December 31, 2008, 2007 and 2006, MSC sold fuel totaling \$1.33 billion, \$1.02 billion and \$810 million, respectively, used by US Airways' mainline and Express flights.

**12. Operating segments and related disclosures**

US Airways is managed as a single business unit that provides air transportation for passengers and cargo. This allows it to benefit from an integrated revenue pricing and route network that includes US Airways, Piedmont, PSA and third-party carriers that fly under capacity purchase or prorate agreements as part of US Airways' Express operations. The flight equipment of all these carriers is combined to form one fleet that is deployed through a single route scheduling system. When making resource allocation decisions, the chief operating decision maker evaluates flight profitability data, which considers aircraft type and route economics, but gives no weight to the financial impact of the resource allocation decision on an individual carrier basis. The objective in making resource allocation decisions is to maximize consolidated financial results, not the individual results of US Airways and US Airways Express.

US Airways, Inc.

Notes to Consolidated Financial Statements — (Continued)

Information concerning operating revenues in principal geographic areas is as follows (in millions):

	Year Ended December 31, 2008	Year Ended December 31, 2007	Year Ended December 31, 2006
United States	\$ 9,760	\$ 9,675	\$ 9,504
Foreign	2,484	2,138	2,188
Total	<u>\$ 12,244</u>	<u>\$ 11,813</u>	<u>\$ 11,692</u>

US Airways attributes operating revenues by geographic region based upon the origin and destination of each flight segment. US Airways' tangible assets consist primarily of flight equipment, which are mobile across geographic markets and, therefore, have not been allocated.

**13. Stock-based compensation**

In June 2008, the stockholders of US Airways Group approved the 2008 Equity Incentive Plan (the "2008 Plan"). The 2008 Plan replaces and supersedes the 2005 Equity Incentive Plan (the "2005 Plan"). No additional awards will be made under the 2005 Plan, although outstanding awards previously made under the 2005 Plan will continue to be governed by the terms and conditions of the 2005 Plan. Any shares subject to an award under the 2005 Plan outstanding as of the date on which the 2008 Plan was approved by the Board that expire, are forfeited or otherwise terminate unexercised will increase the shares reserved for issuance under the 2008 Plan by (i) one share for each share of stock issued pursuant to a stock option or stock appreciation right and (ii) three shares for each share of stock issued pursuant to a restricted stock unit, which corresponds to the reduction originally made with respect to each award in the 2005 Plan.

The 2008 Plan authorizes the grant of awards for the issuance of up to a maximum of 6,700,000 shares of US Airways Group's common stock. Awards may be in the form of performance grants, bonus awards, performance shares, restricted stock awards, vested shares, restricted stock units, vested units, incentive stock options, nonstatutory stock options and stock appreciation rights. The number of shares of US Airways Group's common stock available for issuance under the 2008 Plan is reduced by (i) one share for each share of stock issued pursuant to a stock option or a stock appreciation right, and (ii) one and one-half (1.5) shares for each share of stock issued pursuant to all other stock awards. Stock awards that are terminated, forfeited or repurchased result in an increase in the share reserve of the 2008 Plan corresponding to the reduction originally made in respect of the award. Any shares of the US Airways Group's stock tendered or exchanged by a participant as full or partial payment to US Airways Group of the exercise price under an option and any shares retained or withheld by US Airways Group in satisfaction of an employee's obligations to pay applicable withholding taxes with respect to any award will not be available for reissuance, subjected to new awards or otherwise used to increase the share reserve under the 2008 Plan. The cash proceeds from option exercises will not be used to repurchase shares on the open market for reuse under the 2008 Plan.

US Airways' net income (loss) for the years ended December 31, 2008, 2007 and 2006 includes \$34 million, \$32 million and \$34 million, respectively, of compensation costs related to share-based payments. Upon adoption of SFAS No. 123R, "Share-Based Payment," US Airways Group recorded a cumulative benefit from the accounting change of \$1 million, which reflects the impact of estimating future forfeitures for previously recognized compensation expense. No income tax effect related to share-based payments or cumulative effect has been recorded as the effects have been immediately offset by the recording of a valuation allowance through the same financial statement caption.

*Restricted Stock Unit Awards* — As of December 31, 2008, US Airways Group has outstanding restricted stock unit awards ("RSUs") with service conditions (vesting periods) and RSUs with service and performance conditions (which the performance condition of obtaining a combined operating certificate for AWA and US Airways was met on September 26, 2007). SFAS No. 123R requires that the grant-date fair value of RSUs be equal

US Airways, Inc.

Notes to Consolidated Financial Statements — (Continued)

to the market price of the underlying shares of US Airways Group’s common stock on the date of grant if vesting is based on a service or a performance condition. The grant-date fair value of RSU awards that are subject to both a service and a performance condition are being expensed over the vesting period, as the performance condition has been met. Vesting periods for RSU awards range from three to four years. RSUs are classified as equity awards.

RSU award activity for the years ending December 31, 2008, 2007 and 2006 is as follows (shares in thousands):

	<u>Number of Shares</u>	<u>Weighted Average Grant- Date Fair Value</u>
<b>2005 Equity Incentive Plan</b>		
Nonvested balance at December 31, 2005	687	\$ 26.17
Granted	254	38.55
Vested and released	(75)	42.38
Forfeited	(52)	24.85
Nonvested balances at December 31, 2006	814	\$ 28.63
Granted	242	41.51
Vested and released	(446)	29.85
Forfeited	(18)	31.26
Nonvested balance at December 31, 2007	592	\$ 32.91
Granted	535	9.02
Vested and released	(390)	29.07
Forfeited	(32)	23.15
Nonvested balance at December 31, 2008	705	\$ 17.36
<b>2008 Equity Incentive Plan</b>		
Nonvested balance at December 31, 2007	—	\$ —
Granted	19	7.52
Vested and released	—	—
Forfeited	—	—
Nonvested balance at December 31, 2008	19	\$ 7.52

As of December 31, 2008, there were \$8 million of total unrecognized compensation costs related to RSUs. These costs are expected to be recognized over a weighted average period of 1.1 years. The total fair value of RSUs vested during 2008, 2007 and 2006 was \$3 million, \$14 million and \$3 million, respectively.

*Stock Options and Stock Appreciation Rights* — Stock options and stock appreciation rights (“SARs”) are granted with an exercise price equal to the fair market value of US Airways Group’s common stock at the date of each grant, generally become exercisable over a three to four year period and expire if unexercised at the end of their term, which ranges from seven to ten years. Stock options and SARs are classified as equity awards. The exercise of SARs will be settled with the issuance of shares of US Airways Group’s common stock.

US Airways, Inc.

Notes to Consolidated Financial Statements — (Continued)

Stock option and SARs activity for the years ending December 31, 2008, 2007 and 2006 is as follows (stock options and SARs in thousands):

	<u>Stock Options and SARs</u>	<u>Weighted Average Exercise Price</u>	<u>Weighted Average Remaining Contractual Term (Years)</u>	<u>Aggregate Intrinsic Value (In millions)</u>
<b>1994 Incentive Equity Plan</b>				
Balance at December 31, 2005	1,267	\$ 38.28		
Granted	—	—		
Exercised	(455)	23.64		
Forfeited	—	—		
Expired	(62)	50.93		
Balance at December 31, 2006	750	\$ 46.10		
Granted	—	—		
Exercised	(30)	40.93		
Forfeited	—	—		
Expired	(75)	46.38		
Balance at December 31, 2007	645	\$ 46.30		
Granted	—	—		
Exercised	(2)	9.21		
Forfeited	—	—		
Expired	(244)	55.35		
Balance at December 31, 2008	399	\$ 40.96	1.04	\$ —
Vested or expected to vest at December 31, 2008	399	\$ 40.96	1.04	\$ —
Exercisable at December 31, 2008	399	\$ 40.96	1.04	\$ —
<b>2002 Incentive Equity Plan</b>				
Balance at December 31, 2005	2,048	\$ 16.98		
Granted	—	—		
Exercised	(1,250)	16.12		
Forfeited	—	—		
Expired	—	—		
Balance at December 31, 2006	798	\$ 18.33		
Granted	—	—		
Exercised	(36)	14.36		
Forfeited	—	—		
Expired	—	—		
Balance at December 31, 2007	762	\$ 18.52		
Granted	—	—		
Exercised	(2)	6.42		
Forfeited	—	—		
Expired	(23)	25.08		
Balance at December 31, 2008	737	\$ 18.34	4.95	\$ —
Vested or expected to vest at December 31, 2008	735	\$ 18.33	4.95	\$ —
Exercisable at December 31, 2008	686	\$ 18.15	4.83	\$ —

US Airways, Inc.

Notes to Consolidated Financial Statements — (Continued)

	Stock Options and SARs	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value (In millions)
<b>2005 Equity Incentive Plan</b>				
Balance at December 31, 2005	1,973	\$ 23.15		
Granted	1,310	40.30		
Exercised	(701)	24.49		
Forfeited	(87)	30.34		
Expired	—	—		
Balance at December 31, 2006	2,495	\$ 31.53		
Granted	1,123	42.23		
Exercised	(92)	29.74		
Forfeited	(93)	35.00		
Expired	(63)	37.48		
Balance at December 31, 2007	3,370	\$ 34.96		
Granted	1,959	9.11		
Exercised	(5)	8.84		
Forfeited	(200)	30.18		
Expired	(218)	32.76		
Balance at December 31, 2008	4,906	\$ 24.93	8.02	\$ —
Vested or expected to vest at December 31, 2008	4,720	\$ 25.28	7.96	\$ —
Exercisable at December 31, 2008	2,100	\$ 31.94	7.04	\$ —
<b>2008 Equity Incentive Plan</b>				
Balance at December 31, 2007	—	\$ —		
Granted	2,389	6.64		
Exercised	—	—		
Forfeited	(56)	6.70		
Expired	—	—		
Balance at December 31, 2008	2,333	\$ 6.64	6.63	\$ 3
Vested or expected to vest at December 31, 2008	2,104	\$ 6.64	6.63	\$ 2
Exercisable at December 31, 2008	5	\$ 6.70	6.59	\$ —

The fair value of stock options and SARs is determined at the grant date using a Black-Scholes option pricing model, which requires several assumptions. The risk-free interest rate is based on the U.S. Treasury yield curve in effect for the expected term of the stock option or SAR at the time of grant. The dividend yield is assumed to be zero since US Airways Group does not pay dividends and has no current plans to do so in the future. The volatility is based on the historical volatility of US Airways Group's common stock over a time period equal to the expected term of the stock option or SAR. The expected life of stock options and SARs is based on the historical experience of US Airways Group.

US Airways, Inc.

Notes to Consolidated Financial Statements — (Continued)

The per share weighted-average grant-date fair value of stock options and SARs granted and the weighted-average assumptions used for the years ended December 31, 2008, 2007 and 2006 were as follows:

	Year Ended		
	December 31, 2008	December 31, 2007	December 31, 2006
Weighted average fair value	\$ 3.28	\$ 16.57	\$ 16.77
Risk free interest rate	2.5%	4.5%	4.8%
Expected dividend yield	—	—	—
Expected life	3.0 years	3.0 years	2.9 years
Volatility	62%	52%	57%

As of December 31, 2008, there were \$20 million of total unrecognized compensation costs related to stock options and SARs. These costs are expected to be recognized over a weighted average period of 1.3 years.

The total intrinsic value of stock options and SARs exercised during the years ended December 31, 2008, 2007 and 2006 was \$0.1 million, \$4 million and \$68 million, respectively. Cash received from stock option and SAR exercises during the years ended December 31, 2008, 2007 and 2006 was \$0.1 million, \$2 million and \$31 million, respectively.

*Agreements with the Air Line Pilots Association (“ALPA”)—* US Airways Group and US Airways have a letter of agreement with ALPA, the US Airways’ pilot union through April 18, 2008, that provides that US Airways’ pilots designated by ALPA receive stock options to purchase 1.1 million shares of US Airways Group’s common stock. The first tranche of 500,000 stock options was granted on January 31, 2006 with an exercise price of \$33.65. The second tranche of 300,000 stock options was granted on January 31, 2007 with an exercise price of \$56.90. The third and final tranche of 300,000 stock options was granted on January 31, 2008 with an exercise price of \$12.50. The stock options granted to ALPA pilots do not reduce the shares available for grant under any equity incentive plan. Any of these ALPA stock options that are forfeited or that expire without being exercised will not become available for grant under any of US Airways’ plans.

The per share fair value of the ALPA pilot stock options and assumptions used for the January 31, 2008, 2007 and 2006 grants were as follows:

	January 31, 2008	January 31, 2007	January 31, 2006
	Per share fair value	\$ 3.02	\$ 18.02
Risk free interest rate	2.2%	4.9%	4.4%
Expected dividend yield	—	—	—
Contractual term	2.0 years	2.0 years	5.0 years
Volatility	55%	53%	70%

As of December 31, 2008, there were no unrecognized compensation costs related to stock options granted to ALPA pilots as the stock options were fully vested on the grant date. No ALPA stock options were exercised in 2008. There were 25,029 and 315,390 ALPA stock options exercised during 2007 and 2006, respectively, pursuant to this agreement. The total intrinsic value of ALPA stock options exercised during 2007 and 2006 was \$1 million and \$5 million, respectively. Cash received from ALPA stock options exercised during the years ended December 31, 2007 and 2006 totaled \$1 million and \$10 million, respectively.



US Airways, Inc.

Notes to Consolidated Financial Statements — (Continued)

**14. Valuation and qualifying accounts (in millions)**

Description	Balance at Beginning of Period	Additions	Deductions	Balance at End of Period
<b>Allowance for doubtful receivables:</b>				
Year ended December 31, 2008	\$ 4	\$ 10	\$ 8	\$ 6
Year ended December 31, 2007	\$ 8	\$ 9	\$ 13	\$ 4
Year ended December 31, 2006	\$ 10	\$ 7	\$ 9	\$ 8
<b>Allowance for inventory obsolescence:</b>				
Year ended December 31, 2008	\$ 38	\$ 18	\$ 8	\$ 48
Year ended December 31, 2007	\$ 29	\$ 10	\$ 1	\$ 38
Year ended December 31, 2006	\$ 24	\$ 9	\$ 4	\$ 29
<b>Valuation allowance on deferred tax asset, net:</b>				
Year ended December 31, 2008	\$ 83	\$ 560	\$ —	\$ 643
Year ended December 31, 2007	\$ 263	\$ —	\$ 180	\$ 83
Year ended December 31, 2006	\$ 440	\$ —	\$ 177	\$ 263

**15. Selected quarterly financial information (unaudited)**

Summarized quarterly financial information for 2008 and 2007 is as follows (in millions):

	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
<b>2008</b>				
Operating revenues	\$ 2,867	\$ 3,287	\$ 3,293	\$ 2,797
Operating expenses	3,060	3,825	3,981	3,151
Operating loss	(193)	(538)	(688)	(354)
Nonoperating expenses, net	(31)	(21)	(164)	(159)
Income tax provision (benefit)	—	—	3	(3)
Net loss	(224)	(559)	(855)	(510)
<b>2007</b>				
Operating revenues	\$ 2,761	\$ 3,185	\$ 3,065	\$ 2,802
Operating expenses	2,631	2,890	2,863	2,905
Operating income (loss)	130	295	202	(103)
Nonoperating expenses, net	(23)	(4)	(10)	(2)
Income tax provision (benefit)	3	8	5	(9)
Net income (loss)	104	283	187	(96)

**16. Subsequent events**

On January 15, 2009, US Airways flight 1549 was involved in an accident in New York that resulted in the aircraft landing in the Hudson River. The Airbus A320 aircraft was en route to Charlotte from LaGuardia with 150 passengers and a crew of 5 (2 pilots and 3 flight attendants) onboard. All aboard survived and there were no serious

**US Airways, Inc.**

**Notes to Consolidated Financial Statements — (Continued)**

injuries. US Airways has insurance coverage for this aircraft (which is a total loss) as well as costs resulting from the accident, and there are no applicable deductibles.

On January 16, 2009, US Airways exercised its right to obtain new loan commitments and incur additional loans under the spare parts loan agreement. In connection with the exercise of that right, Airbus Financial Services funded \$50 million in satisfaction of a previous commitment. This loan will mature on October 20, 2014, will bear interest at a rate of LIBOR plus a margin and will be secured by the collateral securing loans under the spare parts loan agreement. In addition, in connection with the incurrence of this loan, US Airways and Airbus entered into amendments to the A320 Family Aircraft Purchase Agreement, the A330 Aircraft Purchase Agreement and the A350 XWB Purchase Agreement. Pursuant to these amendments, the existing cross-default provisions of the applicable aircraft purchase agreements were amended and restated to, among other things, specify the circumstances under which a default under the loan would constitute a default under the applicable aircraft purchase agreement.

**Item 9. *Changes in and Disagreements with Accountants on Accounting and Financial Disclosure***

None.

**Item 9A. *Controls and Procedures***

Section 404 of the Sarbanes-Oxley Act of 2002 requires management to include in this Annual Report on Form 10-K a report on management's assessment of the effectiveness of US Airways Group's and US Airways' internal control over financial reporting, as well as an attestation report from US Airways Group's and US Airways' independent registered public accounting firm on the effectiveness of US Airways Group's and US Airways' internal control over financial reporting. Management's annual report on internal control over financial reporting and the related attestation report from US Airways Group's and US Airways' independent registered public accounting firm are located in Item 8A. "Consolidated Financial Statements and Supplementary Data of US Airways Group, Inc." and Item 8B. "Consolidated Financial Statements and Supplementary Data of US Airways, Inc." and are incorporated herein by reference.

**Disclosure Controls and Procedures**

An evaluation was performed under the supervision and with the participation of US Airways Group's and US Airways' management, including the Chief Executive Officer (the "CEO") and Chief Financial Officer (the "CFO"), of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in the rules promulgated under the Exchange Act) as of December 31, 2008. Based on that evaluation, our management, including the CEO and CFO, concluded that our disclosure controls and procedures were effective as of December 31, 2008.

**Changes in Internal Control over Financial Reporting**

There has been no change to US Airways Group's or US Airways' internal control over financial reporting that occurred during the quarter ended December 31, 2008 that has materially affected, or is reasonably likely to materially affect, US Airways Group's or US Airways' internal control over financial reporting.

**Limitation on the Effectiveness of Controls**

We believe that a controls system, no matter how well designed and operated, cannot provide absolute assurance that the objectives of the controls system are met and no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within a company have been detected. Our disclosure controls and procedures are designed to provide reasonable assurance of achieving their objectives, and the CEO and CFO believe that our disclosure controls and procedures were effective at the "reasonable assurance" level as of December 31, 2008.

**Item 9B. *Other Information***

On February 17, 2009, we entered into an amendment to our co-branded credit card agreement with Barclays Bank Delaware. The amendment reduced the unrestricted cash balance condition to Barclays' on-going obligation under the agreement to pre-purchase additional miles on a monthly basis to \$1.4 billion for January 2009 and \$1.45 billion for February 2009, with the balance in each case including certain fuel hedge collateral. The reductions addressed the impact on our unrestricted cash of our obligations to post significant amounts of collateral with our fuel hedging counterparties due to recent rapid declines in fuel prices.

**PART III**

The information required by Part III of this Form 10-K, pursuant to General Instruction G(3) of Form 10-K, will be set forth in US Airways Group's definitive Proxy Statement to be filed pursuant to Regulation 14A relating to US Airways Group's Annual Meeting of Stockholders on June 10, 2009 and is incorporated herein by reference. US Airways Group will, within 120 days of the end of its fiscal year, file with the SEC a definitive proxy statement pursuant to Regulation 14A.

**Item 10. *Directors, Executive Officers and Corporate Governance***

Information regarding US Airways Group's and US Airways' directors and executive officers required by this Item will be set forth under the caption "Proposal 1 — Election of Directors," "Executive Officers," "Section 16(a) Beneficial Ownership Reporting Compliance" and "Information About Our Board of Directors and Corporate Governance" in US Airways Group's definitive Proxy Statement and is incorporated by reference into this Annual Report on Form 10-K.

US Airways Group has adopted a Code of Business Conduct and Ethics ("Code") within the meaning of Item 406(b) of Regulation S-K. The Code applies to the officers, directors and employees of US Airways Group and its subsidiaries. The Code, US Airways Group's Corporate Governance Guidelines and the charters of our Board committees are publicly available on US Airways Group's website at [www.usairways.com](http://www.usairways.com). Printed copies of the Code, the Corporate Governance Guidelines and the charters of the Board committees are available at no charge to any stockholder upon request to our Corporate Secretary at US Airways, 111 West Rio Salado Parkway, Tempe, Arizona 85281. If US Airways Group makes substantive amendments to the Code or grants any waiver, including any implicit waiver, to its principal executive officer, principal financial officer, principal accounting officer or controller, and persons performing similar functions, US Airways Group will disclose the nature of such amendment or waiver on its website or in a Current Report on Form 8-K in accordance with applicable rules and regulations. The information contained on or connected to US Airways Group's website is not incorporated by reference into this Form 10-K and should not be considered part of this or any other report that US Airways Group files or furnishes with the SEC.

US Airways Group's stock is listed on the NYSE. As a result, its Chief Executive Officer is required to make and will make a CEO's Annual Certification to the New York Stock Exchange in accordance with Section 303A.12 of the New York Stock Exchange Listed Company Manual stating that he was not aware of any violations by US Airways Group of the NYSE corporate governance listing standards.

**Item 11. *Executive Compensation***

Information required by this Item will be set forth in US Airways Group's definitive Proxy Statement under the captions "Information About Our Board of Directors and Corporate Governance," "Executive Compensation" and "Director Compensation" in the definitive Proxy Statement and is incorporated by reference into this Annual Report on Form 10-K.

**Item 12. *Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters***

Information required by this Item will be set forth in US Airways Group's definitive Proxy Statement under the captions "Security Ownership of Certain Beneficial Owners and Management" and "Equity Compensation Plan Information" in the Proxy Statement and is incorporated by reference into this Annual Report on Form 10-K.

**Item 13. *Certain Relationships and Related Transactions and Director Independence***

Information required by this Item will be set forth in US Airways Group's definitive Proxy Statement under the captions "Certain Relationships and Related Party Transactions" and "Information About Our Board of Directors and Corporate Governance" in the Proxy Statement and is incorporated by reference into this Annual Report on Form 10-K.

**Item 14. *Principal Accountant Fees and Services***

Information required by this Item will be set forth in US Airways Group's definitive Proxy Statement under the caption "Information about Our Independent Registered Public Accounting Firm" in the Proxy Statement and is incorporated by reference into this Annual Report on Form 10-K.

**PART IV**

**Item 15. Exhibits and Financial Statement Schedules**

**Consolidated Financial Statements**

The following consolidated financial statements of US Airways Group, Inc. are included in Part II, Item 8A of this report:

- Consolidated Statements of Operations for the years ended December 31, 2008, 2007 and 2006
- Consolidated Balance Sheets as of December 31, 2008 and 2007
- Consolidated Statements of Cash Flows for the years ended December 31, 2008, 2007 and 2006
- Consolidated Statements of Stockholders' Equity (Deficit) for the years ended December 31, 2008, 2007 and 2006
- Notes to Consolidated Financial Statements

The following consolidated financial statements of US Airways, Inc. are included in Part II, Item 8B of this report:

- Consolidated Statements of Operations for the years ended December 31, 2008, 2007 and 2006
- Consolidated Balance Sheets as of December 31, 2008 and 2007
- Consolidated Statements of Cash Flows for the years ended December 31, 2008, 2007 and 2006
- Consolidated Statements of Stockholder's Equity (Deficit) for the years ended December 31, 2008, 2007 and 2006
- Notes to Consolidated Financial Statements

**Consolidated Financial Statement Schedules**

All financial statement schedules have been omitted because they are not applicable or not required, or because the required information is either incorporated herein by reference or included in the financial statements or notes thereto included in this report.

**Exhibits**

Exhibits required to be filed by Item 601 of Regulation S-K. Where the amount of securities authorized to be issued under any of the Company's long-term debt agreements does not exceed 10 percent of the Company's assets, pursuant to paragraph (b)(4)(iii) of Item 601 of Regulation S-K, in lieu of filing such as an exhibit, the Company hereby agrees to furnish to the Commission upon request a copy of any agreement with respect to such long-term debt.

**Exhibit**

**Number**

- 2.1 Agreement and Plan of Merger, dated May 19, 2005, by and among US Airways Group and America West Holdings Corporation (incorporated by reference to Exhibit 2.1 to US Airways Group's Registration Statement on Form S-4 filed on June 28, 2005) (Pursuant to item 601(b)(2) of Regulation S-K promulgated by the SEC, the exhibits and schedules to the Agreement and Plan of Merger have been omitted. Such exhibits and schedules are described in the Agreement and Plan of Merger. US Airways Group hereby agrees to furnish to the SEC, upon its request, any or all of such omitted exhibits or schedules) (Registration No. 333-126162).
- 2.2 Letter Agreement, dated July 7, 2005 by and among US Airways Group, America West Holdings Corporation, Barbell Acquisition Corp., ACE Aviation America West Holdings, Inc., Eastshore Aviation, LLC, Par Investment Partners, L.P., Peninsula Investment Partners, L.P. and Wellington Management Company, LLP (incorporated by reference to Exhibit 2.2 to Amendment No. 1 to US Airways Group's Registration Statement on Form S-4 filed on August 8, 2005) (Registration No. 333-126162).
- 2.3 Joint Plan of Reorganization of US Airways, Inc. and Its Affiliated Debtors and Debtors-in-Possession (incorporated by reference to Exhibit 2.1 to US Airways Group's Current Report on Form 8-K filed on September 22, 2005).

Exhibit Number	
2.4	Findings of Fact, Conclusions of Law and Order Under 11 USC Sections 1129(a) and(b) of Fed. R. Bankr. P. 3020 Confirming the Joint Plan of Reorganization of US Airways, Inc. and Its Affiliated Debtors and Debtors-in-Possession (incorporated by reference to Exhibit 2.2 to US Airways Group’s Current Report on Form 8-K filed on September 22, 2005).
3.1	Amended and Restated Certificate of Incorporation of US Airways Group, effective as of September 27, 2005 (incorporated by reference to Exhibit 3.1 to US Airways Group’s Current Report on Form 8-K filed on October 3, 2005).
3.2	Amended and Restated Bylaws of US Airways Group, effective as of September 27, 2005 (incorporated by reference to Exhibit 3.1 to US Airways Group’s Quarterly Report on Form 10-Q for the quarter ended March 31, 2007).
3.3	Amended and Restated Certificate of Incorporation of US Airways, effective as of March 31, 2003 (incorporated by reference to Plan Exhibit C-2 to the First Amended Joint Plan of Reorganization of US Airways Group and Its Affiliated Debtors and Debtors-in-Possession, As Modified (incorporated by reference to Exhibit 2.1 to US Airways’ Current Report on Form 8-K dated March 18, 2003).
3.4	Amended and Restated By-Laws of US Airways, effective as of March 31, 2003 (incorporated by reference to Exhibit 3.1 to US Airways’ Quarterly Report on Form 10-Q for the quarter ended March 31, 2003).
4.1	Indenture, dated as of September 30, 2005, between US Airways Group, the guarantors listed therein and U.S. Bank National Association, as trustee (incorporated by reference to Exhibit 4.1 to US Airways Group’s Current Report on Form 8-K filed on October 3, 2005).
4.2	Registration Rights Agreement, dated as of September 30, 2005, between US Airways Group, AWA and US Airways, as guarantors, and the initial purchaser named therein (incorporated by reference to Exhibit 4.2 to US Airways Group’s Current Report on Form 8-K filed on October 3, 2005).
10.1	Master Memorandum of Understanding, dated as of November 24, 2004, among US Airways Group, US Airways, and General Electric Capital Corporation acting through its agent GE Capital Aviation Services, Inc. and General Electric Company, GE Transportation Component (incorporated by reference to Exhibit 10.9 to US Airways Group’s Annual Report on Form 10-K/A for the year ended December 31, 2004).*
10.2	Master Merger Memorandum of Understanding, dated as of June 13, 2005, among US Airways, US Airways Group, America West Holdings, Inc., AWA, General Electric Capital Corporation, acting through its agent GE Commercial Aviation Services LLC, GE Engine Services, Inc., GE Engine Services — Dallas, LP and General Electric Company, GE Transportation Component (incorporated by reference to Exhibit 10.9 to US Airways Group’s Quarterly Report on Form 10-Q/A for the quarter ended June 30, 2005).*
10.3	Amended and Restated Airbus A320 Agreement dated as of October 2, 2007 between US Airways, Inc. and Airbus S.A.S. (incorporated by reference to Exhibit 10.3 to US Airways Group’s Annual Report on Form 10-K for the year ended December 31, 2007).*
10.4	Amendment No. 1 dated as of January 11, 2008 to the Amended and Restated Airbus A320 Family Aircraft Purchase Agreement dated as of October 2, 2007 between US Airways, Inc. and Airbus S.A.S. (incorporated by reference to Exhibit 10.1 to US Airways Group’s Quarterly Report on Form 10-Q for the quarter ended March 31, 2008).*
10.5	Amendment No. 2 dated as of October 20, 2008 to the Amended and Restated Airbus A320 Family Aircraft Purchase Agreement dated as of October 2, 2007 between US Airways, Inc. and Airbus S.A.S., including Amended and Restated Letter Agreement No. 3, Amended and Restated Letter Agreement No. 5, and Amended and Restated Letter Agreement No. 9 to the Purchase Agreement.*
10.6	A330 Purchase Agreement dated as of October 2, 2007 between US Airways, Inc. and Airbus S.A.S. (incorporated by reference to Exhibit 10.4 to US Airways Group’s Annual Report on Form 10-K for the year ended December 31, 2007).*
10.7	Amendment No. 1 dated as of November 15, 2007 to A330 Purchase Agreement dated as of October 2, 2007 between US Airways, Inc. and Airbus S.A.S. (incorporated by reference to Exhibit 10.5 to US Airways Group’s Annual Report on Form 10-K for the year ended December 31, 2007).*

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<b>Exhibit Number</b>	
10.8	Amendment No. 2 dated as of October 20, 2008 to A330 Purchase Agreement dated as of October 2, 2007 between US Airways, Inc. and Airbus S.A.S., including Amended and Restated Letter Agreement No. 5 and Amended and Restated Letter Agreement No. 9 to the Purchase Agreement.*
10.9	A330/A340 Purchase Agreement dated as of November 24, 1998 between US Airways Group and AVSA, S.A.R.L. (incorporated by reference to Exhibit 10.5 to US Airways Group's Annual Report on Form 10-K for the year ended December 31, 1998).*
10.10	Amendment No. 1 dated as of March 23, 2000 to A330/A340 Purchase Agreement dated November 24, 1998 between US Airways Group and AVSA, S.A.R.L. (incorporated by reference to Exhibit 10.2 to US Airways Group's Quarterly Report on Form 10-Q for the quarter ended March 31, 2000).*
10.11	Amendment No. 2 dated as of June 29, 2000 to A330/A340 Purchase Agreement dated November 24, 1998 between US Airways Group and AVSA, S.A.R.L. (incorporated by reference to Exhibit 10.2 to US Airways Group's Quarterly Report on Form 10-Q for the quarter ended June 30, 2000).*
10.12	Amendment No. 3 dated as of November 27, 2000 to A330/A340 Purchase Agreement dated November 24, 1998 between US Airways Group and AVSA, S.A.R.L. (incorporated by reference to Exhibit 10.14 to US Airways Group's Annual Report on Form 10-K for the year ended December 31, 2000).*
10.13	Amendment No. 4 dated as of September 20, 2001 to A330/A340 Purchase Agreement dated November 24, 1998 between US Airways Group and AVSA, S.A.R.L. (incorporated by reference to Exhibit 10.16 to US Airways Group's Annual Report on Form 10-K for the year ended December 31, 2001).*
10.14	Amendment No. 5 dated as of July 17, 2002 to A330/A340 Purchase Agreement dated November 24, 1998 between US Airways Group and AVSA, S.A.R.L. (incorporated by reference to Exhibit 10.2 to US Airways Group's Quarterly Report on Form 10-Q for the quarter ended June 30, 2002).*
10.15	Amendment No. 6 dated as of March 29, 2003 to A330/A340 Purchase Agreement dated November 24, 1998 between US Airways Group and AVSA, S.A.R.L. (incorporated by reference to Exhibit 10.2 to US Airways Group's Quarterly Report on Form 10-Q for the quarter ended March 31, 2003).*
10.16	Amendment No. 7 dated August 30, 2004 to the Airbus A330/A340 Purchase Agreement dated November 24, 1998 between US Airways Group and AVSA, S.A.R.L. (incorporated by reference to Exhibit 10.3 to US Airways' Group's Quarterly Report on Form 10-Q/A for the quarter ended September 30, 2004).*
10.17	Amendment No. 8 dated December 22, 2004 to the Airbus A330/A340 Purchase Agreement dated as of November 24, 1998 between US Airways Group and AVSA, S.A.R.L. (incorporated by reference to Exhibit 10.6 to US Airways Group's Quarterly Report on Form 10-Q/A for the quarter ended March 31, 2005).*
10.18	Amendment No. 9 dated January 2005 to the Airbus A330/A340 Purchase Agreement dated November 24, 1998 between US Airways Group and AVSA, S.A.R.L. (incorporated by reference to Exhibit 10.7 to US Airways Group's Quarterly Report on Form 10-Q for the quarter ended March 31, 2005).*
10.19	Letter Agreement dated December 17, 2004 between US Airways Group and US Airways and Airbus North America Sales Inc. (incorporated by reference to Exhibit 99.1 to US Airways Group's Current Report on Form 8-K filed on February 9, 2005).
10.20	Amendment No. 10 dated September 2005 to the Airbus A330/A340 Purchase Agreement dated November 24, 1998 between US Airways Group and AVSA, S.A.R.L. (incorporated by reference to Exhibit 10.7 to US Airways Group's Quarterly Report on Form 10-Q for the quarter ended September 30, 2005).*
10.21	Amendment No. 11 dated as of October 2, 2007 to the Airbus A330/A340 Purchase Agreement dated November 24, 1998 between US Airways Group and AVSA, S.A.R.L. (incorporated by reference to Exhibit 10.18 to US Airways Group's Annual Report on Form 10-K for the year ended December 31, 2007).*



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Exhibit Number	
10.22	Amended and Restated Airbus A350 XWB Purchase Agreement, dated as of October 2, 2007, among AVSA, S.A.R.L. and US Airways, Inc., AWA and US Airways Group (incorporated by reference to Exhibit 10.19 to US Airways Group's Annual Report on Form 10-K for the year ended December 31, 2007).*
10.23	Amendment No. 1 dated as of October 20, 2008 to the Amended and Restated Airbus A350 XWB Purchase Agreement, dated as of October 2, 2007, between US Airways, Inc. and Airbus S.A.S., including Amended and Restated Letter Agreement No. 3, Amended and Restated Letter Agreement No. 5, and Amended and Restated Letter Agreement No. 9 to the Purchase Agreement.*
10.24	Amended and Restated Embraer Aircraft Purchase Agreement dated as of June 13, 2006 between US Airways Group and Embraer — Empresa Brasileira de Aeronautica S.A. (incorporated by reference to Exhibit 10.3 to US Airways Group's Quarterly Report on Form 10-Q for the quarter ended June 30, 2006).*
10.25	Amendment No. 1 dated as of June 1, 2007 to Amended and Restated Embraer Aircraft Purchase Agreement dated June 13, 2006 between US Airways Group and Embraer — Empresa Brasileira de Aeronautica S.A. (incorporated by reference to Exhibit 10.1 to US Airways Group's Quarterly Report on Form 10-Q for the quarter ended June 30, 2007).*
10.26	Amendment No. 2 dated as of June 6, 2007 to Amended and Restated Embraer Aircraft Purchase Agreement dated June 13, 2006 between US Airways Group and Embraer — Empresa Brasileira de Aeronautica S.A. (incorporated by reference to Exhibit 10.2 to US Airways Group's Quarterly Report on Form 10-Q for the quarter ended June 30, 2007).*
10.27	Amendment No. 3 dated as of August 15, 2007 to Amended and Restated Embraer Aircraft Purchase Agreement dated as of June 13, 2006 between US Airways Group and Embraer — Empresa Brasileira de Aeronautica S.A. (incorporated by reference to Exhibit 10.2 to US Airways Group's Quarterly Report on Form 10-Q for the quarter ended September 30, 2007).*
10.28	Amendment No. 4 dated as of March 14, 2008 to Amended and Restated Embraer Aircraft Purchase Agreement dated as of June 13, 2006 between US Airways Group and Embraer — Empresa Brasileira de Aeronautica S.A. (incorporated by reference to Exhibit 10.2 to US Airways Group's Quarterly Report on Form 10-Q for the quarter ended March 31, 2008).*
10.29	Amendment No. 5 dated as of June 30, 2008 to Amended and Restated Embraer Aircraft Purchase Agreement dated as of June 13, 2006 between US Airways Group and Embraer — Empresa Brasileira de Aeronautica S.A. (incorporated by reference to Exhibit 10.3 to US Airways Group's Quarterly Report on Form 10-Q for the quarter ended June 30, 2008).*
10.30	Amendment No. 6 dated as of October 22, 2008 to Amended and Restated Embraer Aircraft Purchase Agreement dated as of June 13, 2006 between US Airways Group and Embraer — Empresa Brasileira de Aeronautica S.A.*
10.31	Amendment No. 1 dated as of August 15, 2007 to Amended and Restated Letter Agreement DCT-022/33 dated as of June 13, 2006 between US Airways Group and Embraer — Empresa Brasileira de Aeronautica S.A. (incorporated by reference to Exhibit 10.3 to US Airways Group's Quarterly Report on Form 10-Q for the quarter ended September 30, 2007).*
10.32	Amendment No. 2 dated as of March 14, 2008 to Amended and Restated Letter Agreement DCT-022/33 dated as of June 13, 2006 between US Airways Group and Embraer — Empresa Brasileira de Aeronautica S.A. (incorporated by reference to Exhibit 10.3 to US Airways Group's Quarterly Report on Form 10-Q for the quarter ended March 31, 2008).*
10.33	Bombardier CRJ Aircraft Master Purchase Agreement dated as of May 9, 2003 between US Airways Group and Bombardier, Inc. (incorporated by reference to Exhibit 10.2 to US Airways Group's Quarterly Report on Form 10-Q for the quarter ended June 30, 2003).*
10.34	Contract Change Order 1 dated January 27, 2004 to Bombardier CRJ Aircraft Master Purchase Agreement dated as of May 9, 2003 between US Airways Group and Bombardier, Inc. (incorporated by reference to Exhibit 10.6 to US Airways Group's Quarterly Report on Form 10-Q for the quarter ended March 31, 2004).*

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<b>Exhibit Number</b>	
10.35	Contract Change Order 2 dated February 9, 2004 to Bombardier CRJ Aircraft Master Purchase Agreement dated as of May 9, 2003 between US Airways Group and Bombardier, Inc. (incorporated by reference to Exhibit 10.7 to US Airways Group's Quarterly Report on Form 10-Q for the quarter ended March 31, 2004).*
10.36	Contract Change Order 3 dated February 26, 2004 to Bombardier CRJ Aircraft Master Purchase Agreement dated as of May 9, 2003 between US Airways Group and Bombardier, Inc. (incorporated by reference to Exhibit 10.8 to US Airways Group's Quarterly Report on Form 10-Q for the quarter ended March 31, 2004).*
10.37	Global Settlement Letter, dated November 10, 2006, among US Airways Group and Bombardier Inc. (incorporated by reference to Exhibit 10.46 to US Airways Group's Annual Report on Form 10-K for the year ended December 31, 2006).*
10.38	Letter Agreement dated September 16, 2005 by and among US Airways Group, America West Holdings Corporation, Barbell Acquisition Corp., ACE Aviation America West Holdings, Inc., Eastshore Aviation, LLC, Par Investment Partners, L.P., Peninsula Investment Partners, L.P. and Wellington Management Company, LLP (incorporated by reference to Exhibit 10.11 to US Airways Group's Quarterly Report on Form 10-Q for the quarter ended September 30, 2005).
10.39	Merchant Services Bankcard Agreement, dated as of April 16, 2003, between AWA, The Leisure Company, JPMorgan Chase Bank, and Chase Merchant Services L.L.C. (incorporated by reference to Exhibit 10.113 to Amendment No. 2 to the Registration Statement on Form S-4 filed by US Airways Group on August 11, 2005) (Registration No. 333-126162).*
10.40	First Amendment to Merchant Services Bankcard Agreement, dated as of August 8, 2005, among AWA, JPMorgan Chase Bank, N.A., and Chase Merchant Services, L.L.C. (incorporated by reference to Exhibit 10.111 to Amendment No. 2 to the Registration Statement on Form S-4 filed by US Airways Group on August 11, 2005) (Registration No. 333-126162).*
10.41	Second Amendment to Merchant Services Bankcard Agreement, dated as of April 11, 2008, between US Airways Group, US Airways, Chase Alliance Partners, LLC, as successor to Chase Merchant Services, LLC, and JPMorgan Chase Bank, N.A. (incorporated by reference to Exhibit 10.2 to US Airways Group's Quarterly Report on Form 10-Q for the quarter ended June 30, 2008).*
10.42	America West Co-Branded Card Agreement, dated as of January 25, 2005, between AWA and Juniper Bank (incorporated by reference to Exhibit 10.112 to Amendment No. 2 to the Registration Statement on Form S-4 filed by US Airways Group on August 11, 2005) (Registration No. 333-126162).*
10.43	Assignment and First Amendment to America West Co-Branded Card Agreement, dated as of August 8, 2005, between AWA, US Airways Group and Juniper Bank (incorporated by reference to Exhibit 10.110 to Amendment No. 2 to the Registration Statement on Form S-4 filed by US Airways Group on August 11, 2005) (Registration No. 333-126162).*
10.44	Amendment No. 2 to America West Co-Branded Credit Card Agreement, dated as of September 26, 2005, between AWA, US Airways Group and Juniper Bank (incorporated by reference to Exhibit 10.45 to US Airways Group's Annual Report on Form 10-K for the year ended December 31, 2007).*
10.45	Amendment No. 3 to America West Co-Branded Credit Card Agreement, dated as of December 29, 2006, between US Airways Group and Barclays Bank Delaware (incorporated by reference to Exhibit 10.46 to US Airways Group's Annual Report on Form 10-K for the year ended December 31, 2007).*
10.46	Amendment No. 4 to America West Co-Branded Credit Card Agreement, dated as of December 5, 2007, between US Airways Group and Barclays Bank Delaware (incorporated by reference to Exhibit 10.47 to US Airways Group's Annual Report on Form 10-K for the year ended December 31, 2007).*
10.47	Amendment No. 5 to America West Co-Branded Credit Card Agreement, dated as of August 28, 2008, between US Airways Group and Barclays Bank Delaware (incorporated by reference to Exhibit 10.4 to US Airways Group's Quarterly Report on Form 10-Q for the quarter ended September 30, 2008).*
10.48	Amendment No. 6 to America West Co-Branded Credit Card Agreement, dated as of October 17, 2008, between US Airways Group and Barclays Bank Delaware.*
10.49	Loan Agreement [Spare Parts], dated as of October 20, 2008, among US Airways, Inc., GECC, as administrative agent, collateral agent and original lender, and the lenders from time to time party thereto.*

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Exhibit Number	
10.50	Amendment No. 1 to Loan Agreement [Spare Parts], dated as of December 5, 2008, among US Airways, Inc., GECC, as administrative agent, collateral agent and original lender, and the lenders from time to time party thereto.*
10.51	Loan Agreement, dated March 23, 2007, among US Airways Group as Borrower, certain subsidiaries of US Airways Group party to the agreement from time to time, Citicorp North America, Inc., as Administrative Agent, the lenders party to the agreement from time to time, Citigroup Global Markets Inc., as Joint Lead Arranger and Bookrunner, Morgan Stanley Senior Funding, Inc., as Joint Lead Arranger and Bookrunner and Syndication Agent, and General Electric Capital Corporation, as Documentation Agent (incorporated by reference to Exhibit 4.1 to US Airways Group's Current Report on Form 8-K filed on March 26, 2007).
10.52	Amendment No. 2 to Loan Agreement, dated as of January 14, 2008, between US Airways Group, Inc., as Borrower, and Citicorp North America, Inc., as Administrative Agent and Collateral Agent (incorporated by reference to Exhibit 10.3 to US Airways Group's Quarterly Report on Form 10-Q for the quarter ended September 30, 2008).
10.53	Amendment No. 3 to Loan Agreement, dated as of October 20, 2008, between US Airways Group, Inc., as Borrower, and Citigroup North America, Inc. as Administrative Agent and Collateral Agent.
10.54	Amended and Restated Loan Agreement, dated as of April 7, 2006, among US Airways Group, General Electric Capital Corporation, as Administrative Agent, the lenders party to the agreement from time to time, and certain subsidiaries of US Airways Group party to the agreement from time to time (incorporated by reference to Exhibit 4.1 to US Airways Group's Current Report on Form 8-K dated April 7, 2006, filed on April 10, 2006).
10.55	Stockholders' Agreement, dated as of September 27, 2005, among US Airways Group and ACE Aviation America West Holdings Inc. (incorporated by reference to Exhibit 10.1 to US Airways Group's Current Report on Form 8-K filed on October 3, 2005).
10.56	Stockholders' Agreement, dated as of September 27, 2005, among US Airways Group and Eastshore Aviation LLC (incorporated by reference to Exhibit 10.2 to US Airways Group's Current Report on Form 8-K filed on October 3, 2005).
10.57	Stockholders' Agreement, dated as of September 27, 2005, among US Airways Group and Par Investment Partners, L.P. (incorporated by reference to Exhibit 10.3 to US Airways Group's Current Report on Form 8-K filed on October 3, 2005).
10.58	Stockholders' Agreement, dated as of September 27, 2005, among US Airways Group and Peninsula Investment Partners, L.P. (incorporated by reference to Exhibit 10.4 to US Airways Group's Current Report on Form 8-K filed on October 3, 2005).
10.59	Stockholders' Agreement, dated as of September 27, 2005, among US Airways Group and the group of investors named therein under the management of Wellington Management Company, LLP (incorporated by reference to Exhibit 10.5 to US Airways Group's Current Report on Form 8-K filed on October 3, 2005).
10.60	Stockholders' Agreement, dated as of September 27, 2005, among US Airways Group, Tudor Proprietary Trading L.L.C. and the group of investors named therein for which Tudor Investment Corp. acts as investment advisor (incorporated by reference to Exhibit 10.6 to US Airways Group's Current Report on Form 8-K filed on October 3, 2005).
10.61	US Airways Funded Executive Defined Contribution Plan (incorporated by reference to Exhibit 10.1 to US Airways' Annual Report on Form 10-K for the year ended December 31, 2003).†
10.62	First Amendment to the US Airways Funded Executive Defined Contribution Plan dated January 26, 2004 (incorporated by reference to Exhibit 10.4 to US Airways' Quarterly Report on Form 10-Q for the quarter ended June 30, 2004).†
10.63	Second Amendment to the US Airways Funded Executive Defined Contribution Plan dated May 20, 2004 (incorporated by reference to Exhibit 10.5 to US Airways' Quarterly Report on Form 10-Q for the quarter ended June 30, 2004).†

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Exhibit Number	
10.64	Third Amendment to the US Airways Funded Executive Defined Contribution Plan dated June 24, 2004 (incorporated by reference to Exhibit 10.6 to US Airways' Quarterly Report on Form 10-Q for the quarter ended June 30, 2004).†
10.65	US Airways Unfunded Executive Defined Contribution Plan (incorporated by reference to Exhibit 10.2 to US Airways' Annual Report on Form 10-K for the year ended December 31, 2003).†
10.66	First Amendment to the US Airways Unfunded Executive Defined Contribution Plan dated January 26, 2004 (incorporated by reference to Exhibit 10.7 to US Airways' Quarterly Report on Form 10-Q for the quarter ended June 30, 2004).†
10.67	Second Amendment to the US Airways Unfunded Executive Defined Contribution Plan dated May 20, 2004 (incorporated by reference to Exhibit 10.8 to US Airways' Quarterly Report on Form 10-Q for the quarter ended June 30, 2004).†
10.68	Third Amendment to the US Airways Unfunded Executive Defined Contribution Plan dated June 24, 2004 (incorporated by reference to Exhibit 10.9 to US Airways' Quarterly Report on Form 10-Q for the quarter ended June 30, 2004).†
10.69	US Airways Group 2005 Equity Incentive Plan (incorporated by reference to Exhibit 10.1 to US Airways Group's Current Report on Form 8-K filed on October 3, 2005).†
10.70	Stock Unit Award Agreement, dated as of September 27, 2005, between US Airways Group and W. Douglas Parker (incorporated by reference to Exhibit 10.6 to US Airways Group's Current Report on Form 8-K filed on October 3, 2005).†
10.71	Form of Stock Unit Agreement under US Airways Group's 2005 Equity Incentive Plan (incorporated by reference to Exhibit 10.2 to US Airways Group's Quarterly Report on Form 10-Q for the quarter ended March 31, 2007).†
10.72	Form of Stock Appreciation Rights Award Agreement under US Airways Group's 2005 Equity Incentive Plan (incorporated by reference to Exhibit 10.75 to US Airways Group's Annual Report on Form 10-K for the year ended December 31, 2005).†
10.73	Form of Nonstatutory Stock Option Award Agreement under US Airways Group's 2005 Equity Incentive Plan (incorporated by reference to Exhibit 10.5 to US Airways Group's Quarterly Report on Form 10-Q for the quarter ended March 31, 2006).†
10.74	Form of Stock Bonus Award Agreement for Non-Employee Directors under US Airways Group's 2005 Equity Incentive Plan (incorporated by reference to Exhibit 10.96 to US Airways Group's Annual Report on Form 10-K for the year ended December 31, 2007).†
10.75	US Airways Group, Inc. 2008 Equity Incentive Plan (incorporated by reference to Exhibit 4.1 to US Airways Group's Registration Statement on Form S-8 filed on June 30, 2008 (Registration No. 333-152033)).†
10.76	Form of Restricted Stock Unit Award Agreement under the US Airways Group, Inc. 2008 Equity Incentive Plan (incorporated by reference to Exhibit 10.1 to US Airways Group's Current Report on Form 8-K filed August 7, 2008).†
10.77	Form of Stock Appreciation Right Award Agreement under the US Airways Group, Inc. 2008 Equity Incentive Plan (incorporated by reference to Exhibit 10.2 to US Airways Group's Current Report on Form 8-K filed August 7, 2008).†
10.78	Form of Director Vested Share Award Agreement under the US Airways Group 2008 Equity Incentive Plan.†
10.79	Form of Indemnity Agreement (incorporated by reference to Exhibit 10.1 to US Airways Group's Current Report on Form 8-K filed on October 6, 2005).†
10.80	Performance-Based Award Plan (as Amended and Restated effective November 2, 2005) (incorporated by reference to Exhibit 10.79 to US Airways Group's Annual Report on Form 10-K for the year ended December 31, 2005).†
10.81	Amended and Restated America West 1994 Incentive Equity Plan (incorporated by reference to Exhibit 10.21 to AWA's Quarterly Report on Form 10-Q for the quarter ended March 31, 2001).†

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<b>Exhibit Number</b>	
10.82	America West Holdings 2002 Incentive Equity Plan as amended through May 23, 2002 (incorporated by reference to Exhibit 10.1 to US Airways Group's Quarterly Report on Form 10-Q for the quarter ended June 30, 2006).†
10.83	2007 Performance-Based Award Program under the US Airways Group 2005 Equity Incentive Plan (incorporated by reference to Exhibit 10.2 to US Airways Group's Quarterly Report on Form 10-Q for the quarter ended March 31, 2007).†
10.84	2008 Long Term Incentive Program under the US Airways Group 2005 Equity Incentive Plan.†
10.85	Form of Executive Change in Control Agreement for Presidents (incorporated by reference to Exhibit 10.2 to US Airways Group's Current Report on Form 8-K filed on November 29, 2007).†
10.86	Form of Executive Change in Control Agreement for Executive Vice Presidents (incorporated by reference to Exhibit 10.3 to US Airways Group's Current Report on Form 8-K filed on November 29, 2007).†
10.87	Form of Executive Change in Control Agreement for Senior Vice Presidents (incorporated by reference to Exhibit 10.4 to US Airways Group's Current Report on Form 8-K filed on November 29, 2007).†
10.88	Summary of Director Compensation and Benefits.†
10.89	Form of Letter Agreement for Directors Travel Program (incorporated by reference to Exhibit 10.106 to US Airways Group's Annual Report on Form 10-K for the year ended December 31, 2007).†
10.90	Amended and Restated Employment Agreement dated as of November 28, 2007 by and among US Airways Group, US Airways, Inc. and W. Douglas Parker (incorporated by reference to Exhibit 10.1 to US Airways Group's Current Report on Form 8-K filed on November 29, 2007).†
10.91	Annual Incentive Bonus Plan (incorporated by reference to Exhibit 10.1 to America West Holdings' and America West Airlines, Inc.'s Quarterly Report on form 10-Q for the quarter ending March 31, 2005).†
10.92	US Airways Group Incentive Compensation Plan (incorporated by reference to Exhibit 10.1 to US Airways Group's Current Report on Form 8-K filed on January 23, 2006).†
21.1	Subsidiaries of US Airways Group.
23.1	Consents of KPMG LLP, Independent Registered Public Accounting Firm of US Airways Group.
24.1	Powers of Attorney.
31.1	Certification of US Airways Group's Chief Executive Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, as amended.
31.2	Certification of US Airways Group's Chief Financial Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, as amended.
31.3	Certification of US Airways' Chief Executive Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, as amended.
31.4	Certification of US Airways' Chief Financial Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, as amended.
32.1	Certification of US Airways Group's Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of US Airways' Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

\* Portions of this exhibit have been omitted under a request for confidential treatment and filed separately with the United States Securities and Exchange Commission.

† Management contract or compensatory plan or arrangement.

**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, the registrants have duly caused this report to be signed on their behalf by the undersigned, thereunto duly authorized.

**US Airways Group, Inc.**

By: /s/ W. Douglas Parker  
W. Douglas Parker  
Chairman and Chief Executive Officer

Date: February 17, 2009

**US Airways, Inc.**

By: /s/ W. Douglas Parker  
W. Douglas Parker  
Chairman and Chief Executive Officer

Date: February 17, 2009

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KNOW ALL MEN BY THESE PRESENTS, that each individual whose signature appears below constitutes and appoints W. Douglas Parker and Derek J. Kerr and each or any of them, his or her true and lawful attorneys and agents, with full power of substitution and resubstitution, for him or her and in his or her name, place and stead, in any and all capacities, to sign any and all amendments to the Registrants' Annual Report on Form 10-K for the fiscal year ended December 31, 2008, and to file the same with all exhibits thereto, and all other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys and agents, and each or any of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done, as fully to all intents and purposes as he or she might or could do in person, hereby ratifying and confirming all that said attorneys and agents, and each of them, or his substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, this report has been signed below by the following persons in the capacities and on the dates indicated.

Signatures		Date
<u>/s/ W. Douglas Parker</u> W. Douglas Parker	Chairman and Chief Executive Officer (Principal Executive Officer)	February 17, 2009
<u>/s/ Derek J. Kerr</u> Derek J. Kerr	Executive Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)	February 17, 2009
<u>/s/ Bruce R. Lakefield*</u> Bruce R. Lakefield	Director	February 17, 2009
<u>/s/ Herbert M. Baum*</u> Herbert M. Baum	Director	February 17, 2009
<u>/s/ Matthew J. Hart*</u> Matthew J. Hart	Director	February 17, 2009
<u>/s/ Richard C. Kraemer*</u> Richard C. Kraemer	Director	February 17, 2009
<u>/s/ Cheryl G. Krongard*</u> Cheryl G. Krongard	Director	February 17, 2009
<u>/s/ Denise M. O'Leary*</u> Denise M. O'Leary	Director	February 17, 2009
<u>/s/ George M. Philip*</u> George M. Philip	Director	February 17, 2009
<u>/s/ J. Steven Whisler*</u> J. Steven Whisler	Director	February 17, 2009

\*By: /s/ Derek J. Kerr  
Derek J. Kerr as Attorney-in-fact



**EXHIBIT INDEX**

<b>Exhibit Number</b>	
10.5	Amendment No. 2 dated as of October 20, 2008 to the Amended and Restated Airbus A320 Family Aircraft Purchase Agreement dated as of October 2, 2007 between US Airways, Inc. and Airbus S.A.S., including Amended and Restated Letter Agreement No. 3, Amended and Restated Letter Agreement No. 5, and Amended and Restated Letter Agreement No. 9 to the Purchase Agreement.*
10.8	Amendment No. 2 dated as of October 20, 2008 to A330 Purchase Agreement dated as of October 2, 2007 between US Airways, Inc. and Airbus S.A.S., including Amended and Restated Letter Agreement No. 5 and Amended and Restated Letter Agreement No. 9 to the Purchase Agreement.*
10.23	Amendment No. 1 dated as of October 20, 2008 to the Amended and Restated Airbus A350 XWB Purchase Agreement, dated as of October 2, 2007, between US Airways, Inc. and Airbus S.A.S., including Amended and Restated Letter Agreement No. 3, Amended and Restated Letter Agreement No. 5, and Amended and Restated Letter Agreement No. 9 to the Purchase Agreement.*
10.30	Amendment No. 6 dated as of October 22, 2008 to Amended and Restated Embraer Aircraft Purchase Agreement dated as of June 13, 2006 between US Airways Group and Embraer — Empresa Brasileira de Aeronautica S.A.*
10.48	Amendment No. 6 to America West Co-Branded Credit Card Agreement, dated as of October 17, 2008, between US Airways Group and Barclays Bank Delaware.*
10.49	Loan Agreement [Spare Parts], dated as of October 20, 2008, among US Airways, Inc., GECC, as administrative agent, collateral agent and original lender, and the lenders from time to time party thereto.*
10.50	Amendment No. 1 to Loan Agreement [Spare Parts], dated as of December 5, 2008, among US Airways, Inc., GECC, as administrative agent, collateral agent and original lender, and the lenders from time to time party thereto.*
10.53	Amendment No. 3 to Loan Agreement, dated as of October 20, 2008, between US Airways Group, Inc., as Borrower, and Citigroup North America, Inc. as Administrative Agent and Collateral Agent.
10.78	Form of Director Vested Share Award Agreement under the US Airways Group 2008 Equity Incentive Plan.†
10.84	2008 Long Term Incentive Program under the US Airways Group 2005 Equity Incentive Plan.†
10.88	Summary of Director Compensation and Benefits.†
21.1	Subsidiaries of US Airways Group.
23.1	Consents of KPMG LLP, Independent Registered Public Accounting Firm of US Airways Group.
24.1	Powers of Attorney.
31.1	Certification of US Airways Group’s Chief Executive Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, as amended.
31.2	Certification of US Airways Group’s Chief Financial Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, as amended.
31.3	Certification of US Airways’ Chief Executive Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, as amended.
31.4	Certification of US Airways’ Chief Financial Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, as amended.
32.1	Certification of US Airways Group’s Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of US Airways’ Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

\* Portions of this exhibit have been omitted under a request for confidential treatment and filed separately with the United States Securities and Exchange Commission.

† Management contract or compensatory plan or arrangement.

Amendment No. 2  
to the  
Amended and Restated Airbus A320 Family Aircraft Purchase Agreement  
dated as of October 2, 2007  
between  
AIRBUS S.A.S.  
and  
US AIRWAYS, INC.

This Amendment No. 2 to the Amended and Restated Airbus A320 Family Aircraft Purchase Agreement between Airbus S.A.S. and US Airways, Inc. (the "Amendment") is entered into as of October 20, 2008, by and between Airbus S.A.S., a *société par actions simplifiée*, organized and existing under the laws of the Republic of France, having its registered office located at 1, rond-point Maurice Bellonte, 31700 Blagnac, France (the "Seller"), and US Airways, Inc., a corporation organized and existing under the laws of the State of Delaware, United States of America, having its principal corporate offices located at 111 West Rio Salado Parkway, Tempe, Arizona 85281, U.S.A.(the "Buyer");

WITNESSETH:

WHEREAS, the Buyer and the Seller have entered into an Amended and Restated Airbus A320 Family Purchase Agreement, dated as of October 2, 2007, which agreement, as previously amended by and supplemented with all Exhibits, Appendices, Letter Agreements and amendments, including Amendment No. 1 executed on January 11, 2008 (the "Agreement") relates to the sale by the Seller and the purchase by the Buyer of certain Airbus single-aisle aircraft;

WHEREAS, the Seller has proposed to the Buyer that in exchange for the agreement of the Buyer to amend, among other things, certain provisions of the Aggregate Agreements (as hereinafter defined)\*\*;

WHEREAS, the amendments referred to above are set forth in this Amendment by and between the Seller and the Buyer dated as of even date herewith ( "Amendment No. 2"), the Amended and Restated Letter Agreement No. 3 to the Agreement dated as of even date herewith (" Amended and Restated Letter Agreement No. 3"), the Amended and Restated Letter Agreement No. 5 to the Agreement, dated as of even date herewith (" Amended and Restated Letter Agreement No. 5") and the Amended and Restated Letter Agreement No. 9 to the Agreement, dated as of even date herewith (" Amended and Restated Letter Agreement No. 9");

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\*\* Confidential Treatment Requested.

USA — Amendment No. 2 to  
Amended and Restated Airbus A320 Family Purchase Agreement  
Execution  
081020-CT0803167-AMD2-USA-A320

PRIVILEGED AND CONFIDENTIAL

WHEREAS, the Buyer is willing to enter into (A) this Amendment, Amended and Restated Letter Agreement No. 3, Amended and Restated Letter Agreement No. 5 and Amended and Restated Letter Agreement No. 9, (B) Amendment No. 2 to the Airbus A330 Aircraft Purchase Agreement dated as even date herewith, (C) Amendment No. 1 to the Amended and Restated Airbus A350 XWB Purchase Agreement dated as of even date herewith, (D)\*\* and (E)\*\* (collectively the "Aggregate Agreements")\*\*;

WHEREAS, the Buyer and the Seller agree and acknowledge that such amendments \*\* are an adjustment to the commercial terms set forth in the Agreement and are not intended to be\*\*;

WHEREAS the Buyer and the Seller agree and acknowledge that such amendments to the commercial terms set forth in the Agreement are intended\*\*; and

WHEREAS, the Buyer and the Seller acknowledge that immediately upon execution of this Amendment, concurrently with the execution of the above referenced amendments, the Seller will\*\*;

NOW, THEREFORE, IT IS AGREED AS FOLLOWS:

Capitalized terms used herein and not otherwise defined in this Amendment will have the meanings assigned to them in the Agreement. The terms "herein," "hereof," and "hereunder" and words of similar import refer to this Amendment.

**1. MISCELLANEOUS**

1.1 In Clause 16.7.2(ii) of the Agreement, the words "Clause 16.10.1" are deleted and replaced with the following quoted text:

QUOTE

Clause 16.7.1

UNQUOTE

1.2 In Notes section of each, Appendix 1A, Appendix 1B and Appendix 1C to Letter Agreement No. 6, the words "1.5 of LA5" are deleted and replaced with the following quoted text:

QUOTE

1.5 of LA6

UNQUOTE

**2. \*\***

Letter Agreement No. 3 is terminated in its entirety and replaced by the Amended and Restated Letter No. 3 attached hereto.

---

\*\* Confidential Treatment Requested.

USA — Amendment No. 2 to

Amended and Restated Airbus A320 Family Purchase Agreement

Execution

081020-CT0803167-AMD2-USA-A320

*PRIVILEGED AND CONFIDENTIAL*

3. \*\*

Letter Agreement No. 5 is terminated in its entirety and replaced by the Amended and Restated Letter No. 5 attached hereto.

4. **MISCELLANEOUS TERMS**

Letter Agreement No. 9 is terminated in its entirety and replaced by the Amended and Restated Letter No. 9 attached hereto.

5. \*\*

Letter Agreement No. 10 is hereby terminated.

6. \*\*

In addition to Seller's other rights and remedies, \*\*.

7. \*\*

8. **ASSET COVENANTS**

The following is inserted into the Agreement after Clause 22.14:

QUOTE

22.15 Asset Covenants

22.15.1 The Buyer shall not sell, transfer, convey, assign or otherwise dispose of any of its properties or other assets or operated Airbus aircraft to the extent any such disposition (i) materially impairs the business or operations of the Buyer, (ii) materially changes the nature of the Buyer's business, (iii) constitutes a disposition of a substantial portion of the Buyer's assets or (iv) constitutes a disposition of a substantial portion of the Buyer's Airbus aircraft fleet in-service as of the date hereof.

22.15.2 "Minimum Unrestricted Cash. The Buyer will not permit the aggregate amount of Unrestricted Cash (as hereinafter defined) to be less than required in the Citi Loan Agreement from time to time or any successor agreement or facility thereof, \*\*."

"Unrestricted Cash" means cash and Cash Equivalents (as hereinafter defined) of the Buyer, its parent and affiliates that (i) may be classified, in accordance with GAAP, as "unrestricted" on the consolidated balance sheets of the Buyer's parent or (ii) may be qualified, in accordance with GAAP, as "restricted" on the consolidated balance sheets of the Buyer's parent solely in favor of the administrative agent and any lenders

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\*\* Confidential Treatment Requested.

USA — Amendment No. 2 to

Amended and Restated Airbus A320 Family Purchase Agreement

Execution

081020-CT0803167-AMD2-USA-A320

*PRIVILEGED AND CONFIDENTIAL*

pursuant to the Citi Loan Agreement and the related loan documents (or any amendment, replacement or refinancing thereof).

“Cash Equivalents” means, as at any date of determination, (i) marketable securities (a) issued or directly and unconditionally guaranteed as to interest and principal by the United States government or (b) issued by any agency or instrumentality of the United States the obligations of which are backed by the full faith and credit of the United States, in each case maturing within one year after such date; (ii) marketable direct obligations issued by any state of the United States of America or any political subdivision of any such state or any instrumentality thereof, in each case maturing within one year after such date and having, at the time of the acquisition thereof, the highest rating obtainable from either S&P or Moody’s; (iii) commercial paper not issued by the Buyer’s parent maturing no more than one year after such date and having, at the time of the acquisition thereof, a rating of at least A-2 from S&P or at least P-2 from Moody’s; (iv) certificates of deposit or bankers’ acceptances maturing within one year after such date and issued or accepted by any Eligible Lender (as hereinafter defined) or by any commercial bank organized under the laws of the United States of America or any state thereof or the District of Columbia that (a) is at least “adequately capitalized” (as defined in the regulations of its primary Federal banking regulator) and (b) has Tier 1 capital (as defined in such regulations) of not less than \$500,000,000 (US dollars — five hundred million); (v) shares of any money market mutual fund that (a) has at least 95% of its assets invested continuously in the types of investments referred to in clauses (i) and (ii) above, (b) has net assets of not less than \$500,000,000 (US dollars — five hundred million), and (c) has the highest rating obtainable from either S&P or Moody’s; (vi) auction rate securities that have the highest rating obtainable from either S&P or Moody’s and with a maximum reset date at least every 30 days and (vii) investments made pursuant to the investment portfolio guidelines from time to time adopted by the board of directors of the Buyer’s parent or any committee thereof.

“Eligible Lender” means (i) so long as any loans or obligations under the Citi Loan Agreement remain outstanding, any “Eligible Lender” as defined in the Citi Loan Agreement and (ii) thereafter, (a) a commercial bank having total assets whose Dollar equivalent exceeds \$5,000,000,000 (US dollars — five billion), (b) a finance company, insurance company or any other financial institution or fund, in each case reasonably acceptable to the Seller and regularly engaged in making, purchase or investing in loans and having a net worth determined in accordance with GAAP, whose Dollar equivalent exceeds \$250,000,000 (US dollars — two hundred fifty million) (or, to the extent net worth is less than such amount, a finance company, insurance company, other financial institution or fund, reasonably acceptable to the Seller and the Buyer) or (c) a savings and loan association or saving bank organized under the laws of the United States or any State thereof having a net worth, determined in accordance with GAAP, whose Dollar equivalent exceeds \$250,000,000 (US dollars — two hundred fifty million); *provided, however*, that the following entities shall not be deemed to be an “Eligible Lender”: (a) an airline, a commercial aircraft operator, an air freight forwarder or an entity principally engaged in the business of parcel transport by air or (b) an affiliate of any entity described in clause (a) above.

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\*\* Confidential Treatment Requested.  
USA — Amendment No. 2 to  
Amended and Restated Airbus A320 Family Purchase Agreement  
Execution  
081020-CT0803167-AMD2-USA-A320

*PRIVILEGED AND CONFIDENTIAL*

“GAAP” means generally accepted accounting principles in the United States, as in effect from time to time as set forth in opinions and pronouncements of the Accounting Principles Board of the American Institute of Certified Public Accountants and statements and pronouncements of Financial Accounting Standards Board approved by a significant segment of the accounting profession in the United States.

“Citi Loan Agreement” means the Loan Agreement, dated as of March 23, 2007, among Buyer’s parent, certain subsidiaries of the Buyer’s parent, the lenders from time to time party thereto and Citicorp North America, Inc., as administrative agent.

22.15.3 \*\*

UNQUOTE

**9. EFFECT OF AMENDMENT**

- 9.1 The provisions of this Amendment constitute a valid amendment to the Agreement and the Agreement will be deemed to be amended to the extent herein provided and, except as specifically amended hereby, will continue in full force and effect in accordance with its original terms. This Amendment supersedes any previous understandings, commitments, or representations whatsoever, whether oral or written, related to the subject matter of this Amendment.
- 9.2 Both parties agree that this Amendment will constitute an integral, nonseverable part of the Agreement, that the provisions of said Agreement are hereby incorporated herein by reference, and that this Amendment will be governed by the provisions of the Agreement, except that if the Agreement and this Amendment have specific provisions that are inconsistent, the specific provisions contained in this Amendment will govern.

**10. CONFIDENTIALITY**

This Amendment is subject to the confidentiality provisions set forth in Clause 22.7 of the Agreement.

**11. COUNTERPARTS**

This Amendment may be signed in separate counterparts. Each counterpart, when signed and delivered (including counterparts delivered by facsimile transmission), will be an original, and the counterparts will together constitute one and the same instrument.

---

\*\* Confidential Treatment Requested.

USA — Amendment No. 2 to

Amended and Restated Airbus A320 Family Purchase Agreement

Execution

081020-CT0803167-AMD2-USA-A320

*PRIVILEGED AND CONFIDENTIAL*

IN WITNESS WHEREOF, these presents were entered into as of the day and year first above written.

US AIRWAYS, INC.

AIRBUS S.A.S.

By: /s/ Thomas T. Weir

By: /s/ John J. Leahy

Its: Vice President and Treasurer

Its: Chief Operating Officer  
Customers

USA — Amendment No. 2 to  
Amended and Restated Airbus A320 Family Purchase Agreement  
Execution  
081020-CT0803167-AMD2-USA-A320

*PRIVILEGED AND CONFIDENTIAL*

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AMENDED AND RESTATED  
LETTER AGREEMENT NO. 3  
TO AMENDED AND RESTATED A320 FAMILY AIRCRAFT  
PURCHASE AGREEMENT  
Dated as of October 2, 2007

As of October 20, 2008

US Airways, Inc.  
111 West Rio Salado Parkway  
Tempe, Arizona 85281

Re: \*\*

Ladies and Gentlemen:

US Airways, Inc. (the "Buyer") and Airbus S.A.S. (the "Seller") have entered into an Amended and Restated A320 Family Aircraft Purchase Agreement dated as of October 2, 2007, as amended by Amendment No. 1 dated as of January 11, 2008 and Amendment No. 2 dated as of even date herewith (the "Agreement"), which covers, among other things, the sale by the Seller and the purchase by the Buyer of certain Aircraft, under the terms and conditions set forth in said Agreement. The Buyer and the Seller have agreed to set forth in this Amended and Restated Letter Agreement No. 3 (the "Letter Agreement") certain additional terms and conditions regarding the sale of the Aircraft.

Capitalized terms used herein and not otherwise defined in this Letter Agreement will have the meanings assigned thereto in the Agreement. The terms "herein", "hereof" and "hereunder" and words of similar import refer to this Letter Agreement.

The parties agree that this Letter Agreement will constitute an integral, nonseverable part of said Agreement, that the provisions of said Agreement are hereby incorporated by reference, and that this Letter Agreement will be governed by the provisions of said Agreement, except that if the Agreement and this Letter Agreement have specific provisions that are inconsistent, the specific provisions contained in this Letter Agreement will govern.

---

\*\* Confidential Treatment Requested.

USA — Amended and Restated Letter Agreement No. 3  
to Amended and Restated Airbus A320 Family Purchase Agreement  
Execution  
081020-CT0803167-LA3-USA-A320

PRIVILEGED AND CONFIDENTIAL

LA 3 - 1 of 3

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\*\*

13. ASSIGNMENT

Notwithstanding any other provision of this Letter Agreement or of the Agreement, this Letter Agreement and the rights and obligations of the Buyer hereunder will not be assigned or transferred in any manner without the prior written consent of the Seller, and any attempted assignment or transfer in contravention of the provisions of this Paragraph 13 will be void and of no force or effect.

14. COUNTERPARTS

This Letter Agreement may be executed by the parties hereto in separate counterparts, each of which when so executed and delivered shall be an original, but all such counterparts shall together constitute one and the same instrument.

---

\*\* Confidential Treatment Requested.

USA — Amended and Restated Letter Agreement No. 3  
to Amended and Restated Airbus A320 Family Purchase Agreement  
Execution  
081020-CT0803167-LA3-USA-A320

PRIVILEGED AND CONFIDENTIAL

LA 3 - 2 of 3

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If the foregoing correctly sets forth your understanding, please sign two (2) counterparts hereof in the space provided below and return one (1) such counterpart to the Seller.

US AIRWAYS, INC.

AIRBUS S.A.S.

By: /s/ Thomas T. Weir  
Name: Thomas T. Weir  
Title: Vice President and Treasurer

By: /s/ John J. Leahy  
Name: John J. Leahy  
Title: Chief Operating Officer  
Customers

USA — Amended and Restated Letter Agreement No. 3  
to Amended and Restated Airbus A320 Family Purchase Agreement  
Execution  
081020-CT0803167-LA3-USA-A320

PRIVILEGED AND CONFIDENTIAL

LA 3

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AMENDED AND RESTATED  
LETTER AGREEMENT NO. 5  
TO AMENDED AND RESTATED A320 FAMILY PURCHASE AGREEMENT  
Dated as of October 2, 2007

As of October 20, 2008

US Airways, Inc.  
111 West Rio Salado Parkway  
Tempe, Arizona 85281

Re: \*\*

Ladies and Gentlemen,

US Airways, Inc. (the "Buyer") and Airbus S.A.S. (the "Seller") have entered into an Amended and Restated A320 Family Aircraft Purchase Agreement, as amended by Amendment No. 1 dated as of January 11, 2008 and Amendment No. 2 dated as of even date herewith (the "Agreement"), which covers, among other things, the sale by the Seller and the purchase by the Buyer of certain Aircraft, under the terms and conditions set forth in said Agreement. The Buyer and the Seller have agreed to set forth in this Amended and Restated Letter Agreement No. 5 (the "Letter Agreement") certain additional terms and conditions regarding the sale of the Aircraft.

Capitalized terms used herein and not otherwise defined in this Letter Agreement will have the meanings assigned thereto in the Agreement. The terms "herein", "hereof" and "hereunder" and words of similar import refer to this Letter Agreement.

The parties agree that this Letter Agreement will constitute an integral, nonseverable part of said Agreement, that the provisions of said Agreement are hereby incorporated by reference, and that this Letter Agreement will be governed by the provisions of said Agreement, except that if the Agreement and this Letter Agreement have specific provisions that are inconsistent, the specific provisions contained in this Letter Agreement will govern.

---

\*\* Confidential Treatment Requested.

USA — Amended and Restated Letter Agreement No. 5  
to Amended and Restated Airbus A320 Family Purchase Agreement  
Execution  
081020-CT0803167-LA5-USA-A320

PRIVILEGED AND CONFIDENTIAL

LA 5 - 1 of 3

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\*\*

7. ASSIGNMENT

Notwithstanding any other provision of this Letter Agreement or of the Agreement, this Letter Agreement and the rights and obligations of the Buyer hereunder will not be assigned or transferred in any manner without the prior written consent of the Seller, and any attempted assignment or transfer in contravention of the provisions of this Paragraph 7 will be void and of no force or effect.

8. COUNTERPARTS

This Letter Agreement may be executed by the parties hereto in separate counterparts, each of which when so executed and delivered shall be an original, but all such counterparts shall together constitute one and the same instrument.

---

\*\* Confidential Treatment Requested.

USA — Amended and Restated Letter Agreement No. 5  
to Amended and Restated Airbus A320 Family Purchase Agreement  
Execution  
081020-CT0803167-LA5-USA-A320

PRIVILEGED AND CONFIDENTIAL

LA 5 - 2 of 3

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If the foregoing correctly sets forth your understanding, please sign two (2) counterparts hereof in the space provided below and return one (1) such counterpart to the Seller.

US AIRWAYS, INC.

AIRBUS S.A.S.

By: /s/ Thomas T. Weir  
Name: Thomas T. Weir  
Title: Vice President and Treasurer

By: /s/ John J. Leahy  
Name: John J. Leahy  
Title: Chief Operating Officer  
Customers

USA — Amended and Restated Letter Agreement No. 5  
to Amended and Restated Airbus A320 Family Purchase Agreement  
Execution  
081020-CT0803167-LA5-USA-A320

PRIVILEGED AND CONFIDENTIAL

LA 5

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AMENDED AND RESTATED  
LETTER AGREEMENT NO. 9  
TO AMENDED AND RESTATED A320 FAMILY AIRCRAFT PURCHASE AGREEMENT  
Dated as of October 2, 2007

As of October 20, 2008

US Airways, Inc.  
111 West Rio Salado Parkway  
Tempe, Arizona 85281

Re: MISCELLANEOUS TERMS

Ladies and Gentlemen,

US Airways, Inc. (the "Buyer") and Airbus S.A.S. (the "Seller") have entered into an Amended and Restated A320 Family Purchase Agreement dated as of October 2, 2007, as amended by Amendment No. 1 dated as of January 11, 2008 and Amendment No. 2 dated as of even date herewith (the "Agreement"), which covers, among other things, the sale by the Seller and the purchase by the Buyer of certain Aircraft, under the terms and conditions set forth in said Agreement. The Buyer and the Seller have agreed to set forth in this Amended and Restated Letter Agreement No. 9 (the "Letter Agreement") certain additional terms and conditions regarding the sale of the Aircraft.

Capitalized terms used herein and not otherwise defined in this Letter Agreement will have the meanings assigned thereto in the Agreement. The terms "herein", "hereof" and "hereunder" and words of similar import refer to this Letter Agreement.

The parties agree that this Letter Agreement will constitute an integral, nonseverable part of said Agreement, that the provisions of said Agreement are hereby incorporated by reference, and that this Letter Agreement will be governed by the provisions of said Agreement, except that if the Agreement and this Letter Agreement have specific provisions that are inconsistent, the specific provisions contained in this Letter Agreement will govern.

---

\*\* Confidential Treatment Requested.

USA — Amended and Restated Letter Agreement No. 9 to  
Amended and Restated Airbus A320 Family Purchase Agreement  
Execution  
081020-CT0803167-LA9-USA-A320

PRIVILEGED AND CONFIDENTIAL

LA 9 - 1 of 4

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1. INEXCUSABLE DELAY

Clause 11.1 of the Agreement is deleted in its entirety and replaced by the following text between the "QUOTE" and "UNQUOTE":

QUOTE:

11 - INEXCUSABLE DELAY

\*\*

UNQUOTE

2. TERMINATION

2.1 Paragraph 21.1 of the Agreement is hereby superseded and replaced by the following text between "QUOTE" and "UNQUOTE".

QUOTE

\*\*

UNQUOTE

2.2 Paragraph 21.2(1)(i) of the Agreement is amended to read as follows between the "QUOTE" and "UNQUOTE"

QUOTE

\*\*

UNQUOTE

2.3 \*\*

QUOTE

\*\*

UNQUOTE

2.4 \*\*

QUOTE

\*\*

UNQUOTE

---

\*\* Confidential Treatment Requested.

USA — Amended and Restated Letter Agreement No. 9 to  
Amended and Restated Airbus A320 Family Purchase Agreement  
Execution  
081020-CT0803167-LA9-USA-A320

PRIVILEGED AND CONFIDENTIAL



3. ASSIGNMENT

Except as set forth in Clause 20.2 of the Agreement, this Letter Agreement and the rights and obligations of the Buyer hereunder will not be assigned or transferred in any manner without the prior written consent of the Seller, and any attempted assignment or transfer in contravention of the provisions of this Paragraph 3 will be void and of no force or effect.

4. COUNTERPARTS

This Letter Agreement may be signed in any number of separate counterparts. Each counterpart, when signed and delivered (including counterparts delivered by facsimile transmission), will be an original, and the counterparts will together constitute one same instrument.

---

\*\* Confidential Treatment Requested.

USA — Amended and Restated Letter Agreement No. 9 to  
Amended and Restated Airbus A320 Family Purchase Agreement  
Execution  
081020-CT0803167-LA9-USA-A320

PRIVILEGED AND CONFIDENTIAL

LA 9 - 3 of 4

---

If the foregoing correctly sets forth your understanding, please sign two (2) counterparts hereof in the space provided below and return one (1) such counterpart to the Seller.

US AIRWAYS, INC.

AIRBUS S.A.S.

By: /s/ Thomas T. Weir

By: /s/ John J. Leahy

Name: Thomas T. Weir

Name: John J. Leahy

Title: Vice President and Treasurer

Title: Chief Operating Officer

Customers

USA — Amended and Restated Letter Agreement No. 9 to  
Amended and Restated Airbus A320 Family Purchase Agreement  
Draft v3  
081020-CT0803167-LA9-USA-A320

PRIVILEGED AND CONFIDENTIAL

LA 9

Amendment No. 2  
to the  
A330 Purchase Agreement  
dated as of October 2, 2007  
between  
AIRBUS S.A.S.  
and  
US AIRWAYS, INC.

This Amendment No. 2 to the A330 Purchase Agreement between Airbus S.A.S. and US Airways, Inc., (this "Amendment") is entered into as of October 20, 2008, by and between Airbus S.A.S., a *société par actions simplifiée*, organized and existing under the laws of the Republic of France, having its registered office located at 1, rond-point Maurice Bellonte, 31700 Blagnac, France (the "Seller"), and US Airways, Inc., a corporation organized and existing under the laws of the State of Delaware, United States of America, having its principal corporate offices located at 111 West Rio Salado Parkway, Tempe, Arizona 85281, U.S.A. (the "Buyer");

WITNESSETH:

WHEREAS, the Buyer and the Seller entered into an Airbus A330 Purchase Agreement, dated as of October 2, 2007, which agreement, as previously amended by and supplemented with all Exhibits, Appendices, Letter Agreements and amendments, including Amendment No. 1 executed November 15, 2007, (the "Agreement") relates to the sale by the Seller and the purchase by the Buyer of certain Airbus A330 model aircraft.

WHEREAS, the Seller has proposed to the Buyer that in exchange for the agreement of the Buyer to amend, among other things, certain provisions of the Aggregate Agreements (as hereinafter defined) \*\*;

WHEREAS, the amendments referred to above are set forth in this Amendment by and between the Seller and the Buyer, dated as of even date herewith ( "Amendment No. 2"), the Amended and Restated Letter Agreement No. 5 to the Agreement, dated as of even date herewith ( "Amended and Restated Letter Agreement No. 5"), and the Amended and Restated Letter Agreement No. 9 to the Agreement, dated as of even date herewith ( "Amended and Restated Letter Agreement No. 9");

WHEREAS, the Buyer is willing to enter into (A) this Amendment including Amended and Restated Letter Agreement No. 5 and Amended and Restated Letter Agreement No. 9, (B) Amendment No. 1 to the Amended and Restated Airbus A350 XWB Purchase Agreement dated as of even date herewith, (C) Amendment No. 2 to the Amended and Restated Airbus A320 Family Aircraft Purchase Agreement dated as of even date herewith, (D) \*\* and (E) \*\* (collectively the "Aggregate Agreements") \*\*;

---

\*\*Confidential Treatment Requested.  
USA — Airbus A330 Purchase Agreement  
Amendment 2 — Execution  
081020-CT0803167-AMD2-USA-A330

CONFIDENTIAL AND PRIVILEGED

WHEREAS, the Buyer and the Seller agree and acknowledge that such amendments and \*\* are an adjustment to the commercial terms set forth in the Agreement and are not intended to be \*\*;

WHEREAS the Buyer and the Seller agree and acknowledge that such amendments to the commercial terms set forth in the Agreement are intended\*\*; and

WHEREAS, the Buyer and the Seller acknowledge that immediately upon the execution of this Amendment, concurrently with the execution of the above referenced amendments, the Seller will\*\*;

NOW, THEREFORE, IT IS AGREED AS FOLLOWS:

Capitalized terms used herein and not otherwise defined in this Amendment will have the meanings assigned to them in the Agreement. The terms “herein,” “hereof,” and “hereunder” and words of similar import refer to this Amendment.

---

\*\*Confidential Treatment Requested.  
USA — Airbus A330 Purchase Agreement  
Amendment 2 — Execution  
081020-CT0803167-AMD2-USA-A330

*CONFIDENTIAL AND PRIVILEGED*

**1. MISCELLANEOUS**

In Clause 16.7.1 of the Agreement, the words “Clause 16.8.2” are deleted and replaced with the following quoted text:

“Clause 16.6.2”

**2. \*\***

2.1 The last paragraph of Paragraph 2.2 of Letter Agreement No. 3 is deleted in its entirety.

2.2 Paragraph 3 of Letter Agreement No. 3 is deleted in its entirety and replaced with the following:

“INTENTIONALLY LEFT BLANK”

2.3 In Paragraph 5.2 of Letter Agreement No. 3 the words “\*\*” are deleted.

**3. \*\***

Letter Agreement No. 5 is terminated in its entirety and replaced by the Amended and Restated Letter No. 5 attached hereto.

**4. MISCELLANEOUS TERMS**

4.1 Letter Agreement No. 9 is terminated in its entirety and replaced by the Amended and Restated Letter No. 9 attached hereto.

4.2 In Clause 1.1.1 of Letter Agreement No. 2, the following is deleted:

QUOTE

\*\*

UNQUOTE

And replaced with the following quoted text:

QUOTE

\*\*

UNQUOTE

**5. \*\***

In addition to Seller’s other rights and remedies, \*\*.

**6. ASSET COVENANTS**

The following is inserted into the Agreement after Clause 22.13:

QUOTE

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\*\*Confidential Treatment Requested.  
USA — Airbus A330 Purchase Agreement  
Amendment 2 — Execution  
081020-CT0803167-AMD2-USA-A330

22.14 Asset Covenants

22.14.1 The Buyer shall not sell, transfer, convey, assign or otherwise dispose of any of its properties or other assets or operated Airbus aircraft to the extent any such disposition (i) materially impairs the business or operations of the Buyer, (ii) materially changes the nature of the Buyer's business, (iii) constitutes a disposition of a substantial portion of the Buyer's assets or (iv) constitutes a disposition of a substantial portion of the Buyer's Airbus aircraft fleet in-service as of the date hereof.

22.14.2 "Minimum Unrestricted Cash. The Buyer will not permit the aggregate amount of Unrestricted Cash (as hereinafter defined) to be less than required in the Citi Loan Agreement from time to time or any successor agreement or facility thereof, \*\*."

"Unrestricted Cash" means cash and Cash Equivalents (as hereinafter defined) of the Buyer, its parent and affiliates that (i) may be classified, in accordance with GAAP, as "unrestricted" on the consolidated balance sheets of the Buyer's parent or (ii) may be qualified, in accordance with GAAP, as "restricted" on the consolidated balance sheets of the Buyer's parent solely in favor of the administrative agent and any lenders pursuant to the Citi Loan Agreement and the related loan documents (or any amendment, replacement or refinancing thereof).

"Cash Equivalents" means, as at any date of determination, (i) marketable securities (a) issued or directly and unconditionally guaranteed as to interest and principal by the United States government or (b) issued by any agency or instrumentality of the United States the obligations of which are backed by the full faith and credit of the United States, in each case maturing within one year after such date; (ii) marketable direct obligations issued by any state of the United States of America or any political subdivision of any such state or any instrumentality thereof, in each case maturing within one year after such date and having, at the time of the acquisition thereof, the highest rating obtainable from either S&P or Moody's; (iii) commercial paper not issued by the Buyer's parent maturing no more than one year after such date and having, at the time of the acquisition thereof, a rating of at least A-2 from S&P or at least P-2 from Moody's; (iv) certificates of deposit or bankers' acceptances maturing within one year after such date and issued or accepted by any Eligible Lender (as hereinafter defined) or by any commercial bank organized under the laws of the United States of America or any state thereof or the District of Columbia that (a) is at least "adequately capitalized" (as defined in the regulations of its primary Federal banking regulator) and (b) has Tier 1 capital (as defined in such regulations) of not less than \$500,000,000 (US dollars – five hundred million); (v) shares of any money market mutual fund that (a) has at least 95% of its assets invested continuously in the types of investments referred to in clauses (i) and (ii) above, (b) has net assets of not less than \$500,000,000 (US dollars – five hundred million), and (c) has the highest rating obtainable from either S&P or Moody's; (vi) auction rate securities that have the highest rating obtainable from either S&P or Moody's and with a maximum reset date at least every 30 days and (vii) investments made pursuant to the investment portfolio guidelines from time to time adopted by the board of directors of the Buyer's parent or any committee thereof.

"Eligible Lender" means (i) so long as any loans or obligations under the Citi Loan Agreement remain outstanding, any "Eligible Lender" as defined in the Citi Loan

Agreement and (ii) thereafter, (a) a commercial bank having total assets whose Dollar equivalent exceeds \$5,000,000,000 (US dollars – five billion), (b) a finance company, insurance company or any other financial institution or fund, in each case reasonably acceptable to the Seller and regularly engaged in making, purchase or investing in loans and having a net worth determined in accordance with GAAP, whose Dollar equivalent exceeds \$250,000,000 (US dollars – two hundred fifty million) (or, to the extent net worth is less than such amount, a finance company, insurance company, other financial institution or fund, reasonably acceptable to the Seller and the Buyer) or (c) a savings and loan association or saving bank organized under the laws of the United States or any State thereof having a net worth, determined in accordance with GAAP, whose Dollar equivalent exceeds \$250,000,000 (US dollars – two hundred fifty million); *provided, however*, that the following entities shall not be deemed to be an “Eligible Lender”: (a) an airline, a commercial aircraft operator, an air freight forwarder or an entity principally engaged in the business of parcel transport by air or (b) an affiliate of any entity described in clause (a) above.

“GAAP” means generally accepted accounting principles in the United States, as in effect from time to time as set forth in opinions and pronouncements of the Accounting Principles Board of the American Institute of Certified Public Accountants and statements and pronouncements of Financial Accounting Standards Board approved by a significant segment of the accounting profession in the United States.

“Citi Loan Agreement” means the Loan Agreement, dated as of March 23, 2007, among Buyer’s parent, certain subsidiaries of the Buyer’s parent, the lenders from time to time party thereto and Citicorp North America, Inc., as administrative agent.

UNQUOTE

**7. EFFECT OF AMENDMENT**

- 7.1 Upon execution, Amendment will constitute a valid amendment to the Agreement and the Agreement will be deemed to be amended to the extent herein provided and, except as specifically amended hereby, will continue in full force and effect in accordance with its original terms. This Amendment supersedes any previous understandings, commitments or representations whatsoever, whether oral or written, related to the subject matter of this Amendment.
- 7.2 Both parties agree that this Amendment will constitute an integral, nonseverable part of the Agreement, that the provisions of the Agreement are hereby incorporated herein by reference, and that this Amendment will be governed by the provisions of the Agreement, except that if the Agreement and this Amendment have specific provisions that are inconsistent, the specific provisions contained in this Amendment will govern.

**8. CONFIDENTIALITY**

This Amendment is subject to the confidentiality provisions set forth in Clause 22.7 of the Agreement.

**9. COUNTERPARTS**

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\*\*Confidential Treatment Requested.  
USA — Airbus A330 Purchase Agreement  
Amendment 2 — Execution  
081020-CT0803167-AMD2-USA-A330

*CONFIDENTIAL AND PRIVILEGED*

This Amendment may be signed in any number of separate counterparts. Each counterpart, when signed and delivered (including counterparts delivered by facsimile transmission), will be an original, and the counterparts will together constitute one and the same instrument.

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\*\*Confidential Treatment Requested.  
USA — Airbus A330 Purchase Agreement  
Amendment 2 — Execution  
081020-CT0803167-AMD2-USA-A330

*CONFIDENTIAL AND PRIVILEGED*





AMENDED AND RESTATED  
LETTER AGREEMENT NO. 5  
TO AIRBUS A330 PURCHASE AGREEMENT  
Dated as of October 2, 2007

October 20, 2008

US Airways, Inc.  
111 West Rio Salado Pkwy  
Tempe, Arizona 85281

Re: \*\*

Ladies and Gentlemen,

US Airways, Inc. (the "Buyer") and Airbus S.A.S. (the "Seller") have entered into an Airbus A330 Purchase Agreement dated as of October 2, 2007, as amended by Amendment No. 1 dated as of November 15, 2007 and Amendment No. 2 thereto dated as of even date herewith, (the "Agreement") which covers, among other things, the sale by the Seller and the purchase by the Buyer of certain Aircraft, under the terms and conditions set forth in said Agreement. The Buyer and the Seller have agreed to set forth in this Amended and Restated Letter Agreement No. 5 (the "Letter Agreement") certain additional terms and conditions regarding the sale of the Aircraft.

Capitalized terms used herein and not otherwise defined in this Letter Agreement will have the meanings assigned thereto in the Agreement. The terms "herein," "hereof" and "hereunder" and words of similar import refer to this Letter Agreement.

The parties agree that this Letter Agreement will constitute an integral, nonseverable part of said Agreement, that the provisions of said Agreement are hereby incorporated herein by reference, and that this Letter Agreement will be governed by the provisions of said Agreement, except that if the Agreement and this Letter Agreement have specific provisions that are inconsistent, the specific provisions contained in this Letter Agreement will govern.

---

\*\*Confidential Treatment Requested.

USA — Amended and Restated Letter Agreement No. 5 to  
Airbus A330 Purchase Agreement  
Execution  
081020-CT0803167-LA5-USA-A330

PRIVILEGED AND CONFIDENTIAL

LA 5 - 1 of 3

---

\*\*

3. ASSIGNMENT

Except as set forth in Clause 20.2 of the Agreement, this Letter Agreement and the rights and obligations of the Buyer hereunder will not be assigned or transferred in any manner without the prior written consent of the Seller, and any attempted assignment or transfer in contravention of the provisions of this Letter Agreement will be void and of no force or effect.

4. COUNTERPARTS

This Letter Agreement may be signed in any number of separate counterparts. Each counterpart, when signed and delivered (including counterparts delivered by facsimile transmission), will be an original, and the counterparts will together constitute one same instrument.

---

\*\*Confidential Treatment Requested.

USA — Amended and Restated Letter Agreement No. 5 to

Airbus A330 Purchase Agreement

Execution

081020-CT0803167-LA5-USA-A330

PRIVILEGED AND CONFIDENTIAL

LA 5 - 2 of 3

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If the foregoing correctly sets forth your understanding, please sign two (2) counterparts hereof in the space provided below and return one (1) such counterpart to the Seller.

US AIRWAYS, INC.

AIRBUS S.A.S.

By: /s/Thomas T. Weir  
Name: Thomas T. Weir  
Title: Vice President and Treasurer

By: /s/ John J. Leahy  
Name: John J. Leahy  
Title: Chief Operating Officer  
Customers

\_\_\_\_\_  
\*\*Confidential Treatment Requested.  
USA — Amended and Restated Letter Agreement No. 5 to  
Airbus A330 Purchase Agreement  
Execution  
081020-CT0803167-LA5-USA-A330

PRIVILEGED AND CONFIDENTIAL

LA 5

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AMENDED AND RESTATED  
LETTER AGREEMENT NO. 9  
TO AIRBUS A330 PURCHASE AGREEMENT  
Dated as of October 2, 2007

As of October 20, 2008

US Airways, Inc.  
111 West Rio Salado Parkway  
Tempe, Arizona 85281

Re: MISCELLANEOUS

Ladies and Gentlemen,

US Airways, Inc., (the "Buyer") and Airbus S.A.S. (the "Seller") have entered into an Airbus A330 Purchase Agreement dated as of October 2, 2007, as amended by Amendment No. 1 dated as of even date herewith (the "Agreement"), which covers, among other things, the sale by the Seller and the purchase by the Buyer of certain Aircraft, under the terms and conditions set forth in said Agreement. The Buyer and the Seller have agreed to set forth in this Amended and Restated Letter Agreement No. 9 (the "Letter Agreement") certain additional terms and conditions regarding the sale of the Aircraft.

Capitalized terms used herein and not otherwise defined in this Letter Agreement will have the meanings assigned thereto in the Agreement. The terms "herein," "hereof" and "hereunder" and words of similar import refer to this Letter Agreement.

The parties agree that this Letter Agreement will constitute an integral, nonseverable part of said Agreement, that the provisions of said Agreement are hereby incorporated herein by reference, and that this Letter Agreement will be governed by the provisions of said Agreement, except that if the Agreement and this Letter Agreement have specific provisions that are inconsistent, the specific provisions contained in this Letter Agreement will govern.

---

\*\*Confidential Treatment Requested.

USA — Amended and Restated Letter Agreement No. 9 to  
Airbus A330 Purchase Agreement  
Execution  
081020-CT0803167-LA9-USA-A330

PRIVILEGED AND CONFIDENTIAL

LA 9 - 1 of 3

---

1. TERMINATION

1.1 Paragraph 21.1 of the Agreement is hereby superseded and replaced by the following text between “QUOTE” and “UNQUOTE”.

QUOTE

\*\*

UNQUOTE

1.2 Paragraph 21.2(1)(i) of the Agreement is amended to read as follows between the “QUOTE” and “UNQUOTE”

QUOTE

\*\*

UNQUOTE

1.3 Clause 21.2 (2) (A) of the Agreement are hereby superseded and replaced by the following text:

QUOTE

\*\*

UNQUOTE

2. ASSIGNMENT

Except as set forth in Clause 20.2 of the Agreement, this Letter Agreement and the rights and obligations of the Buyer hereunder will not be assigned or transferred in any manner without the prior written consent of the Seller, and any attempted assignment or transfer in contravention of the provisions of this Paragraph 2 will be void and of no force or effect.

3. COUNTERPARTS

This Letter Agreement may be signed in any number of separate counterparts. Each counterpart, when signed and delivered (including counterparts delivered by facsimile transmission), will be an original, and the counterparts will together constitute one same instrument.

---

\*\*Confidential Treatment Requested.

USA — Amended and Restated Letter Agreement No. 9 to

Airbus A330 Purchase Agreement

Execution

081020-CT0803167-LA9-USA-A330

PRIVILEGED AND CONFIDENTIAL

If the foregoing correctly sets forth your understanding, please sign two (2) counterparts hereof in the space provided below and return one (1) such counterpart to the Seller.

US AIRWAYS, INC.

AIRBUS S.A.S.

By: /s/ Thomas T. Weir

By: /s/ John J. Leahy

Name: Thomas T. Weir

Name: John J. Leahy

Title: Vice President and Treasurer

Title: Chief Operating Officer

Customers

USA Airbus A330 Purchase Agreement

Execution

081020-CT0803167-LA9-USA-A330

PRIVILEGED AND CONFIDENTIAL

LA 9

Amendment No. 1  
to the  
Amended and Restated Airbus A350 XWB Purchase Agreement  
dated as of October 2, 2007  
between  
AIRBUS S.A.S.  
and  
US AIRWAYS, INC.

This Amendment No. 1 to the Amended and Restated Airbus A350 XWB Purchase Agreement between Airbus S.A.S. and US Airways, Inc., (this "Amendment") is entered into as of October 20, 2008 by and between Airbus S.A.S., a *société par actions simplifiée*, organized and existing under the laws of the Republic of France, having its registered office located at 1, rond-point Maurice Bellonte, 31700 Blagnac, France (the "Seller"), and US Airways, Inc., a corporation organized and existing under the laws of the State of Delaware, United States of America, having its principal corporate offices located at 111 West Rio Salado Parkway, Tempe, Arizona 85281, U.S.A. (the "Buyer");

WITNESSETH:

WHEREAS, the Buyer and the Seller entered into an Amended and Restated Airbus A350 XWB Purchase Agreement, dated as of October 2, 2007, relating to the sale by the Seller and the purchase by the Buyer of certain Airbus A350 XWB model aircraft, which, together with all Exhibits, Appendices and Letter Agreements attached thereto, is hereinafter called the "Agreement."

WHEREAS, the Seller has proposed to the Buyer that in exchange for the agreement of the Buyer to amend, among other things, certain provisions of the Aggregate Agreements (as hereinafter defined) \*\*;

WHEREAS, the amendments referred to above are set forth in this Amendment by and between the Seller and the Buyer, dated as of even date herewith ( "Amendment No. 1" ), the Amended and Restated Letter Agreement No. 3 to the Agreement, dated as of even date herewith ( "Amended and Restated Letter Agreement No. 3" ), the Amended and Restated Letter Agreement No. 5 to the Agreement, dated as of even date herewith ( "Amended and Restated Letter Agreement No. 5" ) and the Amended and Restated Letter Agreement No. 9 to the Agreement, dated as of even date herewith ( "Amended and Restated Letter Agreement No. 9" );

WHEREAS, the Buyer is willing to enter into (A) this Amendment, Amended and Restated Letter Agreement No. 3, Amended and Restated Letter Agreement No. 5 and Amended and Restated Letter Agreement No. 9, (B) Amendment No. 2 to the Airbus A330 Purchase Agreement dated as of even date herewith, (C) Amendment No. 2 to the Amended and Restated Airbus A320 Family Aircraft Purchase Agreement dated as of even date herewith, (D)\*\* and (E)\*\* (collectively the "Aggregate Agreements")\*\*;

\_\_\_\_\_  
\*\*Confidential Treatment Requested.  
USA – Airbus A350 XWB Purchase Agreement  
Amendment 1  
Execution  
081020-CT0803167-AMD1-USA-A350

CONFIDENTIAL AND PRIVILEGED



WHEREAS, the Buyer and the Seller agree and acknowledge that such amendments \*\* are an adjustment to the commercial terms set forth in the Agreement and are not intended to be\*\*;

WHEREAS the Buyer and the Seller agree and acknowledge that such amendments to the commercial terms set forth in the Agreement are intended\*\*;

WHEREAS, the Buyer and the Seller acknowledge that immediately upon execution of this Amendment, concurrently with the execution of the above referenced amendments, the Seller will\*\*;

NOW, THEREFORE, IT IS AGREED AS FOLLOWS:

Capitalized terms used herein and not otherwise defined in this Amendment will have the meanings assigned to them in the Agreement. The terms “herein,” “hereof,” and “hereunder” and words of similar import refer to this Amendment.

**1. DELIVERY**

The delivery schedule set forth in Clause 9.1.1 of the Agreement is hereby deleted and restated to read in its entirety as follows:

QUOTE

9.1.1 \*\*, the Seller will have the Aircraft Ready for Delivery at the Delivery Location within the following months (each a “**Scheduled Delivery Month**”).

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\*\*Confidential Treatment Requested.

USA — Airbus A350 XWB Purchase Agreement

Amendment 1

Execution

081020-CT0803167-AMD1-USA-A350

*CONFIDENTIAL AND PRIVILEGED*

<u>Year</u>	<u>CAC ID Number</u>	<u>Aircraft</u>	<u>Scheduled Delivery Month</u>
2015	**	**	**
2016	**	**	**
2017	**	**	**
2018	**	**	**
TOTAL	22		

UNQUOTE

**2. \*\***

Letter Agreement No. 3 is terminated in its entirety and replaced by the Amended and Restated Letter No. 3 attached hereto.

**3. \*\***

Letter Agreement No. 5 is terminated in its entirety and replaced by the Amended and Restated Letter No. 5 attached hereto.

**4. PRODUCT SUPPORT**

In Paragraph 18 of Letter Agreement No. 7 the word “\*\*\*” is deleted and replaced with “\*\*\*”.

\_\_\_\_\_  
 \*\*Confidential Treatment Requested.

USA — Airbus A350 XWB Purchase Agreement

Amendment 1

Execution

081020-CT0803167-AMD1-USA-A350

*CONFIDENTIAL AND PRIVILEGED*

**5. PERFORMANCE GUARANTEES**

\*\*

**6. PERFORMANCE RETENTION GUARANTEE**

Appendix B to Letter Agreement No. 12 is deleted in its entirety and replaced with Appendix B attached hereto as Exhibit A.

**7. MISCELLANEOUS TERMS**

7.1 Letter Agreement No. 9 is terminated in its entirety and replaced by the Amended and Restated Letter No. 9 attached hereto.

7.2 In Clause 1.1.1 of Letter Agreement No. 2, the following is deleted:

QUOTE

\*\*

UNQUOTE

and replaced with the following quoted text:

QUOTE

\*\*

UNQUOTE

**8. \*\***

Letter Agreement No. 10 is hereby terminated.

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\*\*Confidential Treatment Requested.

USA — Airbus A350 XWB Purchase Agreement

Amendment 1

Execution

081020-CT0803167-AMD1-USA-A350

*CONFIDENTIAL AND PRIVILEGED*

9. \*\*

9.1 The second sentence in Paragraph 1 of Letter Agreement No. 14 is deleted and replaced with the following:

QUOTE

\*\*

UNQUOTE

9.2 In Paragraph 3.1 of Letter Agreement No. 14 \*\* is deleted and replaced with “\*\*\*”.

9.3 \*\*

9.4 \*\*

10. \*\*

In addition to Seller’s other rights and remedies, \*\*.

**11. ASSET COVENANTS**

The following is inserted into the Agreement after Clause 22.13:

QUOTE

22.14 Asset Covenants

The Buyer shall not sell, transfer, convey, assign or otherwise dispose of any of its properties or other assets or operated Airbus aircraft to the extent any such disposition (k) materially impairs the business or operations of the Buyer, (ii) materially changes the nature of the Buyer’s business, (iii) constitutes a disposition of a substantial portion of the Buyer’s assets or (iv) constitutes a disposition of a substantial portion of the Buyer’s Airbus aircraft fleet in-service as of the date hereof.

22.14.1

Minimum Unrestricted Cash. The Buyer will not permit the aggregate amount of Unrestricted Cash (as hereinafter defined) to be less than required in the Citi Loan Agreement from time to time or any successor agreement or facility thereof.\*\*.

22.14.2

“Unrestricted Cash” means cash and Cash Equivalents (as hereinafter defined) of the Buyer, its parent and affiliates that (i) may be classified, in accordance with GAAP, as “unrestricted” on the consolidated balance sheets of the Buyer’s parent or (ii) may be qualified, in accordance with GAAP, as “restricted” on the consolidated balance sheets of the Buyer’s parent solely in favor of the administrative agent and any lenders pursuant to the Citi Loan Agreement and the related loan documents (or any amendment, replacement or refinancing thereof).

“Cash Equivalents” means, as at any date of determination, (i) marketable securities (a) issued or directly and unconditionally guaranteed as to interest and principal by the United States government or (b) issued by any agency or instrumentality of the United

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\*\*Confidential Treatment Requested.

USA — Airbus A350 XWB Purchase Agreement

Amendment 1

Execution

081020-CT0803167-AMD1-USA-A350

*CONFIDENTIAL AND PRIVILEGED*

States the obligations of which are backed by the full faith and credit of the United States, in each case maturing within one year after such date; (ii) marketable direct obligations issued by any state of the United States of America or any political subdivision of any such state or any instrumentality thereof, in each case maturing within one year after such date and having, at the time of the acquisition thereof, the highest rating obtainable from either S&P or Moody's; (iii) commercial paper not issued by the Buyer's parent maturing no more than one year after such date and having, at the time of the acquisition thereof, a rating of at least A-2 from S&P or at least P-2 from Moody's; (iv) certificates of deposit or bankers' acceptances maturing within one year after such date and issued or accepted by any Eligible Lender (as hereinafter defined) or by any commercial bank organized under the laws of the United States of America or any state thereof or the District of Columbia that (a) is at least "adequately capitalized" (as defined in the regulations of its primary Federal banking regulator) and (b) has Tier 1 capital (as defined in such regulations) of not less than \$500,000,000 (US dollars – five hundred million); (v) shares of any money market mutual fund that (a) has at least 95% of its assets invested continuously in the types of investments referred to in clauses (i) and (ii) above, (b) has net assets of not less than \$500,000,000 (US dollars – five hundred million), and (c) has the highest rating obtainable from either S&P or Moody's; (vi) auction rate securities that have the highest rating obtainable from either S&P or Moody's and with a maximum reset date at least every 30 days and (vii) investments made pursuant to the investment portfolio guidelines from time to time adopted by the board of directors of the Buyer's parent or any committee thereof.

"Eligible Lender" means (i) so long as any loans or obligations under the Citi Loan Agreement remain outstanding, any "Eligible Lender" as defined in the Citi Loan Agreement and (ii) thereafter, (a) a commercial bank having total assets whose Dollar equivalent exceeds \$5,000,000,000 (US dollars – five billion), (b) a finance company, insurance company or any other financial institution or fund, in each case reasonably acceptable to the Seller and regularly engaged in making, purchase or investing in loans and having a net worth determined in accordance with GAAP, whose Dollar equivalent exceeds \$250,000,000 (US dollars – two hundred fifty million) (or, to the extent net worth is less than such amount, a finance company, insurance company, other financial institution or fund, reasonably acceptable to the Seller and the Buyer) or (c) a savings and loan association or saving bank organized under the laws of the United States or any State thereof having a net worth, determined in accordance with GAAP, whose Dollar equivalent exceeds \$250,000,000 (US dollars – two hundred fifty million); *provided, however*, that the following entities shall not be deemed to be an "Eligible Lender": (a) an airline, a commercial aircraft operator, an air freight forwarder or an entity principally engaged in the business of parcel transport by air or (b) an affiliate of any entity described in clause (a) above.

"GAAP" means generally accepted accounting principles in the United States, as in effect from time to time as set forth in opinions and pronouncements of the Accounting Principles Board of the American Institute of Certified Public Accountants and statements and pronouncements of Financial Accounting Standards Board approved by a significant segment of the accounting profession in the United States.

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\*\*Confidential Treatment Requested.

USA — Airbus A350 XWB Purchase Agreement

Amendment 1

Execution

081020-CT0803167-AMD1-USA-A350

*CONFIDENTIAL AND PRIVILEGED*

“Citi Loan Agreement” means the Loan Agreement, dated as of March 23, 2007, among Buyer’s parent, certain subsidiaries of the Buyer’s parent, the lenders from time to time party thereto and Citicorp North America, Inc., as administrative agent.

UNQUOTE

**12. EFFECT OF AMENDMENT**

- 12.1 Upon execution, Amendment will constitute a valid amendment to the Agreement and the Agreement will be deemed to be amended to the extent herein provided and, except as specifically amended hereby, will continue in full force and effect in accordance with its original terms. This Amendment supersedes any previous understandings, commitments or representations whatsoever, whether oral or written, related to the subject matter of this Amendment.
- 12.2 Both parties agree that this Amendment will constitute an integral, nonseverable part of the Agreement, that the provisions of the Agreement are hereby incorporated herein by reference, and that this Amendment will be governed by the provisions of the Agreement, except that if the Agreement and this Amendment have specific provisions that are inconsistent, the specific provisions contained in this Amendment will govern.

**13. CONFIDENTIALITY**

This Amendment is subject to the confidentiality provisions set forth in Clause 22.7 of the Agreement.

**14. COUNTERPARTS**

This Amendment may be signed in any number of separate counterparts. Each counterpart, when signed and delivered (including counterparts delivered by facsimile transmission), will be an original, and the counterparts will together constitute one and the same instrument.

---

\*\*Confidential Treatment Requested.

USA — Airbus A350 XWB Purchase Agreement

Amendment 1

Execution

081020-CT0803167-AMD1-USA-A350

*CONFIDENTIAL AND PRIVILEGED*

IN WITNESS WHEREOF, these presents were entered into as of the day and year first above written.

US AIRWAYS, INC.

AIRBUS S.A.S.

By: /s/ Thomas T. Weir  
Its: Vice President and Treasurer

By: /s/ John J. Leahy  
Its: Chief Operating Officer  
Customers

\*\*Confidential Treatment Requested.  
USA — Airbus A350 XWB Purchase Agreement  
Amendment 1  
Execution  
081020-CT0803167-AMD1-USA-A350

*CONFIDENTIAL AND PRIVILEGED*

APPENDIX B TO LETTER AGREEMENT NO. 12

Planning for the delivery of the A350-800/Trent XWB 75,000 lb aircraft:

Scheduled Delivery Quarter	Year	Quantity
**	**	**
**	**	**
**	**	**
**	**	**
**	**	**
**	**	**
**	**	**
**	**	**
**	**	**
**	**	**
**	**	**
Total		22

\*\*Confidential Treatment Requested.  
Amended and Restated Airbus A350 XWB Purchase Agreement  
Execution

PRIVILEGED AND CONFIDENTIAL



AMENDED AND RESTATED  
LETTER AGREEMENT NO. 3  
TO THE AMENDED AND RESTATED AIRBUS A350 XWB PURCHASE AGREEMENT  
Dated as of October 2, 2007

As of October 20, 2008

US Airways, Inc.  
111 West Rio Salado Parkway  
Tempe, Arizona 85281

Re: \*\*

Ladies and Gentlemen,

US Airways, Inc. (the "Buyer") and Airbus S.A.S. (the "Seller") have entered into an Amended and Restated A350 XWB Purchase Agreement dated as of October 2, 2007, as amended by Amendment No. 1 dated as of even date herewith (the "Agreement") which covers, among other things, the sale by the Seller and the purchase by the Buyer of certain Aircraft, under the terms and conditions set forth in said Agreement. The Buyer and the Seller have agreed to set forth in this Amended and Restated Letter Agreement No. 3 (the "Letter Agreement") certain additional terms and conditions regarding the sale of the Aircraft.

Capitalized terms used herein and not otherwise defined in this Letter Agreement will have the meanings assigned thereto in the Agreement. The terms "herein", "hereof" and "hereunder" and words of similar import refer to this Letter Agreement.

The parties agree that this Letter Agreement will constitute an integral, nonseverable part of said Agreement, that the provisions of said Agreement are hereby incorporated by reference, and that this Letter Agreement will be governed by the provisions of said Agreement, except that if the Agreement and this Letter Agreement have specific provisions that are inconsistent, the specific provisions contained in this Letter Agreement will govern.

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\*\*Confidential Treatment Requested.

USA — Amended and Restated Letter Agreement No. 3 to  
Amended and Restated Airbus A350 XWB Purchase Agreement  
Execution  
081020-CT0803167-LA3-USA-A350

PRIVILEGED AND CONFIDENTIAL

LA 3 - 1 of 3

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\*\*

4. ASSIGNMENT

Except as set forth in Clause 20.2 of the Agreement, this Letter Agreement and the rights and obligations of the Buyer hereunder will not be assigned or transferred in any manner without the prior written consent of the Seller, and any attempted assignment or transfer in contravention of the provisions of this Letter Agreement will be void and of no force or effect.

5. COUNTERPARTS

This Letter Agreement may be signed in any number of separate counterparts. Each counterpart, when signed and delivered (including counterparts delivered by facsimile transmission), will be an original, and the counterparts will together constitute one and the same instrument.

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\*\*Confidential Treatment Requested.

USA — Amended and Restated Letter Agreement No. 3 to  
Amended and Restated Airbus A350 XWB Purchase Agreement

Execution

081020-CT0803167-LA3-USA-A350

PRIVILEGED AND CONFIDENTIAL

If the foregoing correctly sets forth your understanding, please sign two (2) counterparts hereof in the space provided below and return one (1) such counterpart to the Seller.

US AIRWAYS, INC.

AIRBUS S.A.S.

By: /s/ Thomas T. Weir

By: /s/ John J. Leahy

Name: Thomas T. Weir

Name: John J. Leahy

Title: Vice President and Treasurer

Title: Chief Operating Officer

Customers

\*\*Confidential Treatment Requested.

USA — Amended and Restated Letter Agreement No. 3 to  
Amended and Restated Airbus A350 XWB Purchase Agreement

Execution

081020-CT0803167-LA3-USA-A350

PRIVILEGED AND CONFIDENTIAL

LA 3

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AMENDED AND RESTATED  
LETTER AGREEMENT NO. 5  
TO AMENDED AND RESTATED AIRBUS A350 XWB PURCHASE AGREEMENT  
Dated as of October 2, 2007

As of October 20, 2008

US Airways, Inc.  
111 West Rio Salado Parkway  
Tempe, Arizona 85281

Re: \*\*

Ladies and Gentlemen,

US Airways, Inc. (the "Buyer") and Airbus S.A.S. (the "Seller") have entered into an Amended and Restated A350 XWB Purchase Agreement dated as of October 2, 2007, as amended by Amendment No. 1 dated as of even date herewith, (the "Agreement") which covers, among other things, the sale by the Seller and the purchase by the Buyer of certain Aircraft, under the terms and conditions set forth in said Agreement. The Buyer and the Seller have agreed to set forth in this Amended and Restated Letter Agreement No. 5 (the "Letter Agreement") certain additional terms and conditions regarding the sale of the Aircraft.

Capitalized terms used herein and not otherwise defined in this Letter Agreement will have the meanings assigned thereto in the Agreement. The terms "herein," "hereof" and "hereunder" and words of similar import refer to this Letter Agreement.

The parties agree that this Letter Agreement will constitute an integral, nonseverable part of said Agreement, that the provisions of said Agreement are hereby incorporated herein by reference, and that this Letter Agreement will be governed by the provisions of said Agreement, except that if the Agreement and this Letter Agreement have specific provisions that are inconsistent, the specific provisions contained in this Letter Agreement will govern.

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\*\*Confidential Treatment Requested.

USA Amended and Restated Letter Agreement No. 5 to  
Amended and Restated Airbus A350 XWB Purchase Agreement  
Execution  
081020-CT0803167-LA5-USA-A350

PRIVILEGED AND CONFIDENTIAL

LA 5 - 1 of 3

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3. ASSIGNMENT

Except as set forth in Clause 20.2 of the Agreement, this Letter Agreement and the rights and obligations of the Buyer hereunder will not be assigned or transferred in any manner without the prior written consent of the Seller, and any attempted assignment or transfer in contravention of the provisions of this Letter Agreement will be void and of no force or effect.

4. COUNTERPARTS

This Letter Agreement may be signed in any number of separate counterparts. Each counterpart, when signed and delivered (including counterparts delivered by facsimile transmission), will be an original, and the counterparts will together constitute one and the same instrument.

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\*\*Confidential Treatment Requested.

USA Amended and Restated Letter Agreement No. 5 to  
Amended and Restated Airbus A350 XWB Purchase Agreement

Execution

081020-CT0803167-LA5-USA-A350

PRIVILEGED AND CONFIDENTIAL

If the foregoing correctly sets forth your understanding, please sign two (2) counterparts hereof in the space provided below and return one (1) such counterpart to the Seller.

US AIRWAYS, INC.

By: /s/ Thomas T. Weir  
Name: Thomas T. Weir  
Title: Vice President and Treasurer

AIRBUS S.A.S.

By: /s/ John J. Leahy  
Name: John J. Leahy  
Title: Chief Operating Officer  
Customers

\*\*Confidential Treatment Requested.

USA Amended and Restated Letter Agreement No. 5 to  
Amended and Restated Airbus A350 XWB Purchase Agreement  
Execution  
081020-CT0803167-LA5-USA-A350

PRIVILEGED AND CONFIDENTIAL

LA 5

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AMENDED AND RESTATED  
LETTER AGREEMENT NO. 9  
TO AMENDED AND RESTATED AIRBUS A350 XWB AIRCRAFT PURCHASE AGREEMENT  
Dated as of October 2, 2007

As of October 20, 2008

US Airways, Inc.  
111 West Rio Salado Parkway  
Tempe, Arizona 85281

Re: MISCELLANEOUS

Ladies and Gentlemen,

US Airways, Inc. (the "Buyer") and Airbus S.A.S. (the "Seller") have entered into an Amended and Restated A350 XWB Purchase Agreement dated as of October 2, 2007, as amended by Amendment No. 1 dated as of even date herewith, (the "Agreement"), which covers, among other things, the sale by the Seller and the purchase by the Buyer of certain Aircraft, under the terms and conditions set forth in said Agreement. The Buyer and the Seller have agreed to set forth in this Amended and Restated Letter Agreement No. 9 (the "Letter Agreement") certain additional terms and conditions regarding the sale of the Aircraft.

Capitalized terms used herein and not otherwise defined in this Letter Agreement will have the meanings assigned thereto in the Agreement. The terms "herein," "hereof" and "hereunder" and words of similar import refer to this Letter Agreement.

The parties agree that this Letter Agreement will constitute an integral, non-severable part of said Agreement, that the provisions of said Agreement are hereby incorporated herein by reference, and that this Letter Agreement will be governed by the provisions of said Agreement, except that if the Agreement and this Letter Agreement have specific provisions which are inconsistent, the specific provisions contained in this Letter Agreement will govern.

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\*\*Confidential Treatment Requested.

USA — Amended and Restated Letter Agreement No. 9 to  
Amended and Restated Airbus A350 XWB Purchase Agreement  
Execution  
081020-CT0803167-LA9-USA-A350

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LA 9 - 1 of 3

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1. LEASED AIRCRAFT

\*\*

2. EXCUSABLE DELAY AND TOTAL LOSS

\*\*

3. TERMINATION

3.1 \*\*

3.2 Paragraph 21.2(1)(i) of the Agreement is amended to read as follows between the “QUOTE” and “UNQUOTE”

QUOTE

\*\*

UNQUOTE

3.3 Clause 21.2 (2) (A) of the Agreement is hereby superseded and replaced by the following text between the “QUOTE” and “UNQUOTE”:

QUOTE

\*\*

UNQUOTE

4. ASSIGNMENT

Except as set forth in Clause 20.2 of the Agreement, this Letter Agreement and the rights and obligations of the Buyer hereunder will not be assigned or transferred in any manner without the prior written consent of the Seller, and any attempted assignment or transfer in contravention of the provisions of this Paragraph 4 will be void and of no force or effect.

5. COUNTERPARTS

This Letter Agreement may be signed in any number of separate counterparts. Each counterpart, when signed and delivered (including counterparts delivered by facsimile transmission), will be an original, and the counterparts will together constitute one and the same instrument.

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\*\*Confidential Treatment Requested.

USA — Amended and Restated Letter Agreement No. 9 to  
Amended and Restated Airbus A350 XWB Purchase Agreement  
Execution  
081020-CT0803167-LA9-USA-A350

PRIVILEGED AND CONFIDENTIAL



If the foregoing correctly sets forth your understanding, please sign two (2) counterparts hereof in the space provided below and return one (1) such counterpart to the Seller.

US AIRWAYS, INC.

AIRBUS S.A.S.

By: /s/ Thomas T. Weir  
Name: Thomas T. Weir  
Title: Vice President and Treasurer

By: /s/ John J. Leahy  
Name: John J. Leahy  
Title: Chief Operating Officer  
Customers

USA — Amended and Restated Letter Agreement No. 9 to  
Amended and Restated Airbus A350 XWB Purchase Agreement  
Execution  
081020-CT0803167-LA9-USA-A350

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LA 9

**AMENDMENT No. 6 TO AMENDED AND RESTATED  
PURCHASE AGREEMENT DCT-021/03**

This Amendment No. 6 to the Amended and Restated Purchase Agreement DCT-021/03, dated as of October 22, 2008 (“Amendment No. 6”) relates to the Amended and Restated Purchase Agreement DCT-021/03 (the “Purchase Agreement”) between Embraer — Empresa Brasileira de Aeronáutica S.A. (“Embraer”) and US Airways Group, Inc. (“Buyer”) dated June 13, 2006, as amended from time to time (collectively referred to herein as “Agreement”). This Amendment No. 6 is between Embraer and Buyer, collectively referred to herein as the “Parties”.

This Amendment No. 6 sets forth additional agreements between Embraer and Buyer with respect to the matters set forth herein.

Except as otherwise provided for herein, all terms of the Purchase Agreement shall remain in full force and effect. All capitalized terms used in this Amendment No. 6 which are not defined herein shall have the meaning given in the Purchase Agreement. In the event of any conflict between this Amendment No. 6 and the Purchase Agreement, the terms, conditions and provisions of this Amendment No. 6 shall control.

**WHEREAS**, Embraer and Buyer have agreed to revise the Contractual Delivery Month of the Additional Aircraft and Option Aircraft.

**NOW, THEREFORE**, for good and valuable consideration which is hereby acknowledged, Embraer and Buyer hereby agree as follows:

**1. Additional Aircraft delivery schedule:**

1.1 Article 1.2 of Attachment “E” to the Purchase Agreement shall be deleted and replaced by the following:

“1.2 Additional Aircraft, subject to confirmation by Buyer

Additional Aircraft #	Contractual Delivery Month	Block #
26**	**	
27	**	
28	**	**
29	**	
30	**	
31**	**	
32	**	
33	**	**
34	**	
35	**	
36**	**	
37	**	
38	**	**

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Additional Aircraft #	Contractual Delivery Month	Block #
39	**	
40	**	
41**	**	
42	**	
43	**	**
44	**	
45	**	
46**	**	
47	**	
48	**	**
49	**	
50	**	
51**	**	
52	**	
53	**	**
54	**	
55	**	
56**	**	**
57	**	

Buyer to provide confirmation to Embraer of its intention to purchase each block of Additional Aircraft (above identified as of Block \*\*) \*\* before the Contractual Delivery Month of the first aircraft in each block of Additional Aircraft. The first aircraft of each block of Additional Aircraft \*\*.”

**2. Option Aircraft delivery schedule:**

2.1 Article 2 of Attachment “E” to the Purchase Agreement shall be deleted and replaced by the following:

“2. Option Aircraft Delivery Schedule

**Option Aircraft**

Option Aircraft #	Contractual Delivery Month
1	**
2	**
3	**
4	**
5	**
6	**
7	**
8	**
9	**
10	**
11	**
12	**
13	**
14	**

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Option Aircraft #	Contractual Delivery Month
15	**
16	**
17	**
18	**
19	**
20	**

**3. Miscellaneous:**

All other terms and conditions of the Purchase Agreement which are not specifically amended or modified by this Amendment No. 6 shall remain in full force and effect without any change.

IN WITNESS WHEREOF, EMBRAER and BUYER, by their duly authorized officers, have entered into and executed this Amendment No. 6 to Purchase Agreement to be effective as of the date first written above.

EMBRAER – Empresa Brasileira de Aeronáutica S.A.

US Airways Group, Inc.

By: /s/ Satoshi Yokota  
Name: Satoshi Yokota  
Title: Executive Vice President Strategic Planning and Technology Development

By: /s/ Thomas T. Weir  
Name: Thomas T. Weir  
Title: Vice President and Treasurer

By: /s/ Artur Coutinho  
Name: Artur Coutinho  
Title: Executive Vice President of Industrial Operations

Date: October 28, 2008  
Place: Tempe, Arizona

Date: October 22, 2008  
Place: Sao Jose Dos Campos, Brazil

Witness: /s/ Julieta Diederichsen  
Name: Julieta Diederichsen

Witness: /s/ David Lin  
Name: David Lin

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CONFIDENTIAL

EXECUTION COPY

**AMENDMENT NO. 6**  
**TO**  
**AMERICA WEST CO-BRANDED CARD AGREEMENT**

THIS AMENDMENT NO. 6 TO AMERICA WEST CO-BRANDED CARD AGREEMENT (“**Amendment No. 6**”) is dated October 17, 2008, by and between US AIRWAYS GROUP, INC., a Delaware corporation (“**US Airways Group**”), and BARCLAYS BANK DELAWARE formerly known as JUNIPER BANK (“**Juniper Bank**”).

**RECITALS**

WHEREAS, America West Airlines, Inc. (“**America West**”) and Juniper Bank are parties to that certain America West Co-Branded Card Agreement, dated January 25, 2005 (the “**Original Agreement**”);

WHEREAS, US Airways Group merged with America West’s parent company, America West Holdings Corporation, and America West assigned its rights and obligations under the Original Agreement to US Airways Group pursuant to that certain Assignment and First Amendment to America West Co-Branded Card Agreement, dated August 8, 2005 (the “**First Amendment**”), as amended by that certain Amendment No. 2 to America West Co-Branded Card Agreement, dated September 26, 2005 (the “**Second Amendment**”), as amended by that certain Amendment No. 3 to America West Co-Branded Card Agreement, dated December 29, 2006 (the “**Third Amendment**”), as amended by that certain Amendment No. 4 to America West Co-Branded Card Agreement, dated December 5, 2007, (the “**Fourth Amendment**”) and as amended by that certain Amendment No. 5 to America West Co-Branded Card Agreement, dated August 28, 2008 (the “**Fifth Amendment**”) and together with the First Amendment, Second Amendment, Third Amendment, Fourth Amendment and the Original Agreement, the “**Agreement**”);

WHEREAS, US Airways Group is raising additional capital from its various strategic partners as part of an overall liquidity program (the “**Liquidity Program**”) to address current economic challenges facing the global aviation industry;

WHEREAS, Juniper Bank has agreed to pre-purchase miles from US Airways Group to assist with these efforts;

WHEREAS, Juniper Bank and US Airways Group also desire to offer enhanced benefits to certain consumer cardholders to increase cardholder spend;

WHEREAS, US Airways Group and Juniper Bank now desire to amend and modify the Agreement to incorporate such terms and obligations; and

WHEREAS, US Airways Group and Juniper Bank understand and agree that the effectiveness of this Amendment No. 6 and the fulfillment of the respective rights and

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obligations contained herein shall be contingent upon consummation of certain conditions of close with respect to the Liquidity Program as more fully set forth herein.

NOW, THEREFORE, in consideration of the mutual covenants contained herein, the parties agree as follows:

**1. Definitions.** All capitalized terms used herein, but not otherwise defined herein, shall have the meanings given to such terms in the Agreement.

**2. Amendments.**

a. The following definitions in Section 1 of the Agreement are deleted in their entirety and replaced with the following:

“**Early Payment Event**” means (i) US Airways Group is in default, with all applicable cure and grace periods elapsed, of either (A) any material indebtedness for borrowed money in excess of \*\*, and (ii) the obligations under such material indebtedness for borrowed money \*\*have been accelerated.

“**Expiration Date**” means March 31, 2017.

“**Suspension Event**” as defined in Section 4.6.”

b. Section 1 of the Agreement is amended by adding the following definitions in the appropriate alphabetical order:

“**\*\*Fee**” as defined in Section 4.2.2.

“**Cap**” as defined in Section 14.3.

“**Citi Loan**” means that certain Loan Agreement dated as of March 23, 2007, as amended, among US Airways Group, certain of its subsidiaries signatory thereto, and Citicorp North America, Inc., as administrative agent and collateral agent for the lenders thereunder.

“**Citi Loan Amendment**” means an amendment to the Citi Loan providing for, among other things, the reduction of the Minimum Unrestricted Cash (as defined in the Citi Loan) on a dollar for dollar basis with certain prepayments from the proceeds from Liquidity Program until such amount is reduced to \$850,000,000.

“**Closing Conditions**” as defined in Section 14.1.

“**Collateral**” shall mean the sum of cash posted directly with US Airways Group’s fuel hedge counterparties and cash posted to collateralize letters of credit issued for the benefit of US Airways Groups’ fuel hedge counterparties.

“**Conditions Precedent**” as defined in Section 14.3.1.

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“**Liquidity Program**” as defined in the Recitals of this Amendment No. 6.

“**\*\*Fee**” as defined in Section 4.2.2.

“**Repurchase Commencement Date**” as defined in Section 14.3.

“**Subsequent Purchase**” as defined in Section 14.3.

“**Subsequent Purchase Date**” as defined in Section 14.3.

“**Unrestricted Cash**” shall mean the sum of cash, cash equivalents, short-term investments and available for sale securities (in each case unrestricted) maintained by US Airways Group as depicted on its balance sheet.”

c. Section 4.2.2 of the Agreement is deleted in its entirety and replaced with the following:

“4.2.2. Fees.

(a) During the Term of this Agreement, Juniper Bank shall pay a \*\*fee to US Airways Group equal to \*\* for each Base, Bonus or Adjustment Mile awarded by Juniper Bank to an Account and accounts from \*\* (“\*\* Fee”).

(b) In addition to the \*\*Fee, for all Accounts except the accounts from\*\*, Juniper Bank shall pay a fee for the use of US Airways’ Marks, marketing channels, marketing support, administrative support and brand equity (“\*\* Fee”) as follows:

(i) From the Effective Date of Amendment No. 5 up to and including\*\*:

- For each \*\*of Net New Purchase Transactions on Cards bearing US Airways Marks in which Affinity Cardholders earn \*\*Mile per\*\*, a fee of\*\*;
- For every \*\*of Net New Purchase Transactions on Cards bearing US Airways Marks in which Affinity Cardholders earn \*\*Mile per\*\*, a fee of\*\*; and
- For each Bonus or Adjustment Mile awarded by Juniper Bank on a Card bearing US Airways Marks, a fee of\*\*.

(ii) As of \*\*and thereafter:

- For each \*\*of Net New Purchase Transactions on Cards bearing US Airways Marks in which Affinity Cardholders earn \*\*Mile per\*\*, a fee of\*\*;
- For every \*\*of Net New Purchase Transactions on Cards bearing US Airways Marks in which Affinity Cardholders earn \*\*Mile per\*\*, a fee of\*\*; and
- For each Bonus or Adjustment Mile awarded by Juniper Bank on a Card bearing US Airways Marks, a fee of\*\*.

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(c) In addition to the \*\*Fee, for accounts in\*\*, Juniper Bank shall pay \*\*Fee as follows:

(i) From the Effective Date of this Amendment No. 6 until\*\*:

- For each \*\*of Net New Purchase Transactions on Cards bearing US Airways Marks in which \*\*cardholders earn \*\*Mile per\*\*, a fee of\*\*;
- For each Bonus or Adjustment Mile awarded by Juniper Bank on a Card bearing US Airways Marks, a fee of\*\*.

(ii) As of the date \*\*and thereafter:

- For each \*\*of Net New Purchase Transactions on Cards bearing US Airways Marks in which \*\*cardholders earn \*\*Mile per\*\*, a fee of \*\* .;
- For each Bonus or Adjustment Mile awarded by Juniper Bank on a Card bearing US Airways Marks, a fee of\*\*.

Notwithstanding and in lieu of the foregoing, to the extent that Juniper Bank awards Bonus Miles as incentives for\*\*, Juniper Bank shall pay \*\*Fee to US Airways Group equal to \*\* in addition to the \*\*Fee for each such Bonus Mile awarded to such\*\*.

In addition, US Airways Group will award Base and Bonus Miles as follows:

- US Airways Group shall award Base Miles as set forth in Exhibit A and Exhibit B attached hereto.
- US Airways Group will from time to time award Bonus Miles to Accounts. Bonus Miles will be awarded as agreed from time to time by the parties for, by way of example only and not limitation, rewards to Customers when they open Accounts, rewards to Affinity Cardholders for engaging in certain categories of transactions as the parties may agree, including, but not limited to, the use of an Account to purchase US Airways Group tickets. Bonus Miles shall be in addition to Base Miles awarded per Net New Purchase Transactions .”

d. Section 4.6 of the Agreement is deleted in its entirety and replaced with the following:

“4.6 Suspension Events. If either of the following (each a “**Suspension Event**”) occurs:

- (i) US Airways Group fails to maintain a frequent flyer program that is as competitive in the marketplace as the FF Program was as of\*\*;
- provided that Juniper Bank provides written notice of such failure to maintain the

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competitiveness of the FF Program which will commence a forty-five (45) day period during which US Airways may cure such deficiency;  
or

(ii) Passenger Enplanements as measured each \*\*or Active Frequent Flyers declines more than \*\* below the comparable \*\*in the Passenger Enplanements Baseline Year or Active Frequent Flyer Baseline Year, as applicable;

then Juniper Bank may, in its sole discretion, elect to terminate this Agreement. To the extent that Juniper Bank elects not to terminate this Agreement, nothing herein shall be construed to prevent a later election to terminate this Agreement so long as a Suspension Event is continuing or to exercise any other right or remedy hereunder. In the event Juniper Bank terminates this Agreement pursuant to this Section 4.6 US Airways Group will promptly (a) repurchase any unused Pre-Purchased Miles as of the date of termination; and (b) repay an amount equal to\*\*.

For purposes of this Agreement, (i) “**Passenger Enplanements**” means the aggregate of ticketed passengers flown on America West and US Airways branded aircraft as reported by US Airways for the \*\*period ending \*\*as adjusted for the average industry capacity reduction over such period of time (for avoidance of doubt, as of the date of this Agreement, Passenger Enplanements includes passengers flown on Mesa Airlines or any other carrier operated as America West Express or US Airways Express but does not include passengers flown on Hawaiian Airlines, except, for example, a passenger flown on an Albuquerque-Phoenix-Honolulu flight, the Albuquerque-Phoenix segment of such flight would be included as a Passenger Enplanement), and (ii) “**Active Frequent Flyer**” means a US Airways FF Participant who has accrued miles from flights on America West or US Airways in the \*\*period ending\*\*. The “**Passenger Enplanements Baseline Year**” shall be the Passenger Enplanements for the \*\*period ending \*\*as adjusted for the average industry capacity reduction over such period of time. The “**Active Frequent Flyer Baseline Year**” shall be the Active Frequent Flyers for the \*\*period ending\*\*.”

e. Section 4.10 of the Agreement is deleted in its entirety and replaced with the following:

“4.10 No-Shop Provision. During the No-Shop Period (as defined below), US Airways Group shall not, and shall cause its affiliates and its officers, directors, employees and agents to not, engage in any negotiations in respect to, solicit offers for, supply confidential information for the purpose of evaluating, or enter into any agreement with respect to\*\*. For purposes of this Agreement, the term “**No-Shop Period**” shall mean the period of time commencing on\*\*. Notwithstanding the foregoing, US Airways Group will be permitted to engage in negotiations with, solicit offers from, supply information to, and enter into an agreement with any person desiring to\*\*. Furthermore, nothing herein shall prevent US Airways Group from engaging in conversations with its current issuer

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regarding the day-to-day aspects of its current card program so long as such conversations are not used as a pretext to avoid the No-Shop Period.”

- f. Section 4.12 of the Agreement is deleted in its entirety and replaced with the following:

“4.12 Annual Bonus Payment. Commencing in\*\*, Juniper Bank shall pay US Airways Group an annual bonus of \*\*(the “ **Annual Bonus Payment**”). The Annual Bonus Payment shall be paid on \*\*and on each anniversary of that date thereafter for the remaining Term of this Agreement and any extension thereof.”

- g. Section 5.1 of the Agreement is amended by deleting the words “ Section 12 of” in the first sentence.

- h. Section 7 of the Agreement is amended by adding the following new Section 7.1.12:

“7.1.12 implementation of the \*\*described on Exhibit F attached to this Agreement on the schedule set forth therein.”

- i. Section 7.4 of the Agreement is amended by adding the following sentence to the end of the first paragraph:

“Commencing \*\*provide\*\*.”

- j. Section 12.3 of the Agreement is deleted in its entirety and replaced with the following:

“12.3 In the event Juniper Bank terminates this Agreement pursuant to this Section 12, upon such termination US Airways Group shall promptly: (i) repurchase from Juniper Bank any unused Pre-Purchased Miles that remains outstanding as of the date of termination; and (ii) repay an amount equal to\*\*.”

- k. Section 14 of the Agreement is deleted in its entirety and replaced with the following:

“14. PRE-PURCHASE OF MILES

14.1 Pre-Purchase of Miles. Juniper Bank will pre-purchase Miles in an amount totaling two hundred million dollars (\$200,000,000.00) (together with pre-purchased miles otherwise acquired hereunder, the “ **Pre-Purchased Miles**”) and wire such funds to an escrow account held by Citi upon notice (the “ **Pre-Purchase Date**”). The funds will be released upon the satisfaction of the following conditions (“ **Closing Conditions**”): (i) receipt of requisite lenders consent under the Citi Loan; (ii) completion of the issuance of additional equity by US Airways Group in the amount of one hundred seventy-nine million dollars (\$179,000,000), which was completed in August 2008; (iii) completion of the refinancing of a portion of the Citi Loan provided by General Electric and others resulting in, among other things, a prepayment of the Citi Loan in a minimum amount of four hundred million dollars (\$400,000,000) and the lowering of the

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unrestricted cash covenant to eight hundred fifty million dollars (\$850,000,000); (iv) receipt of a firm commitment for two hundred million dollars (\$200,000,000) of new liquidity from Airbus to be funded at the Effective Time; and (v) US Airways Group has \*\*in Unrestricted Cash (inclusive of the funds to be realized pursuant to the Liquidity Program but exclusive of the funds to be provided by Juniper Bank) above the minimum unrestricted cash covenant in the Citi Loan Amendment. For purposes of this Section 14.1, Unrestricted Cash shall include Collateral posted by US Airways Group with its fuel hedge counterparties. The price for each Pre-Purchased Mile shall be \*\* that being the combination of the \*\*Fee and \*\*Fee for Net New Purchase Transactions as set forth in Section 4.2.2. If the Closing Conditions are not satisfied on or before\*\*, the funds in the escrow account shall be promptly returned to Juniper Bank.

14.2 Use of Pre-Purchased Miles. Juniper Bank shall use the Pre-Purchased Miles to compensate US Airways Group for fees otherwise earned hereunder in the manner and in accordance with the following terms and conditions. In addition, US Airways shall pay interest on the value of the outstanding Pre-Purchased Miles as set forth below.

14.2.1 Payment with Pre-Purchased Miles. Commencing in November, 2008 and in each month thereafter that Juniper Bank holds Pre-Purchased Miles, it shall compensate US Airways Group for fees earned hereunder with Pre-Purchased Miles pursuant to the following process: Juniper Bank shall calculate the amounts due under this Agreement as set forth in Section 4 and divide that amount by \*\* rounded to the nearest whole number to arrive at the number of Pre-Purchased Miles to be returned to US Airways Group in lieu of a cash payment as otherwise set forth in Section 4. For avoidance of doubt, the reporting and use of Pre-Purchased Miles as payment in lieu of cash shall occur within the time frames established in Sections 4.2.3 and 28.

14.2.2 Interest Payments. Commencing on the 30<sup>th</sup> calendar day of the calendar month following the Pre-Purchase Date, and continuing on the 30<sup>th</sup> calendar day of each calendar month, except for the month of February where the interest payment shall be due February 28<sup>th</sup>, so long as any Pre-Purchased Miles remain outstanding, US Airways Group will pay Juniper Bank interest accruing under the Pre-Purchased Miles at the Adjustable Rate during the preceding Interest Period. For purposes of this Agreement, “**Adjustable Rate**” shall mean the One Month LIBOR on the last business day of each calendar month prior to the next Interest Period as published on Bloomberg page USSW, plus\*\*.

“**Interest Period**” shall mean (i) initially, the period beginning on the Pre-Purchase Date and ending on the last day of the calendar month in which such date occurs, and (ii) thereafter, the period beginning on the first day of the calendar month and ending on the last day of such calendar month or the date on which no Pre-Purchased Miles remain outstanding, as applicable. The monthly calculation will be as follows:  
The outstanding dollar amount of

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the Pre-Purchased Miles held by Juniper Bank on the last day of the preceding month times (Adjustable Rate/360 times the number of calendar days in the Interest Period).

- 14.3 Subsequent Monthly Purchase. Commencing in November, 2008 for each month in which the Conditions Precedent as set forth in Section 14.3.1 are met, Juniper Bank shall purchase additional Pre-Purchased Miles in an amount equal to the difference between the Cap (as defined below) and the amount of unused Pre-Purchased Miles (each a “**Subsequent Purchase**”). Each Subsequent Purchase shall occur no later than the \*\* calendar day of the month following the month in which the Conditions Precedent are measured (the “**Subsequent Purchase Date**”). Prior to the \*\*of the Pre-Purchase Date (the “**Repurchase Commencement Date**”), in each month in which the Conditions Precedent are not met, the Cap shall be reduced by\*\*. Commencing on the Repurchase Commencement Date, the Cap shall be reduced by \*\* each month in which the Conditions Precedent are met and \*\* in each month the Conditions Precedent are not met until such time no Pre-Purchased Miles remain outstanding. For purposes of this Agreement, the initial “**Cap**” shall be \$200 million and will reduce accordingly as set forth above. Subsequent Purchases that occur in February shall occur on the later of February 28 or three (3) business days after receipt of the Report(s) due pursuant to Section 17.

14.3.1 Conditions Precedent. Juniper Bank’s obligations to make a Subsequent Purchase each month pursuant to Section 14.3 will only arise upon and are subject to the satisfaction or waiver of the following conditions (“**Conditions Precedent**”) each month prior to the month in which the Subsequent Purchase is to be made:

- (i) US Airways Group’s Unrestricted Cash shall be equal to or greater than \$1.5 billion as measured at the end of each month and \*\*pre-tax income (excluding special items) measured \*\*is less than\*\*. For the purposes of this Section 14.3.1(i), the calculation of Unrestricted Cash will include Collateral for fuel hedge contracts\*\*. By way of example, if October is being measured for November’s Subsequent Purchase, US Airways Group’s Unrestricted Cash (including the fuel hedge contracts) will be measured as of October 31<sup>st</sup>\*\*.

If US Airways Group’s Unrestricted Cash falls below \$1.5 billion in any monthbut the \*\*pre-tax income test is met, then Juniper Bank will be required to purchase the additional Pre-Purchased Miles for such month\*\*.

- (ii) No Suspension Event has occurred in the month being measured.

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- (iii) No Early Payment Event has occurred in the month being measured.
- (iv) No material change shall have occurred to the \*\*card benefits as set forth in Exhibit E, except as permitted pursuant to such Exhibit E.
- (v) No merger of US Airways Group has occurred pursuant to Section 4.9.
- (vi) US Airways Group shall have complied with the reporting requirements set forth in Section 17 for the month being measured.”

14.4 Prepayment. US Airways Group may repurchase all or any of the Pre-Purchased Miles at any time, or from time to time, without penalty or premium. Any prepayment shall include accrued interest, if any, in accordance with Section 14.2.2.

14.5 Acceptance of Payment with Pre-Purchased Miles. US Airways Group agrees to accept payment in Pre-Purchased Miles as provided in this Section 14 in lieu of cash and irrevocably waives any rights to receive cash or other consideration for such payments regardless of the then value of a Pre-Purchased Mile.

14.6 Other Uses of Pre-Purchased Miles. To the extent Juniper Bank uses Pre-Purchased Miles for purposes other than as set forth in Sections 14.2 through 14.6, US Airways Group shall provide commercially reasonable methods to redeem said Pre-Purchased Miles (e.g., mileage certificates or assignment to FF Accounts) to facilitate the use of the Pre-Purchased Miles by Juniper Bank and/or the recipient of said Pre-Purchased Miles. This obligation shall survive termination of this Agreement.

14.7 Transportation Tax. Juniper Bank’s obligation to fund the Transportation Tax, as set forth in Section 4.8, shall not occur with respect to Pre-Purchased Miles unless and until Juniper Bank awards such Pre-Purchased Miles to Affinity Cardholders and/or others such that the recipient may use such Pre-Purchased Miles for redemption for air travel .”

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- l. Section 17 of the Agreement is deleted in its entirety and replaced with the following:

“17. REPORTING

US Airways Group shall make available to Juniper Bank the following reports: (i) annual audited financials statements within 105 days after the end of each fiscal year and unaudited quarterly financial statements within 60 days after the end of each fiscal quarter; provided that the filing of such reports on EDGAR shall satisfy the delivery obligations hereunder; (ii) annual financial plans and monthly projections for the following year as soon as practicable after preparation thereof in the ordinary course of business but in no event later than February 28 of each year; (iii) monthly income statements and balance sheet results in a format consistent with Securities Exchange Commission standards within 45 days following the close of each month; (iv) within 25 days after the end of each month, a monthly attestation from US Airways Group that the Conditions Precedent were met as of the end of the then ended month\*\*; and (v) quarterly certificate of compliance with Section 4.6 including reporting of Active Frequent Flyers and Passenger Enplanements as well as the baseline Active Frequent Flyers and baseline Passenger Enplanements within thirty (30) days following the end of each quarter. In addition, US Airways Group agrees to participate in quarterly calls with Juniper Bank’s Chief Financial Officer and/or Chief Risk Officer; provided that each quarter Juniper Bank desires to have such a call, it will provide US Airways Group with prior notice.”

- m. Section 28 of the Agreement is amended by replacing the number “\*\*\*” with “\*\*\*” wherever it occurs.
- n. The Agreement is amended by adding the following new Section 31 at the end of the Agreement:

“31. \*\*

The parties agree that in the event that US Airways Group \*\*during the Term of this Agreement, Juniper Bank shall be\*\*.”

- o. Exhibit A of the Agreement is amended by deleting Section 2(e).
- p. The Agreement is amended by adding new Exhibits E and F to the Agreement attached to this Amendment No. 6.

**3. Effectiveness.** This Amendment No. 6 shall become effective at the Effective Time, it being understood that if the Effective Time does not occur before October 31, 2008, this Amendment No. 6 shall have no force and effect and shall be null and void for all purposes with the Agreement reverting back to the previous status quo without any further action by either party. For purposes of this Amendment No. 6, the “**Effective Time**” means the date and time that all of the Closing Conditions are satisfied.

**4. Effect.** Except as set forth in this Amendment No. 6, the Agreement shall remain in full force and effect and each of US Airways Group and Juniper Bank hereby restates and affirms all

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of the terms and provisions of the Agreement. If any conflict exists between the terms and provisions of the Agreement and this Amendment No. 6, the terms and provisions of this Amendment No. 6 will govern and control.

**5. Entire Agreement.** The Agreement, as amended by this Amendment No. 6, constitutes the entire agreement between the parties with respect to the subject matter hereof and supersedes all prior understandings with respect thereto.

**6. Counterparts.** This Amendment No. 6 may be executed in any number of counterparts, each of which shall be deemed an original and all of which when taken together shall constitute one and the same instrument. Delivery of an executed counterpart signature page by facsimile shall be effective as a manually executed signature page.

[Remainder of page intentionally left blank; signature page follows]

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**CONFIDENTIAL**

**EXECUTION COPY**

IN WITNESS WHEREOF, Juniper Bank and US Airways Group have executed and delivered this Amendment No. 6 as of the date first written above.

**US AIRWAYS GROUP, INC.**

**BARCLAYS BANK DELAWARE**  
**Formerly known as**  
**JUNIPER BANK**

/s/ J. Scott Kirby

By: J. Scott Kirby By:  
Title: President

/s/ Lloyd Wirshba

By: Lloyd Wirshba By:  
Title: CEO

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EXHIBIT E

**\*\*CARDHOLDER BENEFITS**

US Airways  
provided  
benefits\*\*

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Consumer cards\*\*

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Consumer cards\*\*

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Consumer cards\*\*

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EXHIBIT F

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<u>Marketing Channel</u>	<u>Start Date</u>	<u>Frequency</u>
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\*\* Confidential Treatment Requested.

Loan Agreement [Spare Parts]

Dated as of October 20, 2008

among

US Airways, Inc.,

General Electric Capital Corporation,  
as Administrative Agent

General Electric Capital Corporation,  
as Collateral Agent,

General Electric Capital Corporation  
as Original Lender

AND

The Lenders

From time to Time Party Hereto

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Exhibit L	Form of Omnibus Intercreditor Agreement
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Exhibit N	Form of PK Mortgage Amendment
Exhibit O	Form of Subordinated Lease Assignment

## Loan Agreement [Spare Parts]

THIS LOAN AGREEMENT [SPARE PARTS], dated as of October 20, 2008 (this "Agreement"), is among US AIRWAYS, INC., a Delaware corporation (the "Borrower"), GENERAL ELECTRIC CAPITAL CORPORATION, a Delaware corporation, as Administrative Agent for the Lenders (the "Administrative Agent"), GENERAL ELECTRIC CAPITAL CORPORATION, a Delaware corporation, as the Collateral Agent (the "Collateral Agent"), GENERAL ELECTRIC CAPITAL CORPORATION (herein called the "Original Lender"), and such other lenders as may from time to time be party hereto (together with the Original Lender, the "Lenders"). Certain capitalized terms used herein are defined, and certain rules of construction are specified, in Schedule 1.

### Background

1. The Lenders have agreed to make loans to the Borrower to be secured by a Lien on certain spare parts and related property owned by the Borrower and stored at certain locations.

2. In connection with such loans, the parties hereto wish to enter into certain related understandings, as set forth herein.

The parties hereto agree as follows:

### Article I The Loan

#### *Section 1.1. The Loan.*

(a) *Commitments.* Subject to the terms and conditions of this Loan Agreement, on the Funding Date, each Lender shall advance funds in an amount equal to its Percentage Share of the Maximum Facility Amount; provided that no Lender shall have any obligation to advance funds in excess of the amount of its Commitment. As evidence of the funds advanced by each Lender, on the Funding Date the Borrower shall issue and deliver to each Lender, as provided hereunder, a Note payable to such Lender in an original principal amount equal to the amount of such Lender's Percentage Share of the Loan. The Notes and the Collateral Agent's certificate of authentication thereon shall each be substantially in the form set forth in Exhibit B.

(b) *The Notes; Amortization.* The Loan shall mature on the Maturity Date, and the principal of the Loan shall be payable \*\*installments in the amount set forth in Part 1 of Schedule 2 to this Agreement with respect to each Payment Date; provided, however, \*\*installments in the amount forth in Part 2 of Schedule 2 to this Agreement with respect to each Payment Date; *provided* that, in the event that the Loan shall have been prepaid in part pursuant hereto (other than pursuant to Section 1.1(e) hereof), from and after the date of the relevant prepayment, the amounts of such installments shall be reduced, \*\*, by the amount of such partial prepayment. Annex A to each Note shall be completed so that the aggregate amount of principal due on each Payment Date on all of the Notes, taken together, is equal to the amount of principal due on such Payment Date as set forth on Part 1 of Schedule 2, and, in the event that the Borrower makes the prepayment contemplated by Section 1.1(e) hereof, then, upon request by

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the Borrower, the Lenders shall surrender their Notes for replacement Notes which reflect the revised Maturity Date and amortization schedule provided for by the terms of this Agreement following such prepayment by the Borrower. In the case of each Note, each payment of the principal amount, \*\*, and interest or other amounts due thereon shall be applied, \*\*, if any, and to the extent permitted by law, \*\*, second, to the payment of accrued interest on the Loan to the date of such payment, third, to the payment of\*\*, due hereunder in respect of the Loan, and fourth, the balance, if any, remaining thereafter, to the payment of the principal amount of the Loan remaining unpaid\*\*.

(c) \*\*.

(i) *In General.* \*\*, on any Business Day (a "Prepayment Date"), on not less than three (3) Business Days' prior irrevocable written notice from the Borrower to the Administrative Agent, the Borrower may prepay all, or any portion of the outstanding principal amount of the Loan without premium or penalty; provided, however, that no partial prepayment of the Loan shall be for less than \*\*of principal. If the Borrower elects to prepay the Loan in whole or in part, the Borrower shall pay on the Prepayment Date to the Administrative Agent, for the account of the Lenders, the principal amount specified to be prepaid in the applicable notice of prepayment together with all accrued and unpaid interest thereon, \*\*, and all other amounts then due and payable under the Transaction Documents. \*\*

(ii) \*\*, in the event that the Borrower receives notice from any Lender of any costs that the Borrower is required to pay to such Lender pursuant to any of Sections 5.1, 5.2 or 5.3 and the Lender is not able to mitigate the relevant costs by changing its Lending Office pursuant to Section 1.10 below, then the Borrower shall have the right, exercisable upon not less than ten Business Days' prior notice to the applicable Lender (with a copy to the Administrative Agent), to prepay in full the Loan Amount held by such Lender, without premium or penalty. If the Borrower elects to make such a prepayment, then the Borrower shall pay the full Loan Amount held by the applicable Lender, together with accrued interest thereon, \*\*and any amounts due to such Lender pursuant to Sections 5.1, 5.2 and 5.3, as applicable. Any prepayment by the Borrower pursuant to this Section 1.1(c)(ii) shall be made by the Borrower directly to the applicable Lender, and no prepayment by the Borrower pursuant to this Section 1.1(c)(ii) shall have any effect on the Borrower's obligations with respect to the remaining outstanding balance of the Loan to any of the other Lenders hereunder. For the avoidance of doubt such prepayment may be made prior to the Designated Date and may be in an amount less than\*\*.

(d) \*\* In the event that, in accordance with Section 3.03 of the Mortgage, the Borrower is entitled to make, and elects to make, a prepayment of the Loan, then the principal amount of such prepayment, together with accrued interest thereon to the date of such prepayment, \*\*, shall be paid, without premium or penalty, by the Borrower to the Administrative Agent for the account of all Lenders. Any prepayment pursuant to this Section 1.1(d) shall be applied to principal\*\*. For the avoidance of doubt such prepayment may be made prior to the Designated Date and may be in an amount less than\*\*.

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(e) \*\* In the event that the Borrower makes the prepayment contemplated by this Section 1.1(e), then the schedule for the payment of the remaining outstanding principal balance of the Loan shall be as set forth in Part 2 of Schedule 2.

In order to raise the funds for such prepayment, the Borrower shall have the right (but not the obligation) to sell or finance to a third party\*\*; *provided*, that the foregoing shall not prohibit Borrower from using such \*\*following the sale thereof. For the avoidance of doubt, however, in connection with any Special Prepayment, (i) any and all sold Spare Parts may remain at Designated Locations so long as such Spare Parts are, promptly following the closing of the sale, segregated from the Pledged Spare Parts in the manner contemplated by the Mortgage with respect to Excluded Parts, and Borrower otherwise complies with its obligations under the Mortgage with respect to the remaining Collateral, and (ii) Borrower may not refinance the Loan in any transaction in which a lien on any portion of the Pledged Spare Parts (excluding the \*\*released from the Collateral as a result of the Special Prepayment) or other Collateral is granted to a party other than Collateral Agent, regardless of whether such other lien is senior or junior to the liens in favor of Collateral Agent. Upon receipt by the Administrative Agent of the full principal amount to be prepaid as contemplated by this Section 1.1(e), together with accrued interest\*\*, and without regard to the source of such funds used to make the Special Prepayment, then all of the Pledged Spare Parts that are \*\*shall be released from the Lien of the Mortgage and the Subordinated Parts Mortgage so long as the remaining Pledged Spare Parts, after giving effect to such release (and any cure pursuant to Section 3.03 of the Mortgage), will satisfy each of the Collateral Value Tests, in each case as measured as of the date when the \*\*are to be released, but based on the Current Market Value of such Pledged Spare Parts as of the most recent Valuation Date.

(f) *Pro Rata Treatment.* Except to the extent otherwise provided herein (including, but not limited to, as otherwise specified in Section 1.1(c)(ii) above): (a) the borrowing of the Loan from the Lenders under Section 1.2 shall be made from the Lenders pro rata according to the amounts of their respective Commitments; (b) each payment or prepayment of principal of the Loan shall be made for account of the Lenders pro rata in accordance with the respective unpaid principal amounts of the Loan held by them (as evidenced by the Notes held by them); and (c) each payment of interest on the Loan shall be made for account of the Lenders pro rata in accordance with the amounts of interest on the Loan then due and payable to the Lenders, but must in all respects comply with the terms of the Mortgage.

*Section 1.2. Making the Loan.*

(a) The Loan shall be requested by the delivery of a Notice of Borrowing by the Borrower to the Administrative Agent not later than 4:00 p.m. (New York City time) on the second Business Day prior to the Funding Date specified in such notice. The Administrative Agent shall give to each Lender prompt notice thereof. The Notice of Borrowing shall be irrevocable and binding on the Borrower. The Notice of Borrowing shall be in writing specifying therein (i) the aggregate amount of the Loan to be funded, and (ii) the proposed Funding Date. Each Lender shall, before 10:00 a.m. (New York City time) on the scheduled

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Funding Date, make available for the account of its Lending Office to the Administrative Agent's Account, in immediately available funds, the amount of its Commitment. After the Administrative Agent's receipt of such funds and upon fulfillment of the applicable conditions set forth in Article VI as confirmed during a closing conference call pursuant to which the Administrative Agent or its counsel shall indicate such fulfillment, the Administrative Agent shall transfer such funds to the escrow account\*\*.

(b) If for any reason a Closing is not consummated on the Funding Date set forth in the Notice of Borrowing, the Borrower may, by written notice to the Administrative Agent given by 5:00 p.m., New York City time on the scheduled Funding Date, designate a delayed Funding Date for such Closing, in which case the Administrative Agent shall hold the funds provided by the Lenders until such delayed Funding Date and use reasonable efforts to invest such funds in Permitted Investments, as directed by the Borrower, *provided*, that if such Closing does not occur by the third Business Day after such initial scheduled Funding Date, such funds shall be returned to the Lenders. The Administrative Agent shall pay to the Borrower upon its request any earnings from such investments, and the Borrower shall pay to the Administrative Agent upon its request any losses from such investments. If the Closing fails to occur on a scheduled or delayed Funding Date and the Borrower does not give notice of a delayed Funding Date pursuant to this Section, the Administrative Agent shall promptly return to the Lenders the amounts funded by them and the Borrower shall pay to the Lenders upon demand \*\*with respect to amounts funded plus, in the case of failure to close on a delayed Funding Date, interest from and including the initial scheduled Funding Date to but excluding the date on which such funds are returned by 1:00 p.m. (New York City time) (or, if returned after such time on such date, to but excluding the next Business Day), at a rate per annum equal to the relevant Interest Rate that would have been applicable thereto had the Closing occurred on the initial scheduled Funding Date. If the Borrower has designated a delayed Funding Date pursuant to this Section and the Closing occurs on such delayed Funding Date, the Loan shall begin to accrue interest at the relevant Interest Rate on the date that funds were originally provided by the Lenders to the Administrative Agent to make the Loan (which shall be deemed to be the commencement date of the initial Interest Period for the Loan); provided, however, if all conditions precedent specified in Article VI are satisfied in full on or before the initial scheduled Funding Date and the Closing does not occur on the initial scheduled Funding Date solely due to the failure of the Lenders to fund the Loan pursuant to their respective Commitments hereunder (but the Closing does occur later pursuant to this Section 1.2(b)), then the Loan shall begin to accrue interest only on the date that the Closing actually occurs (rather than from the initial scheduled Funding Date).

*Section 1.3. \*\**

*Section 1.4. Commitment Termination.* The Commitment of each Lender shall terminate on the earlier of (i) the making of the Loan pursuant to Section 1.2(a) above, or (ii) at 5:00 p.m. (New York time) on the Commitment Termination Date.

*Section 1.5. [Intentionally omitted.]*

*Section 1.6. [Intentionally omitted .].*

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*Section 1.7. Special Provisions Governing the Loan*. Notwithstanding any other provision of this Agreement to the contrary, the following provisions shall govern with respect to the Loans as to the matters covered:

(a) As soon as practicable after 11:00 a.m. (London time) on each Interest Rate Determination Date, the Administrative Agent shall determine the Interest Rate that shall apply to the Notes for the applicable Interest Period in accordance with Section 2.2 (which determination shall, absent manifest error, be conclusive and binding) and shall promptly give notice thereof (in writing or by telephone confirmed in writing) to the Borrower, the Collateral Agent and each Lender; *provided* that the Administrative Agent's failure to so give notice shall not relieve the Borrower of its obligation to pay interest on the Notes hereunder.

(b) *[Intentionally Omitted.]*

(c) In the event that on any date the making by any Lender of its Percentage Share of the Loan (if not yet funded) or the maintaining or continuation by any Lender of its outstanding Loan Amount has become unlawful as a result of compliance by such Lender in good faith with any change that becomes effective after the date hereof in any law, treaty, governmental rule, regulation, guideline or order (whether or not having the force of law), then, and in any such event, such Lender shall be an "*Affected Lender*" and it shall promptly so notify (by facsimile or by telephone confirmed in writing) the Borrower and the Administrative Agent (which notice the Administrative Agent shall promptly transmit to each other Lender). Thereafter (i) the obligation of the Affected Lender to make its Percentage Share of the Loan in accordance with its Commitment (if not yet funded) shall be suspended until such notice shall be withdrawn by the Affected Lender, (ii) the Affected Lender's obligation to maintain its outstanding Loan Amount as evidenced by its Notes (the "*Affected Loan Amount*") shall be suspended with respect to the Affected Loan Amount until such notice shall be withdrawn by the Affected Lender, and (iii) the parties shall follow the procedures set forth in Section 1.7(f) with respect to the Affected Loan Amount so long as, if following such procedures, the maintaining or continuation of such Affected Loan Amount or the balance of the Loan is not unlawful. Except as provided in the immediately preceding sentence, nothing in this Section 1.7(c) shall affect the obligation of any Lender other than an Affected Lender to make its Percentage Share of the Loan or maintain its Loan Amount as evidenced by its Notes in accordance with the terms of this Agreement.

(d) The Borrower shall\*\*, within ten (10) Business Days after written request by that Lender (which request shall set forth in reasonable detail the basis for requesting such amounts), \*\**(collectively,\*\*)* which that Lender may sustain: (i) except as provided in Section 1.2(b), if for any reason (other than a default by that Lender) a borrowing of the Loan does not occur on a date specified therefor in a Notice of Borrowing, (ii) as a consequence of any prepayment or other principal payment of the Loan or any portion thereof that occurs on a date other than the last day of an Interest Period, (iii) to the extent that any prepayment of the Loan or any portion thereof is not made on any date specified in a notice of prepayment given by the Borrower (including, without limitation, any notice of prepayment revoked by the Borrower), or (iv) as a consequence of any default by the Borrower in the repayment of the Loan when required by the terms of this Agreement.

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(e) In the case of any Lender, \*\*shall not exceed the excess, if any, of (A) the amount of interest which would have accrued on the principal amount of such Lender's Loan Amount (or in the case of an event described in subclause (i) of Section 1.7(c) above, such Lender's Percentage Share of the Loan) had such event not occurred, at \*\*that would have been applicable to the Loan, for the period from the date of such event to the last day of the then current Interest Period therefor\*\*, over (B) the interest that would have accrued on such amount during the \*\*at an interest rate equal to the \*\* (determined \*\*prior to the first day of the\*\*) with a maturity comparable to the \*\* (or, if no such rate exists for such period, \*\* (as determined by the Administrative Agent). A certificate of any Lender setting forth any amount or amounts that such Lender is entitled to receive pursuant to this Section shall be delivered to the Borrower and shall, absent manifest error, be conclusive and binding as to the amounts owed under this Section. The Borrower shall pay such Lender the amount shown as due on any such certificate within \*\*after receipt thereof.

(f) During the \*\*following the date of any notice given to the Borrower pursuant to Section 1.7(c) or 1.7(g), each Affected Lender (or, in the case of Section 1.7(g), each Lender) and the Borrower shall negotiate in good faith in order to arrive at a mutually acceptable alternative basis for determining the interest rate from time to time applicable to the Affected Loan Amount (or, in the case of Section 1.7(g), the Loan) (the "*Substitute Basis*"); such interest rate to be based on an agreed cost-of-funds benchmark plus the Applicable Margin. If within the \*\*following the date of any such notice to the Borrower, any Affected Lender (or, in the case of Section 1.7(g), any Lender) and the Borrower shall agree upon a Substitute Basis, such Substitute Basis shall be retroactive to and effective from the first day of the applicable Interest Periods until and including the last day of such Interest Periods. If after \*\*from the date of such notice, any Affected Lender (or, in the case of Section 1.7(g), any Lender) and the Borrower shall have failed to agree upon a Substitute Basis, then each such Affected Lender (or, in the case of Section 1.7(g), each such Lender) shall certify in writing to the Borrower through the Administrative Agent (such certification to be conclusive and binding on all of the parties hereto absent manifest error) the interest rate at which such Affected Lender (or, in the case of Section 1.7(g), such Lender) is prepared to make its Percentage Share of the Loan or maintain the Affected Loan Amount (or, in the case of Section 1.7(g), its Loan Amount) for such Interest Periods, it being understood that such Lender's interest rate shall be at a rate per annum equal to a rate which adequately and fairly reflects the cost to such Lender of obtaining the funds necessary to fund its Percentage Share of the Loan or to maintain its Loan Amount and that such interest rate will be retroactive to and effective from the first day of such Interest Period. If no Substitute Basis is established, upon receipt of notice of the interest rates at which an Affected Lender (or, in the case of Section 1.7(g), a Lender) is prepared to make its Percentage Share of the Loan or maintain the Affected Loan Amount (or, in the case of Section 1.7(g), its Loan Amount); it being understood that such Lender's interest rate shall be at a rate per annum equal to a rate which adequately and fairly reflects the cost to such Lender of obtaining the funds necessary to fund its Percentage Share of the Loan or to maintain its Loan Amount), the Borrower shall have the right exercisable upon ten Business Days' prior notice to such Affected Lender (or such Lender) through the Administrative Agent (A) to continue to borrow the relevant Loan Amount at the interest rates so advised by such Affected Lender (or such Lender) (as such rates may be modified, from time to time, at the outset of each subsequent Interest Period) or (B) to, notwithstanding anything to the contrary in Section 1.1(c)(i), prepay (including, prior to the

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Designated Date), without premium or penalty, in full the affected Loan Amount of any such Affected Lender (or any such Lender), together with accrued interest thereon at the interest rate certified in writing by such Affected Lender (or such Lender) as provided above and any \*\* (provided that \*\* shall not include amounts attributable to an Affected Lender's (or in the case of Section 1.7(g), a Lender's) funding commitment of greater than three months), whereupon such affected Loan Amount shall become due and payable on the date specified by the Borrower in such notice.

(g) In the event that on any Interest Rate Determination Date, by reason of circumstances affecting\*\*, (i) the Administrative Agent determines that adequate and fair means do not exist for ascertaining the interest rate applicable to the Loan on the basis provided for in the definition of\*\*, or (ii) the Required Lenders notify the Administrative Agent that the \*\* for the applicable Interest Period determined as of such Interest Rate Determination Date will not adequately reflect the cost to the Lenders of making or maintaining the Loan for such Interest Period, the Administrative Agent shall on such date give notice (by facsimile or by telephone confirmed in writing) to the Borrower and each Lender of such circumstance, whereupon the relevant provisions of Section 1.7(f) shall be applicable.

*Section 1.8. Payments and Computations.*

(a) The Borrower shall make each payment hereunder and under the Notes not later than 12:30 p.m. (New York City time) on the day when due in Dollars to the Administrative Agent's Account in immediately available funds, without set-off or counterclaim (except for any required withholding taxes not subject to indemnification hereunder). Any amounts received after such time may, in the discretion of the Administrative Agent, be deemed to have been received on the next succeeding Business Day for the purpose of calculating interest thereon. The Administrative Agent will promptly thereafter but in no event later than 2:00 p.m. (New York City time) on the date such funds are received by the Administrative Agent from the Borrower cause to be distributed like funds to the Lenders for the account of their respective Lending Offices, in each case to be applied in accordance with the terms of this Agreement. If the payment by the Borrower is received by the Administrative Agent after 12:30 p.m., New York time, at the place of payment, the Administrative Agent shall make payment promptly, but not later than 2:00 p.m. New York time on the next succeeding Business Day. Upon its acceptance of any Transfer Supplement and recording of the information contained therein in the Register pursuant to Section 9.8(d), from and after the effective date specified in such Transfer Supplement, the Administrative Agent shall make all payments hereunder and under the Notes in respect of the interest assigned thereby to the Lender assignee thereunder.

(b) Whenever any payment hereunder or under the Notes shall be stated to be due on a day other than a Business Day, such payment shall be made on the next succeeding Business Day, and such extension of time shall in such case be included in the computation of payment of interest or other amounts as the case may be; *provided, however*, that, if such extension would cause payment of interest on or principal of a Loan to be made in the next following calendar month, such payment shall be made on the next preceding Business Day, and such reduction of time shall be given effect in the computation of the payment of interest hereunder.

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*Section 1.9. Sharing of Payments, Etc.* If any Lender shall obtain any payment (whether voluntary, involuntary, through the exercise of any right of set-off, or otherwise) on account of the Loan owing to it in excess of its \*\*of payments on account of the Obligations, such Lender shall forthwith purchase from the other Lenders such participation in the applicable Obligations as shall be necessary to cause such purchasing Lender to \*\*with each of them; *provided, however,* that if all or any portion of such excess payment is thereafter recovered from such purchasing Lender, such purchase from each Lender shall be rescinded and such Lender shall repay to the purchasing Lender the purchase price to the extent of such recovery together with an amount equal to such \*\* (according to the \*\* of (i) the amount of such Lender's required repayment to (ii) the total amount so recovered from the purchasing Lender) of any interest or other amount paid or payable by the purchasing Lender in respect of the total amount so recovered. The Borrower agrees that any Lender so purchasing a participation from another Lender pursuant to this Section 1.9 may, to the fullest extent permitted by law, exercise all its rights of payment (including the right of set-off) with respect to such participation as fully as if such Lender were the direct creditor of the Borrower in the amount of such participation.

*Section 1.10. Obligation of Lenders to Mitigate.* If an event or the existence of a condition occurs that would cause any Lender to become an Affected Lender or that would entitle such Lender to receive payments under Section 5.1, 5.2 or 5.3, then, upon the request of the Borrower, such Lender will to the extent not inconsistent with any applicable legal or regulatory restrictions, use reasonable efforts to make, fund or maintain the Commitment of such Lender or the Loan Amount of such Lender through another lending office of such Lender, if as a result thereof the circumstances which would cause such Lender to be an Affected Lender would cease to exist or the additional amounts which would otherwise be required to be paid to such Lender pursuant to Sections 5.1, 5.2 and 5.3 would be reduced and if the making, funding or maintaining of such Commitment or Loan Amount through such other lending office or in accordance with such other measures, as the case may be, would not otherwise materially adversely affect such Commitment or Loan Amount or the interests of such Lender; *provided* that such Lender will not be obligated to utilize such other lending office in respect of the Loans pursuant to this Section 1.10 unless the Borrower agrees to pay all incremental expenses, if any, incurred by such Lender as a result of utilizing such other lending office as described above; *provided, further,* that such Lender shall have no obligation to designate another lending office that does not maintain loans comparable to the Loan. A certificate as to the amount of any such expenses (setting forth in reasonable detail the basis for requesting such amount and the calculation thereof) submitted by such Lender to the Borrower (with a copy to the Collateral Agent) shall, absent manifest error, be conclusive and binding as to the amount of such expenses.

## **Article II Interest**

*Section 2.1. \*\**

(a) Subject to Section 1.7 hereof, each Note shall bear interest on the unpaid principal amount thereof for each Interest Period from the date made through maturity (whether by acceleration or otherwise) at a rate equal\*\*. The applicable Interest Period for determining the

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Interest Rate with respect to each Note or portion thereof shall be established in accordance with Section 2.2.

(b) The\*\*:

*Section 2.2. Interest Periods.*

(a) *Interest Periods.* The first Interest Period shall be the period commencing on the Funding Date ( provided, that in the case of a delayed Funding Date, the date the funds for such Note are made available to the Administrative Agent shall be the commencement date of such Interest Period pursuant to Section 1.2(b)), and shall end on, but shall exclude, the next Interest Payment Date, and thereafter each successive Interest Period shall commence on (and shall include) the last day of the next preceding Interest Period and shall end on (but shall exclude) the next succeeding Interest Payment Date, *provided however* that notwithstanding anything in this Agreement to the contrary, the final Interest Period shall end on the Maturity Date.

(b) *Expiration of Interest Periods.* If an Interest Period would otherwise expire on a day that is not a Business Day, such Interest Period shall expire on the next succeeding Business Day; *provided* that, if any Interest Period would otherwise expire on a day that is not a Business Day but is a day of the month after which no further Business Day occurs in such month, such Interest Period shall expire on the next preceding Business Day.

*Section 2.3. Interest Payments.* Accrued interest on each Note shall be \*\*of each Interest Period; provided, that (i) interest accrued pursuant to Section 2.4 shall be payable on demand and (ii) in the event of any repayment or prepayment of any Note (or any portion thereof), accrued interest on the principal amount repaid or prepaid shall be payable on the date of such repayment or prepayment.

*Section 2.4.* \*\* Notwithstanding Section 2.1, the Borrower shall pay the Administrative Agent for the account of the Lenders and the Transaction Agents on demand interest on any principal, interest, fee or other amount not paid hereunder, under any Note or under any other Transaction Document when due at a rate per annum that is\*\*.

*Section 2.5. Computation of Interest.* Interest on the Notes shall be computed on the basis of a \*\*in the period during which such amount accrues. In computing such amounts, the first day of the applicable period shall be included, and the last day of the applicable period shall be excluded; *provided* that if a Note (or any portion thereof) is repaid on the same day on which it is made, one day's interest shall be paid on that Note or the relevant portion thereof.

*Section 2.6. Maximum Rate.* Notwithstanding anything herein to the contrary, if at any time the interest rate applicable to any Note, together with all fees, charges and other amounts which are treated as interest on such Note under applicable law (collectively the “ Charges”), shall exceed the maximum lawful rate (the “Maximum Rate”) which may be contracted for, charged, taken, received or reserved by the Lender holding the Loan or the relevant portion

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thereof in accordance with applicable law, the rate of interest payable in respect of such Note or the relevant portion thereof hereunder, together with all Charges payable in respect thereof, shall be limited to the Maximum Rate and, to the extent lawful, the interest and Charges that would have been payable in respect of such Note or the relevant portion thereof but were not payable as a result of the operation of this Section shall be cumulated and the interest and Charges payable to such Lender in respect of other periods shall be increased (but not above the Maximum Rate therefor) until such cumulated amount, together with interest thereon at \*\*to the date of repayment, shall have been received by such Lender.

### **Article III Representations and Warranties**

*Section 3.1. Representations and Warranties.* The Borrower represents and warrants to the Transaction Agents and each Lender as of the date of this Agreement and as of the Funding Date that:

(a) *Organization; Powers.* The Borrower is duly incorporated, validly existing and in good standing under the laws of Delaware, has all requisite corporate power and authority to carry on its business as now conducted and, except where the failure to do so, individually or in the aggregate, would not have a Material Adverse Effect, is qualified to do business in, and is in good standing in, every jurisdiction where such qualification is required.

(b) *Authorization; Enforceability.* The execution and delivery of the Transaction Documents by the Borrower and the performance by the Borrower of its obligations thereunder (i) are within the Borrower's corporate powers, (ii) have been duly authorized by all necessary corporate action of Borrower, (iii) do not require any stockholder approval except such as have been duly obtained, and (iv) do not require any approval or consent of any trustee or holder of indebtedness or obligations of the Borrower (except for any approval or consent (A) as have been duly obtained or (B) under any indenture, mortgage, chattel mortgage, deed of trust, conditional sales contract, lease, loan or other material agreement, instrument or document to which the Borrower is a party or by which the Borrower or any of its properties is bound that the failure to obtain would not have a Material Adverse Effect). This Agreement has been duly executed and delivered by the Borrower and the other Transaction Documents will be duly executed and delivered by the Borrower when required by this Agreement. This Agreement constitutes, and each of the other Transaction Documents when executed and delivered by the Borrower will constitute, a legal, valid and binding obligation of the Borrower, enforceable against the Borrower in accordance with its terms, subject to applicable bankruptcy, insolvency, reorganization, moratorium or other similar laws affecting creditors' rights generally and subject to general principles of equity, regardless of whether considered in a proceeding in equity or at law.

(c) *No Violation.* The execution and delivery by the Borrower of the Transaction Documents and the performance by the Borrower of its obligations thereunder do not and will not (i) violate any provision of the Certificate of Incorporation or By-Laws of the Borrower, (ii) violate any law applicable to or binding on the Borrower or (iii) after giving effect to the Release and the Term Loan Agreement Amendment, violate or constitute any default under

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(other than any violation or default that would not have a Material Adverse Effect), or result in the creation of any Lien (other than as permitted under the Mortgage) upon any Pledged Spare Part under, any indenture, mortgage, chattel mortgage, deed of trust, conditional sales contract, lease, loan or other material agreement, instrument or document to which the Borrower is party or by which the Borrower or any of its properties is bound.

(d) *Governmental Approvals.* The execution and delivery by the Borrower of the Transaction Documents and the performance by the Borrower of its obligations thereunder do not and will not require the consent or approval of, or the giving of notice to, or the registration with, or the recording or filing of any documents with, or the taking of any other action in respect of, any Governmental Authority, other than (i) the filings, recordings, notices and other ministerial actions pursuant to any routine recording, and contractual or regulatory requirements applicable to it, each of which has been effected or obtained, (ii) the filing of UCC financing statements and the FAA Filed Documents and (iii) the filings described in Section 3.2(b).

(e) *Litigation.* Except as set forth in the Borrower's Annual Report on Form 10-K for 2007 (as amended through the Funding Date), or in any Quarterly Report on Form 10-Q or Current Report on Form 8-K filed by the Borrower with the SEC subsequent to such Form 10-K (in each case as amended through the Funding Date), no action, claim or proceeding is now pending or, to the Actual Knowledge of the Borrower, threatened against the Borrower before any court, governmental body, arbitration board, tribunal or administrative agency, which is reasonably likely to be determined adversely to the Borrower and if determined adversely to the Borrower would have a Material Adverse Effect.

(f) *Financial Condition.* The audited consolidated balance sheet of the Borrower with respect to its most recent fiscal year included in its Annual Report on Form 10-K for 2007 (as amended through the Funding Date) filed by the Borrower with the SEC, and the related consolidated statements of operations and cash flows for the year then ended have been prepared in accordance with GAAP and fairly present in all material respects the financial condition of the Borrower and its consolidated subsidiaries as of such date and the results of its operations and cash flows for such period, and since the date of such balance sheet there has been no Material Adverse Change in such financial condition or operations of the Borrower, except for matters disclosed in (a) the financial statements referred to above or (b) any subsequent Quarterly Report on Form 10-Q or Current Report on Form 8-K filed by the Borrower with the SEC (in each case as amended through the Funding Date). The consolidated balance sheet of the Borrower as of June 30, 2008 included in its Quarterly Report on Form 10-Q for the period ended June 30, 2008, and the related consolidated statement of operations and cash flows for the three months then ended have been prepared in accordance with GAAP (subject to normal year-end adjustments and the absence of footnotes) and fairly present in all material respects the financial condition of the Borrower and its consolidated subsidiaries as of such date and the results of its operations and cash flows for such period.

(g) *No Default.* No Event of Default or Potential Default has occurred and is continuing.

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(h) *Investment Company Status.* The Borrower is not an “investment company” as defined in, or subject to regulation under, the Investment Company Act of 1940.

(i) *Use of Proceeds.* No part of the proceeds of the Loan will be used by Borrower, whether directly or indirectly, for any purpose that entails a violation of Regulations U or X of the Board of Governors of the Federal Reserve System.

(j) *Licenses, Permits, etc.* The Borrower is a Certificated Air Carrier and holds all licenses, permits and franchises from the appropriate Governmental Authorities necessary to authorize the Borrower to lawfully engage in air transportation and to carry on scheduled commercial passenger service as currently conducted, except where the failure to so hold any such license, permit or franchise would not have a Material Adverse Effect.

(k) *Compliance with Laws.* Each of the Borrower and its Subsidiaries is in compliance with all laws, regulations and orders of any governmental or regulatory authority or agency applicable to it or its property, except where the failure to do so, individually or in the aggregate, could not reasonably be expected to have a Material Adverse Effect.

(l) *Tax Returns.* The Borrower and its Subsidiaries have timely filed all Federal income tax returns and all other material tax returns that are required to be filed by them and have paid all Taxes that are material in amount shown to be due pursuant to such returns or pursuant to any assessment received by the Borrower or any of its Subsidiaries, other than any such assessment that is being contested in good faith through appropriate proceedings and against which adequate reserves are being maintained and the nonpayment of which (individually or in the aggregate) could not reasonably be expected to cause a material impairment of the ability of the Borrower to perform, or the Transaction Agents or the Lenders to enforce, the obligations of the Borrower under the Transaction Documents. The charges, accruals and reserves on the books of the Borrower and its Subsidiaries in respect of taxes and other governmental charges are, in the opinion of the Borrower, adequate.

(m) *Information.* Each of the Borrower’s Annual Report on Form 10-K for 2007 filed with the SEC, the Borrower’s Quarterly Reports on Form 10-Q and Current Reports on Form 8-K subsequently filed by the Borrower with the SEC, as of the date it was filed with the SEC (or, if such report has been amended, in each case as amended through the Funding Date) did not contain any untrue statement of material fact or omit to state any material fact necessary to make the statements therein, in light of the circumstances under which they were made, not materially misleading.

(n) *ERISA.*

(i) Schedule 4 lists each Plan and each Multiemployer Plan maintained or contributed to, or required to be contributed to, by the Borrower or any of its ERISA Affiliates. Each Plan has been operated and administered in compliance with all applicable requirements of ERISA, and, if intended to qualify under Section 401(a) or 403(a) of the Internal Revenue Code, in compliance with all applicable requirements of such provisions except where the failure to do so could not reasonably be expected to have, taking all instances in the aggregate, a Material Adverse Effect.

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(ii) Full payment has been made by the Borrower or any of its ERISA Affiliates of all minimum amounts that such entities are required to pay under the terms of each Plan and Multiemployer Plan except where the failure to so comply, taking all instances in the aggregate, could not reasonably be expected to have a Material Adverse Effect.

(iii) No ERISA Event has occurred or is reasonably expected to occur that, when taken together with all other ERISA Events for which liability is reasonably expected to occur, could reasonably be expected to have a Material Adverse Effect.

(iv) Neither the Borrower nor any of its ERISA Affiliates maintains or contributes to any employee welfare benefit plan (as defined in Section 3(1) of ERISA) that provides benefits to retired employees or other former employees (other than as required by Section 601 of ERISA) or any employee pension benefit plan (as defined in Section 3(2) of ERISA), other than a Plan the obligations with respect to which, when taken together with the projected contributions thereto reflected in the projections and pro forma financial information previously delivered to Lenders, could not reasonably be expected to have a Material Adverse Effect.

(v) No Plan maintained by the Borrower or any ERISA Affiliate is underfunded (based on the present value of all accumulated benefit obligations thereunder) except to the extent that the aggregate amount of underfunding with respect to all such plans, when taken together with the projected contributions thereto reflected in the projections and pro forma financial information previously delivered Lenders, could not reasonably be expected to have a Material Adverse Effect.

(vi) Neither the Borrower nor any of its ERISA Affiliates has any liability (including contingent liability) with respect to any employee benefit plan (as defined in Section 3(3) of ERISA) that is subject to Title IV of ERISA other than the Plans and Multiemployer Plans.

*Section 3.2. The Pledged Spare Parts.* The Borrower represents and warrants to the Transaction Agents and each Lender, as of the date of this Agreement and as of the Funding Date, that:

(a) *Good Title.* (1) The Borrower has **\*\*the Pledged Spare Parts,\*\*** and the Liens to be released by the Release and the UCC Release; and (2**\*\*** (as defined in the Mortgage), without giving effect to any waiver of any of the requirements for **\*\*in the Mortgage,** in order for the Borrower to achieve compliance with each of the**\*\***) based on the **\*\*included therein,** without any need on the part of the Borrower to**\*\***.

(b) *Filings.* Except for (i) the filing for recordation (and recordation) with the FAA of the FAA Filed Documents with respect to the Pledged Spare Parts located at the Designated Locations, and (ii) the filing of the Financing Statements (and continuation statements relating thereto at periodic intervals) with the Secretary of State of the State of Delaware (UCC Division) with respect to the Collateral, no further action, including any filing or recording of any

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document (including any financing statement in respect thereof under Article 9 of the UCC) is necessary in order to establish and perfect the Collateral Agent's interest in the Collateral created under the Mortgage as against the Borrower and any other Person, in each case in any applicable jurisdiction in the United States.

(c) [Intentionally omitted.]

(d) \*\*The Borrower has a reasonable belief, based on its review and analysis of the information available to it, that (i) as of the Funding Date, \*\*the \*\*included within the \*\* (by value, determined on the basis of \*\*as of the Funding Date)\*\* , and (ii) Collateral Agent is entitled to the benefits of \*\*of the \*\* (by value, determined on the basis of Current Market Value as of the Funding Date) of the Pledged Spare Parts as provided in the Mortgage in the event of a case under Chapter 11 of the Bankruptcy Code in which Borrower is a debtor.

(e) *Condition.* All Pledged Spare Parts are \*\*of Borrower relating to such Pledged Spare Parts, and no appliances, parts, interests, appurtenances, accessories or other equipment of whatever nature which are incorporated or installed in or attached to such Pledged Spare Parts are\*\*.

(f) *Location, Identification and Release of Pledged Spare Parts.* All of the Pledged Spare Parts are or will (upon becoming subject to the Lien of the Mortgage) be maintained by or on behalf of the Borrower at the Designated Locations, subject to Section 3.02 of the Mortgage.

(g) \*\* The Borrower confirms that (i) the only \*\*currently used by the Borrower to track the location, use and maintenance status of its spare parts is the \*\* (as defined in the Mortgage), (ii) each of its license agreements with respect to the\*\* , and (iii) Borrower has full title and rights of use, including the right to grant a security interest, over \*\*

(h) [Reserved]

(i) *Spare Parts.* It is the intention of the parties to this Agreement that all Pledged Spare Parts be "spare parts" as defined in Section 40102(a)(43) of Title 49 of the United States Code. The Borrower represents that it maintains the Pledged Spare Parts for the purpose of installing the spare parts on aircraft, aircraft engines or appliances as defined in Sections 40102(a)(6), (7) and (11) of Title 49 of the United States Code.

(j) *Certain Matters Concerning Affiliates.* (i) The only Affiliates of the Borrower engaged in the business of operating aircraft, whether for scheduled passenger service, charter service or freight service, are Piedmont Airlines, Inc. and PSA Airlines, Inc., (ii) none of the Borrower's Affiliates operate\*\*, and (iii) Schedule 5 to this Agreement identifies substantially all of the Rotables and Key Repairables included within the Pledged Spare Parts that are\*\* with any of the Rotables and Key Repairables that are owned by or maintained on behalf of any of the Borrower's Affiliates, including, but not limited to the entities named in subclause (i), and such Rotables and Key Repairables comprise \*\* of the total Rotables and Key Repairables by part number included within the Pledged Spare Parts.

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*Section 3.3 Representations and Warranties of the Lenders.* Each Lender represents and warrants that:

(a) *Accredited Investor.* It is an accredited investor (as such term is defined in Rule 501 under the Securities Act of 1933, as amended);

(b) *Investment Intent.* It is acquiring its interest in a Note, and any interest in and to the Collateral, for its own account for investment and not with a view to resale or distribution (subject, however, to the disposition of its property being at all times within its control);

(c) *ERISA.* Either (i) no part of the funds used by it to acquire its Notes constitute the assets of (x) any employee benefit plan (as defined in section 3(3) of ERISA) that is subject to part 4 of Title I of ERISA or Section 4975 of the Code and with respect to which the Borrower or any of its ERISA Affiliates is the plan sponsor or is obligated to make contributions or (y) any entity, the assets of which would be treated as assets of any such plan pursuant to Department of Labor Regulation 29 C.F.R. §2510.3-101, as modified by Section 3(42) of ERISA; or (ii) the use of such assets would not cause or give rise to a non-exempt prohibited transaction under part 4 of Title I of ERISA or Section 4975 of the Code; and

(d) *No Offering.* Neither it nor anyone acting on its behalf has directly or indirectly offered its Notes or any interest therein or any interest in and to the Collateral, for sale to, or solicited any offer to acquire any of the same from, the public or in any manner that would violate, or require the registration of the issuance and sale of, such Notes or any interest therein, or any transaction contemplated hereby, under the Securities Act of 1933, as amended, the Trust Indenture Act of 1939, as amended, or applicable state securities laws, or that might subject the Borrower to regulation under, require Borrower to give notice to, or register with or take any other action in respect of, any foreign governmental authority or agency.

#### **Article IV Covenants**

*Section 4.1. Covenants of the Borrower.* The Borrower shall comply with the following covenants and agreements, unless the Required Lenders shall otherwise consent:

(a) *Financial Statements and Other Information.* The Borrower will furnish to the Transaction Agents and each Lender:

(i) within one hundred twenty (120) days after the end of each fiscal year of the Borrower, a copy of the Form 10-K (excluding exhibits) filed by the Borrower with the SEC for such fiscal year (or in lieu of such copy an e-mail notice that such report has been filed with the SEC and providing a web site address at which such report may be accessed, provided that such e-mail notice will satisfy this requirement only if such report is in fact accessible at such web site address), or, if no such Form 10-K was so filed, its audited consolidated balance sheet and related statements of operations, stockholders' equity and cash flows as of the end of and for such year, setting forth in each case in comparative

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form the figures for the previous fiscal year, all reported on by the Borrower's independent public accountants of recognized national standing to the effect that such consolidated financial statements present fairly in all material respects the consolidated financial condition and results of operations of the Borrower and its Subsidiaries on a consolidated basis in accordance with GAAP;

(ii) within sixty (60) days after the end of each of the first three fiscal quarters of each fiscal year of the Borrower, a copy of the Form 10-Q (excluding exhibits) filed by the Borrower with the SEC for such quarterly period (or in lieu of such copy an e-mail notice that such report has been filed with the SEC and providing a web site address at which such report may be accessed, provided that such e-mail notice will satisfy this requirement only if such report is in fact accessible at such web site address), or if no such Form 10-Q was so filed, its consolidated balance sheet and related statements of operations and cash flows as of the end of and for such fiscal quarter (in the case of the statement of operations) and the then elapsed portion of the fiscal year, setting forth in each case in comparative form the figures for the corresponding period or periods of (or, in the case of the balance sheet, as of the end of) the previous fiscal year, prepared in accordance with GAAP, subject to normal year-end audit adjustments and the absence of footnotes;

(iii) concurrently with any delivery of financial statements under clause (i) above, an\*\*;

(iv) promptly following any request therefor, such other nonconfidential information regarding the Pledged Spare Parts, the operations, business affairs and financial condition of the Borrower or any Subsidiary, or compliance with the terms of the Transaction Documents, as any Transaction Agent or Lender may reasonably request, including, without limitation, such documents and other evidence as is reasonably requested by the Administrative Agent (for itself or on behalf of any Lender or any bona fide prospective Lender) in order for the Administrative Agent, such Lender or any bona fide prospective Lender to carry out and be satisfied with the results of all necessary "Know Your Customer" or other checks in relation to the Borrower or any of its Subsidiaries that it is required to carry out in connection with the transactions contemplated by the Transactions Documents;

(v) ERISA Reports: upon the request of the Collateral Agent or any Lender, copies of the most recent annual reports or other reports (including Schedule B thereto), returns (IRS Form 5500), audited or unaudited financial statements, and actuarial valuations with respect to each Plan; and

(vi) ERISA Event: promptly after the occurrence of any ERISA Event that (x) could reasonably be expected to have a Material Adverse Effect or (y) that relates to the occurrence or existence of an event or condition that could

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reasonably be expected to have a Material Adverse Effect, notice of such ERISA Event.

(b) *Existence; Conduct of Business.* The Borrower will, and will cause each of its Subsidiaries to:

(i) do or cause to be done all things necessary to preserve and maintain its legal existence; *provided* that the foregoing shall not prohibit any merger, consolidation, liquidation or dissolution permitted under Section 4.1(c); *provided further* that this Section 4.1(b)(i) shall apply to the Subsidiaries of Borrower, if any, only to the extent that the dissolution, termination or other loss of legal existence of such Subsidiaries would reasonably be expected to (either individually or in the aggregate) cause a material impairment of the ability of the Borrower to perform, or the Transaction Agents or the Lenders to enforce, the obligations of the Borrower under the Transaction Documents.

(ii) comply with the requirements of all applicable laws, rules, regulations and orders of governmental or regulatory authorities if failure to comply with such requirements would reasonably be expected to (either individually or in the aggregate) cause a material impairment of the ability of the Borrower to perform, or the Transaction Agents or the Lenders to enforce, the obligations of the Borrower under the Transaction Documents;

(iii) pay and discharge all Taxes imposed on it or on its income or profits or on any of its property prior to the date on which penalties attach thereto, except for any such Tax the payment of which is being contested in good faith and by proper proceedings and against which adequate reserves are being maintained, and the nonpayment of which (either individually or in the aggregate) could not reasonably be expected to cause a material impairment of the ability of the Borrower to perform, or the Transaction Agents or the Lenders to enforce, the obligations of the Borrower under the Transaction Documents; and

(iv) permit representatives of the Transaction Agents, during normal business hours and on reasonable notice, to discuss its business and affairs with its officers, all to the extent reasonably requested by the Transaction Agents; *provided*, however, that this Section 4.1(b)(iv) shall apply to Subsidiaries of Borrower, if any, only to the extent that an adverse circumstance with respect to the business and affairs of such Subsidiaries would reasonably be expected to cause a material impairment of the ability of the Borrower to perform or the Transaction Agents or the Lenders to enforce, the obligations of the Borrower under the Transaction Documents.

(c) *Mergers and Consolidations.* The Borrower will not consolidate with or merge into any other Person or convey, transfer or lease all or substantially all of its assets as an entirety to any Person unless:

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(i) \*\*

(ii) \*\*to the Collateral Agent a duly authorized, valid, binding and enforceable agreement in form and substance reasonably satisfactory to the Collateral Agent containing \*\*by such Person of the \*\*by the Borrower;

(iii) immediately after giving effect to such transaction, no Event of Default shall have occurred and be continuing;

(iv) all filings shall have been made as shall be necessary to preserve the perfection of (A) the Lien of the Mortgage on the Pledged Spare Parts on a\*\* (subject to Permitted Liens) and (B) the Lien of the Subordinated Parts Mortgage on Pledged Spare Parts on a second priority and perfected basis (subject to Permitted Liens); and

(v) promptly after the consummation of such transaction, the Borrower shall deliver to the Collateral Agent a certificate of the Secretary or an Assistant Secretary of Borrower certifying as to Borrower's compliance with the conditions of this Section 4.1(c) and an opinion of counsel (which may be issued by Borrower's Legal Department) as to Borrower's compliance with Sections 4.1(c)(i), 4.1(c)(ii) and 4.1(c)(iv).

Upon any consolidation or merger, or any conveyance, transfer or lease of all or substantially all of the assets of the Borrower as an entirety in accordance with this Section 4.1(c), the Person formed by such consolidation or into which the Borrower is merged or to which such conveyance, transfer or lease is made shall succeed to, and be substituted for, and may exercise every right and power of, the Borrower under this Agreement and the other Transaction Documents with the same effect as if such Person had been named as the Borrower herein. No such \*\*as an entirety shall have the effect of \*\*the Borrower or any Person which shall theretofore have become such in the manner prescribed in this Section 4.1(c) from the Borrower's liability in respect of any Transaction Document to which it is a party.

(d) *Delivery of Post-Recording FAA Opinion.* Promptly upon recordation of the Mortgage, the Subordinated Parts Mortgage, and each Supplemental Mortgage covering the Pledged Spare Parts and Designated Locations pursuant to the Act, the Borrower will cause FAA Counsel to deliver to the Collateral Agent and the Borrower a favorable opinion addressed to each of them as to such recordation and the lack of filing of any intervening documents creating a Lien with respect to such Pledged Spare Parts.

(e) *Software.* The Borrower hereby agrees that (i) it shall \*\*at all times prior to the Maturity Date of the Loan, (ii) upon written request by the Collateral Agent at any time following the occurrence of an Event of Default, Borrower shall use the \*\*and provide the resulting output regarding the Pledged Spare Parts to the Collateral Agent or such other person as the Collateral Agent may instruct, or to the Independent Appraiser or such other party as the Collateral Agent may instruct, \*\*

(f) *Compliance with Mortgage.* The Borrower will comply with the terms and provisions of the Mortgage.

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(g) *ERISA*. The Borrower will ensure that the Plans with respect to which the Borrower has any liability are operated in compliance with all applicable laws, except to the extent that the failure to do so could not reasonably be expected to have a Material Adverse Effect.

(h) *Minimum Unrestricted Cash Amount*. The Borrower shall not, \*\* permit the aggregate amount of Unrestricted Cash held by the Borrower to be less than Seven Hundred Fifty Million Dollars (\$750,000,000) (the “Minimum Unrestricted Cash Amount”).

(i) *Records*. The Borrower shall maintain its principal records with respect to the Pledged Spare Parts at Borrower facilities located \*\*and \*\*

**Article V**  
**Increased Costs; General Indemnity**

*Section 5.1. Increased Costs*. The Borrower \*\*

*Section 5.2. Capital Adequacy*. If (1) the adoption, after the date hereof, of any applicable governmental law, rule or regulation regarding capital adequacy, (2) any change, after the date hereof, in the interpretation or administration of any such law, rule or regulation by any central bank or other Governmental Authority charged with the interpretation or administration thereof or (3) compliance by a Lender or any corporation or bank controlling a Lender with any applicable guideline or request of general applicability, issued after the date hereof, by any central bank or other Governmental Authority (whether or not having the force of law) that constitutes a change of the nature described in clause (2) (“Capital Adequacy Change”), has the effect of \*\*.

*Section 5.3. Withholding of Taxes*.

(a) *Payments to Be Free and Clear*. All sums payable by the Borrower under this Agreement and the other Transaction Documents to each Lender and each Transaction Agent shall (except to the extent required by law)\*\*.

(c) *Evidence of Exemption from U.S. Withholding Tax*.

(i) Each Lender that is organized under the laws of any jurisdiction other than the United States or any state or other political subdivision thereof shall, to the extent it is entitled to do so, deliver to the Collateral Agent for transmission to the Borrower, at or prior to the Closing (in the case of each Lender listed on the signature pages hereof) or on or prior to the date of the Transfer Supplement pursuant to which it becomes a Lender (in the case of each other Lender), (x) two original copies of Internal Revenue Service Form W-8BEN or W-8ECI (or any successor forms), properly completed and duly executed by such Lender, together with any other certificate or statement of exemption

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required under the Internal Revenue Code or the regulations issued thereunder to establish that such Lender is entitled to an exemption or reduction in the amount of United States federal income tax required to be deducted or withheld from any payments to such Lender of interest, fees or other amounts payable under any of the Transaction Documents or (y) if such Lender is not a “bank” or other Person described in Section 881(c)(3) of the Internal Revenue Code and cannot deliver either Internal Revenue Service Form W-8BEN claiming exemption under a treaty or W-8ECI, pursuant to clause (x) above, a Certificate re Non-Bank Status together with two original copies of Internal Revenue Service Form W-8BEN (or any successor form), properly completed and duly executed by such Lender, together with any other certificate or statement of exemption required under the Internal Revenue Code or the regulations issued thereunder to establish that such Lender is entitled to an exemption or reduction in the amount of United States federal income tax required to be withheld from payments to such Lender of interest payable under any of the Transaction Documents.

Each Lender that is organized under the laws of the United States or any state or other political subdivision thereof shall deliver to the Collateral Agent for transmission to the Borrower, at or prior to the Closing (in the case of each Lender listed on the signature pages hereof) or on or prior to the date of the Transfer Supplement pursuant to which it becomes a Lender (in the case of each other Lender), two original copies of Internal Revenue Service Form W-9 (or any successor form), properly completed and duly executed by such Lender, if requested by the Borrower in writing and required by the Internal Revenue Code or the regulations issued thereunder\*\*.

(ii) Each Lender required to deliver any forms, certificates or other evidence with respect to United States federal income tax withholding matters pursuant to Section 5.3(c)(i) hereby agrees, from time to time after the initial delivery by such Lender of such forms, certificates or other evidence, whenever a lapse in time or change in circumstances (other than, unless notified by the Borrower, a change in applicable United States law, including United States income tax conventions and treaties) renders such forms, certificates or other evidence obsolete or inaccurate in any material respect, that such Lender, to the extent it is entitled to do so, shall promptly (x) deliver to the Collateral Agent for transmission to the Borrower two new original copies of Internal Revenue Service Form W-8BEN or W-8ECI or W-9, or a Certificate re Non-Bank Status and two original copies of Internal Revenue Service Form W-8BEN, as the case may be, properly completed and duly executed by such Lender, together with any other certificate or statement of exemption required in order to confirm or establish that such Lender is entitled to an exemption or reduction in the amount of United States federal income tax required to be withheld from payments to such Lender under the Transaction Documents or (y) notify the Collateral Agent and the Borrower of its inability to deliver any such forms, certificates or other evidence in which case such Lender shall not be required to deliver any such form or certificate pursuant to this Section 5.3(c).

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(iii) \*\*

*Section 5.4. (a) Other Taxes.* In addition to the amounts described elsewhere in this Article V,\*\*

*(c) Non-Parties.* If a \*\* is not a party to this Agreement, the Borrower may require such Tax Indemnitee to agree in writing to the terms of Sections 5.3 and 5.4 prior to making any payment to such \*\* under Section 5.3 or 5.4.

*Section 5.5. Indemnity. (a) Indemnity Obligation.* The Borrower agrees to indemnify and hold harmless each Lender, the Collateral Agent, the Administrative Agent, and their respective successors, assigns, directors, officers, employees and agents (hereinafter in this Section 5.5 referred to individually as an “Indemnitee,” and collectively as “Indemnitees”)\*\* For purposes of subclause (i) above, an Indemnitee shall be considered a “related” Indemnitee with respect to another Indemnitee if such Indemnitee is an Affiliate or employer of such other Indemnitee or a director, officer, employee or agent of such other Indemnitee, or a successor or assignee of such other Indemnitee.

*(b) Indemnification Procedures.*

(i) Notice. In case any action, suit or proceeding shall be brought against any Indemnitee for which such Indemnitee will seek indemnification under Section 5.5(a), such Indemnitee shall notify the Borrower of the commencement thereof and the Borrower may, subject to the provisions of this Section 5.5, at its expense, participate in and to the extent that it shall wish (subject to the provisions of the following subsections), assume and control the defense thereof and, subject to Section 5.5(b)(iii), settle or compromise the same. Notwithstanding the foregoing, the failure of any Indemnitee to notify the Borrower as provided in this Section 5.5(b)(i) shall not release the Borrower from any of its obligations to indemnify such Indemnitee hereunder, except to the extent that such failure results in an additional Loss to the Borrower (in which event the Borrower shall not be responsible for such additional Loss) or materially impairs the Borrower’s ability to contest such claim.

(ii) Control. The Borrower or its insurer(s) shall have the right, at its or their expense, to investigate and, if the Borrower or its insurer(s) shall agree not to dispute liability to the Indemnitee giving notice of such action, suit or proceeding under Section 5.5(a) or under any insurance policies pursuant to which coverage is sought, control the defense of any action, suit or proceeding relating to any Losses for which indemnification is sought pursuant to this Section 5.5, and each Indemnitee shall cooperate with the Borrower or its insurer(s) with respect thereto; provided, that the Borrower shall not be entitled to control the defense of any such

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action, suit, proceeding or compromise any such Losses during the continuance of any Event of Default and so long as no such cooperation shall entail a material risk of (A) criminal liability of such Indemnitee, (B) unindemnified civil liability of such Indemnitee or (C) the sale, loss, forfeiture or seizure of the Collateral. In connection with any such action, suit or proceeding being controlled by the Borrower, such Indemnitee shall have the right to participate therein, at its sole cost and expense.

(iii) Settlement. In no event shall any Indemnitee enter into a settlement or other compromise with respect to any Losses without the prior written consent of the Borrower, unless such Indemnitee waives its right to be indemnified with respect to such Losses under this Section 5.5.

(iv) Cooperation. Each Indemnitee agrees to cooperate with the Borrower and its insurers in the exercise of their rights to investigate, defend or compromise Losses for which indemnification may be claimed hereunder.

(v) Nonparties. If an Indemnitee is not a party to this Agreement, the Borrower may require such Indemnitee to agree in writing to the terms of this Section 5.5 prior to making any payment to such Indemnitee under this Section 5.5.

(vi) No Requirement. Nothing contained in this Section 5.5(b) shall be deemed to require an Indemnitee to assume responsibility for or control of any judicial proceeding with respect to any Losses.

## **Article VI Conditions Precedent**

*Section 6.1. Conditions to Effectiveness of Commitments.* The effectiveness of the Commitment of each Lender under this Agreement is subject to the condition that Borrower shall have delivered to the Administrative Agent the following:

- (i) an executed counterpart of this Agreement;
- (ii) an executed counterpart of the ~~\*\*~~(iii) an executed counterpart of the Related Loan Agreement; and
- (iv) an executed counterpart of the ~~\*\*~~

*Section 6.2. Conditions to Funding.* The obligation of the Lenders to make the Loan is subject to the fulfillment, prior to or on the Funding Date, of the following additional conditions precedent:

- (a) The Collateral Agent shall have received the following documents (with a copy for each Lender):

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- (i) a Note (duly executed by the Borrower and authenticated by the Collateral Agent) shall have been issued to each Lender in an original principal amount equal to such Lender's Percentage Share of the Loan;
- (ii) an executed counterpart of the Mortgage;
- (iii) the broker's report and insurance certificate required by Appendix B of the Mortgage and the Subordinated Parts Mortgage with respect to the Pledged Spare Parts;
- (iv) an opinion of Skadden, Arps, Slate, Meagher & Flom LLP, special New York counsel to the Borrower, substantially in the form of Exhibit D to this Agreement;
- (v) an opinion of the Borrower's Legal Department, substantially in the form of Exhibit E to this Agreement;
- (vi) (1) a certificate of the Secretary or an Assistant Secretary of the Borrower certifying (i) the resolutions of the Borrower's board of directors or executive committee of such board approving the transactions contemplated by this Agreement, (ii) the name and signature of each officer who executes a Transaction Document or Additional Document on the Borrower's behalf (on which certificate the Transaction Agents and each Lender may conclusively rely until a revised certificate is received), (iii) the Borrower's certificate of incorporation and (iv) a copy of the Borrower's By-Laws and (2) a good standing certificate of the Borrower from the Secretary of State of the State of Delaware dated as of a date reasonably close to the Funding Date;
- (vii) an Officer's Certificate of the Borrower, dated as of the Funding Date, stating that its representations and warranties set forth in Sections 3.1 and 3.2 of this Agreement are true and correct as of the Funding Date (or, to the extent that any such representation and warranty expressly relates to an earlier date, true and correct as of such earlier date); and
- (viii) the Financing Statements.

(b) On the Funding Date, after giving effect to the filing of the FAA Filed Documents, the UCC Release and the Financing Statements with respect to the Pledged Spare Parts, the Collateral Agent under the Mortgage shall have received a duly perfected first priority security interest in all of the Borrower's right, title and interest in the Pledged Spare Parts, subject only, after giving effect to the Release and the UCC Release, to Permitted Liens that are not Liens of Record. Prior to the Funding Date, the Collateral Agent shall have received satisfactory lien searches evidencing that the Pledged Spare Parts are free from Liens of Record other than the Liens that are to be released pursuant to the Release.

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(c) No change shall have occurred after the date of this Agreement in any applicable law that makes it a violation of law for (a) the Borrower, the Transaction Agents or any Lender to execute, deliver and perform the Transaction Documents or Additional Documents to which any of them is a party or (b) any Lender to make its Percentage Share of the Loan with respect to the Pledged Spare Parts.

(d) On the Funding Date, no event shall have occurred and be continuing, or would result from the mortgage of the Pledged Spare Parts, which constitutes an Event of Default or a Potential Default.

(e) The Borrower shall have received all necessary approvals from applicable Governmental Authorities with jurisdiction over the Borrower and shall have received all consents of third parties, including, without limitation, any consent required under the Term Loan Agreement, for the consummation of the transactions contemplated by this Agreement, and shall deliver copy of each such approval or consent, certified pursuant to an Officer's Certificate, to the Collateral Agent, or, if no such approvals or consents are required, the Borrower shall deliver an Officer's Certificate certifying the same.

(f) The Borrower shall have \*\*except, after giving effect to the Release and the UCC Release, Permitted Liens which are not Liens of Record, and with respect to each Designated Location that is either leased by Borrower or owned by Borrower but subject to a mortgage or deed of trust in favor of a third party, Borrower shall have obtained from the landlord, mortgagee or beneficiary under a deed of trust, as the case may be, a waiver of any and all right or interest that such Person may otherwise have in the Pledged Spare Parts and such Person's consent, if applicable, to access by the Collateral Agent and/or any Lender or any representative of any of them to the premises in connection with the exercise of any rights or remedies under or pursuant to the Mortgage or the Subordinated Parts Mortgage (in each case, in form and substance satisfactory to the Lenders).

(g) The Collateral Agent shall be entitled to the benefits of \*\* (determined on the basis of Current Market Value as of the Funding Date) of the Pledged Spare Parts as provided in the Mortgage in the event of a case under Chapter 11 of the Bankruptcy Code in which the Borrower is a debtor.

(h) The Collateral Agent shall have received evidence reasonably satisfactory to it that (i) the Financing Statements and the UCC Release are in appropriate form for filing with the Secretary of State of the State of Delaware and that the Collateral Agent is authorized to file the Financing Statements and the UCC Release in such filing office immediately upon the funding of the loan and of the loan under the Related Loan Agreement, (ii) each of the Mortgage and Release is in appropriate form for filing with the FAA and is pre-positioned in escrow with FAA Counsel for filing with the FAA in accordance with the Act, immediately upon the funding the of the Loan and of the loan under the Related Loan Agreement, and (iii) FAA Counsel is prepared to issue its legal opinion as soon as reasonably practicable following the filing of the Mortgage and Release.

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(i) No action or proceeding shall have been instituted, nor shall any action be threatened in writing, before any Governmental Authority, nor shall any order, judgment or decree have been issued or proposed to be issued by any Governmental Authority, to set aside, restrain, enjoin or prevent the completion and consummation of this Agreement or any other Transaction Document, Additional Document or the transactions contemplated hereby or thereby.

(j) The representations and warranties in Sections 3.1 and 3.2 shall be true and correct in all material respects on and as of such date (except to the extent such representations and warranties relate solely to an earlier date but then as of such earlier date).

(k) The Borrower shall have paid (or shall have given instructions for the initiation of wire transfers to pay) all amounts referred to in the first sentence of Section 9.3 for which it shall have received reasonably detailed invoices at \*\*before the Funding Date.

(l) No payment default (without giving effect to any grace period) by Borrower shall have occurred and be continuing under any of the Other GE Agreements.

(m) No payment default by the Borrower currently exists with respect to any financing facility of \*\* or more and the Collateral Agent and the Lenders shall have received a certification from the Borrower to such effect.

(n) All conditions to the funding of the loan contemplated by the Related Loan Agreement have been satisfied, and such loan is being funded contemporaneously with the Loan.

(o) The Lenders shall have received an Appraisal (using the Physical Appraisal Methodology) with respect to the Pledged Spare Parts from the Independent Appraiser, satisfactory in the sole discretion of the Lenders, confirming the aggregate Current Market Value of the Pledged Spare Parts, which Appraisal shall include an express breakdown of the Current Market Value of the Rotables, Key Repairables and Expendable Parts included therein, as well as a breakdown of the Current Market Value of the Rotables, Key Repairables and Expendable Parts that constitute Excluded Pledged Parts (it being expressly acknowledged that the Appraisal, delivered to the Original Lender on \*\*satisfies the foregoing condition).

(p) The Lenders shall have received an Officer's Certificate of the Borrower certifying that no material adverse change has occurred in the condition, value or status of the Pledged Spare Parts, taken as a whole, from the situation reflected in the Appraisal delivered to the Original Lender pursuant to Section 6.2(o) above.

(q) Lenders shall be satisfied in respect of the Borrower's system of inventory control.

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(r) On the Funding Date after the Loan has been made, (i) the \*\*shall be no greater than the Maximum Rotables and Key Repairables Ratio, (ii) the Collateral Ratio shall be no greater than the Maximum Collateral Ratio, (iii) the Current Market Value of the Pledged Spare Parts \*\*of the Loan by not less than the \*\*Amount, (iv) the QDL Collateral Percentage is at least equal to the Minimum QDL Collateral Percentage and (v) the QDL Rotables and Key Repairables Percentage is at least equal to the Minimum QDL Rotables and Key Repairables Percentage, and the Lenders shall have received an Officer's Certificate from the Borrower certifying the same, which certification may be based upon the Current Market Value of the Pledged Spare Parts as set forth in the Appraisal prepared by the Independent Appraiser and delivered to the Lenders pursuant to Section 6.2(o) above, but which certification shall include an express certification by the Borrower as to the accuracy and completeness of all information and data provided by Borrower to the Independent Appraiser for the preparation of such Appraisal.

(s) The Borrower shall have paid the up front fee specified in Section 1.3.

(t) (1) On the Funding Date, Borrower shall\*\*.

(2) Borrower shall\*\*.

(3) Borrower shall,\*\*.

(u) [Reserved].

(v) The outstanding principal balance of the \*\*shall have \*\*(after giving effect to the making of the Loans and the making of the loans under the Related Loan Agreement)\*\* from the outstanding principal balance of\*\*, and the Borrower shall have provided evidence reasonably satisfactory to the Collateral Agent of such\*\*.

(w) \*\*shall have been \*\*(it being understood that the effectiveness of such \*\*may be conditioned upon the funding of the Loan and the Related Loan)\*\*, after giving effect to the repayment contemplated by clause (v) above, the minimum amount of \*\*(as defined in the\*\*\*) that must be maintained in accordance with the \*\*) and the Borrower shall have delivered a copy of such amendment, certified by an Officer's Certificate, to the Collateral Agent.

(x) Since October 15, 2008, no Material Adverse Change, as determined by Original Lender in its good faith judgment, shall have occurred. Without limiting the generality of the foregoing, a "Material Adverse Change" for the purposes of this clause shall include any and all of the following: any filing by or against the Borrower of a proceeding under Chapter 11 of the United States Bankruptcy Code, the adoption of any resolutions by the Borrower's Board of Directors authorizing the Borrower to file any such proceeding, the announcement by the Borrower that it is contemplating the filing of such a proceeding, the consent by the Borrower to the appointment of a receiver, and/or the admission by the Borrower in writing of its inability to pay its debts generally as they become due.

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(y) No material adverse change shall have occurred in or to \*\*for credit facilities similar in nature to the facilities being extended to the Borrower under this Agreement and the Related Loan Agreement, and no material disruption of, or material adverse change in, financial, banking or capital markets that would have a material adverse effect on the\*\*, as determined by Original Lender in its good faith judgment (in each case, as compared to the situation as of October 15, 2008).

(z) Such other documents, agreements, certificates and information concerning the Borrower as the Administrative Agent, the Collateral Agent or any Lender may reasonably request.

*Section 6.3. Additional Conditions to Funding.* In addition to the conditions precedent set forth in Section 6.2 above, the obligation of the Original Lender to make its Percentage Share of the Loan is subject to the fulfillment, prior to or on the Funding Date, of the following additional conditions precedent:

(a) The Collateral Agent shall have received the following:

- (i) an executed counterpart of the\*\*;
- (ii) an executed counterpart of the\*\*;
- (iii) an executed counterpart of the\*\*;
- (iv) an executed counterpart of the\*\*;
- (v) an executed counterpart of\*\*) and the leases relating thereto;
- (vi) an executed counterpart of the\*\*;
- (vii) an executed counterpart of the\*\*;

(viii) the broker's report and insurance certificate required by Appendix B of the Subordinated Parts Mortgage with respect to the Pledged Spare Parts (which may be combined with the broker's report and insurance certificate delivered pursuant to Section 6.2(a)(iii) above);

(ix) the broker's report and insurance certificate required by Appendix B of the Subordinated Engine Mortgage with respect to the "Engines" as defined therein (which may be combined with the broker's report and insurance certificate delivered pursuant to Section 6.2(a)(iii) of the Related Loan Agreement; and

(x) the broker's report and insurance certificate required by Appendix B of the Subordinated Aircraft Mortgage with respect to the \*\*

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(b) The Collateral Agent shall have received evidence reasonably satisfactory to it that:

(A) (i) the Subordinated Parts Mortgage is in appropriate form for filing with the FAA and is pre-positioned in escrow with FAA Counsel for filing with the FAA in accordance with the Act, together with the documents described in Section 6.2(h)(ii) above, immediately upon the funding the of the Loan and of the loan under the Related Loan Agreement, and (ii) FAA Counsel is prepared to issue its legal opinion as to the due filing for recordation of such documents as soon as reasonably practicable following the filing of the Subordinated Parts Mortgage (which opinion may be combined with the opinion to be provided by FAA Counsel pursuant to Section 6.2(h)(iii) above);

(B) (i) each of (x) the Subordinated Engine Mortgage and the supplement thereto described in Section 6.3(a)(ii) above and (y) each Subordinated Lease Assignment in respect of the "Purchase/Leaseback Engines" is in appropriate form for filing with the FAA and is pre-positioned in escrow with FAA Counsel for filing with the FAA in accordance with the Act, together with the documents described in Section 6.2(h)(ii) of the Related Loan Agreement, immediately upon the funding the of the Loan and of the loan under the Related Loan Agreement, (ii) FAA Counsel is prepared to issue its legal opinion as to the due filing for recordation of such documents as soon as reasonably practicable following the filing of the Subordinated Engine Mortgage (which opinion may be combined with the opinion to be provided by FAA Counsel pursuant to Section 6.2(h)(iii) of the Related Loan Agreement) and (iii) the Registrations with respect to the Subordinated Engine Mortgage will have been made and consented to at the International Registry between Borrower and Subordinated Collateral Agent, in favor of Subordinated Collateral Agent; and

(C) (i) the Subordinated Aircraft Mortgage described in Section 6.3(a)(iv) above, the\*\*, each of the \*\*and each of the Subordinated Lease Assignments relating to the applicable \*\*are all in appropriate form for filing with the FAA and are pre-positioned in escrow with FAA Counsel for filing with the FAA in accordance with the Act, immediately upon the funding the of the Loan and of the loan under the Related Loan Agreement, (ii) FAA Counsel is prepared to issue its legal opinion as to the due filing for recordation of such documents as soon as reasonably practicable following the filing of the Subordinated Aircraft Mortgage, the \*\*, the \*\*, and the Subordinated Lease Assignments, and (iii) immediately following the funding of the Loan and the Related Loan, FAA Counsel is prepared to (1) effect the registration at the International Registry of the International Interests constituted by the Subordinated Aircraft Mortgage, (2) effect the registration at the International Registry of the International Interests constituted by the\*\*, and (3) effect the assignment by Borrower to\*\*, as collateral agent under the\*\*, of the registration at the International Registry of the International Interests constituted by the\*\*.

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**Article VII**  
**Events of Default**

*Section 7.1. Events of Default.* Each of the following events shall constitute an “*Event of Default*,” whether any such event shall be voluntary or involuntary or come about or be effected by operation of law or pursuant to or in compliance with any judgment, decree or order of any court or any order, rule or regulation of any administrative or governmental body:

- (a) The Borrower shall fail to\*\*; or
- (b) The Borrower shall fail \*\*any Transaction Agent or any Lender (through the Administrative Agent); or
- (c) Any representation or warranty made by the Borrower herein or pursuant to Section 6.2(a)(vii) or any other Transaction Document or any amendment or modification hereof or thereof or waiver hereunder or thereunder, or in any report, certificate or other document (other than financial statements and other documents, including exhibits, filed with the SEC) prepared by the Borrower and furnished pursuant to or in connection with this Agreement or any other Transaction Document or any amendment or modification hereof or thereof or waiver hereunder or thereunder shall prove to have been incorrect in any material respect when made, such incorrect representation or warranty is material at the time in question, and, if curable, the same \*\* (or in the case of any representation or warranty made in Section 3.1(g) hereof with respect to a Potential Default, \*\*) after the date of written notice thereof from any Transaction Agent or any Lender (through the Collateral Agent); or
- (d) The Borrower shall fail to perform or observe any term, covenant or agreement contained in this Agreement or any other Transaction Document on its part to be performed or observed and such failure shall remain unremedied for a period of \*\*after written notice of such failure shall have been given to the Borrower by any Transaction Agent or any Lender (through the Collateral Agent), unless such failure is capable of being corrected and the Borrower shall be diligently proceeding to correct such failure, in which case there shall be no Event of Default unless and until such failure shall continue unremedied for a period of \*\*after receipt of such notice; or
- (e) The Borrower shall consent to the appointment of or the taking of possession by a receiver, trustee or liquidator of itself or of substantially all of its property, or the Borrower shall admit in writing its inability to pay its debts generally as they come due, or does not pay its debts generally as they become due or shall make a general assignment for the benefit of creditors, or the Borrower shall file a voluntary petition in bankruptcy or a voluntary petition or an answer seeking reorganization, liquidation or other relief in a case under any bankruptcy laws or other insolvency laws (as in effect at such time), or the Borrower shall seek relief by voluntary petition, answer or consent, under the provisions of any other bankruptcy or other similar law providing for the reorganization or winding-up of corporations (as in effect at such time) or the Borrower’s board of directors shall adopt a resolution authorizing any of the foregoing; or

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(f) An order, judgment or decree shall be entered by any court of competent jurisdiction appointing, without the consent of the Borrower, a receiver, trustee or liquidator of the Borrower or of substantially all of its property, or substantially all of the property of the Borrower shall be sequestered, and any such order, judgment or decree of appointment or sequestration shall remain in force undismissed, unstayed and unvacated for a period of \*\*after the date of entry thereof; or a petition against the Borrower in a case under any bankruptcy laws or other insolvency laws (as in effect at such time) is filed and not withdrawn or dismissed within \*\*thereafter, or if, under the provisions of any law providing for reorganization or winding-up of corporations which may apply to the Borrower, any court of competent jurisdiction assumes jurisdiction, custody or control of the Borrower or of substantially all of its property and such jurisdiction, custody or control remains in force unrelinquished, unstayed and unterminated for a period of\*\*;

(g) The Borrower shall fail to carry and maintain, or cause to be carried and maintained,\*\* on and in respect of any Pledged Spare Part in accordance with the provisions of Section 3.05 of the Mortgage; or

(h) The Borrower shall cease to be a Certificated Air Carrier; or

(i) The Mortgage shall for any reason cease to be a valid \*\*(subject to Permitted Liens) in favor of the Collateral Agent in the Borrower's right, title and interest in and to the Pledged Spare Parts under the laws of the United States of America; or

(j) An event of default or termination event, howsoever described or defined, shall have occurred and be continuing under the\*\*;

(k) The Borrower (or any Affiliate thereof) shall fail, prior to the expiry of any applicable grace period, to make any payment (excluding any payment being disputed in good faith and arising in connection with the redelivery of aircraft and/or engines) due under \*\*; or

(l) (i) any ERISA Events occur that, individually or in the aggregate, result in (or could reasonably be expected to result in) liability to the Borrower in an amount which would exceed\*\*, or (ii) any Lien shall arise on the assets of the Borrower in favor of the PBGC or a Plan to the extent that such Lien could reasonably be expected to result in liability to the Borrower in an amount that would exceed\*\*.

Then, if an Event of Default referred to in clause (e) or (f) of this Section 7.1 shall have occurred and be continuing, (x) the principal of the Loan then outstanding, together with interest accrued but unpaid thereon\*\*, and all other amounts owing to the Transaction Agents and any Lender hereunder or under any other Transaction Document, shall immediately and without further act become due and payable, and (y) the Commitments shall automatically terminate, in each case without presentment, demand, protest or notice of any kind, all of which are hereby expressly waived by the Borrower and, if any other Event of Default shall have occurred and be continuing, then the Administrative Agent shall, upon request of the Required Lenders, by notice to the Borrower, terminate the Commitments and declare the unpaid principal of the Loans then

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outstanding, together with interest accrued but unpaid thereon, \*\*and all other amounts due to the Transaction Agents and any Lender hereunder or under any other Transaction Document, to be forthwith due and payable, whereupon the Commitments shall terminate and the Loans, all such interest and all other amounts shall become and be forthwith due and payable, without presentment, demand, protest or further notice of any kind, all of which are hereby expressly waived by the Borrower. In addition to any other remedies available to the Transaction Agents and the Lenders under the Transaction Documents or at law or otherwise, if an Event of Default shall have occurred and so long as the same shall be continuing unremedied, then and in every such case the Collateral Agent may exercise any or all of the rights and powers and pursue any and all of the remedies set forth in the Mortgage.

**Article VIII**  
**The Transaction Agents**

*Section 8.1. Appointment and Authorization.* Each Lender hereby irrevocably designates and appoints General Electric Capital Corporation as the “*Administrative Agent*”, and General Electric Capital Corporation, as the “*Collateral Agent*” (collectively, the “*Transaction Agents*”) under the Transaction Documents and authorizes each Transaction Agent to take such actions and to exercise such powers as are delegated to it thereby and to exercise such other powers as are reasonably incidental thereto. No Transaction Agent shall have any duties other than those expressly set forth in a Transaction Document or any fiduciary relationship with any Lender, and no implied obligations or liabilities shall be read into this Agreement, or otherwise exist, against any Transaction Agent. The Transaction Agents do not assume, nor shall they be deemed to have assumed, any obligation to, or relationship of trust or agency with, the Borrower. Notwithstanding any provision of this Agreement or any other Transaction Document, in no event shall any Transaction Agent ever be required to take any action which exposes it to personal liability or which is contrary to the provision of any Transaction Document or applicable law.

*Section 8.2. Delegation of Duties.* Each of the Transaction Agents may execute any of its duties through agents or attorneys-in-fact and shall be entitled to advice of counsel concerning all matters pertaining to such duties.

*Section 8.3. Exculpatory Provisions.* No Transaction Agent nor any of their respective directors, officers, agents or employees shall be liable to any Lender for any action taken or omitted (i) with the consent or at the direction of the Required Lenders or (ii) in the absence of such Person’s gross negligence or willful misconduct. No Transaction Agent shall be responsible to any Lender or other Person for (a) any recitals, representations, warranties or other statements made by the Borrower or any of its Affiliates, (b) the value, validity, effectiveness, genuineness, enforceability or sufficiency of any Transaction Document, (c) any failure of the Borrower or any of its Affiliates to perform any obligation or (d) the satisfaction of any condition specified in Article VI. No Transaction Agent shall have any obligation to any Lender to ascertain or inquire about the observance or performance of any agreement contained in any Transaction Document or to inspect the properties, books or records of the Borrower or any of its Affiliates.

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*Section 8.4. Reliance by Transaction Agents.* As between the Transaction Agents and the Lenders, each of the Transaction Agents shall in all cases be entitled to rely, and shall be fully protected in relying, upon any document, other writing or conversation reasonably believed by it to be genuine and correct and to have been signed, sent or made by the proper Person and upon advice and statements of legal counsel (including counsel to the Borrower or any of its Affiliates), independent accountants and other experts selected by such Transaction Agent. Each of the Transaction Agents shall in all cases be fully justified in failing or refusing to take any action under any Transaction Document unless it shall first receive such advice or concurrence of the Lenders, and assurance of its indemnification, as it deems appropriate. Subject to Section 9.1, no Transaction Agent shall effect any waiver or grant any consent or make any determination (except as provided in Section 1.7(a)) without the direction of the Required Lenders.

*Section 8.5. Notice of Events of Default.* No Transaction Agent shall be deemed to have knowledge or notice of the occurrence of any Potential Default unless it has received notice from any Lender or the Borrower stating that a Potential Default has occurred hereunder and describing such Potential Default. Promptly upon receiving notice of the occurrence of any Potential Default, a Transaction Agent shall notify each Lender and the other Transaction Agent of such occurrence. The Transaction Agents shall take such action concerning a Potential Default as may be directed by the Required Lenders (or, if required for such action, all of the Lenders), but until a Transaction Agent receives such directions, each Transaction Agent may (but shall not be obligated to) take such action, or refrain from taking such action, as such Transaction Agent deems advisable and in the best interests of the Lenders.

*Section 8.6. Non-Reliance on Transaction Agents and Other Lenders; Lender Representations.* Each Lender expressly acknowledges that no Transaction Agent nor any of their respective officers, directors, employees, agents, attorneys-in-fact or Affiliates has made any representations or warranties to it and that no act by a Transaction Agent hereafter taken, including any review of the affairs of the Borrower or any of its Affiliates, shall be deemed to constitute any representation or warranty by such Transaction Agent. Each Lender represents and warrants to each of the Transaction Agents that, independently and without reliance upon the Transaction Agents or any other Lender and based on such documents and information as it has deemed appropriate, it has made and will continue to make its own appraisal of and investigation into the business, operations, property, prospects, financial and other conditions and creditworthiness of the Borrower and its own decision to enter into this Agreement and to take, or omit, action under any Transaction Document. Except for items specifically required to be delivered hereunder, no Transaction Agent shall have any duty or responsibility to provide any Lender with any information concerning the Borrower or any of its Affiliates that comes into the possession of such Transaction Agent or any of its officers, directors, employees, agents, attorneys-in-fact or Affiliates.

*Section 8.7. Transaction Agents and Affiliates.* Each of the Transaction Agents and its Affiliates may extend credit to, accept deposits from and generally engage in any kind of business with the Borrower or any of its Affiliates and, in its role as a Lender, General Electric Capital Corporation may exercise or refrain from exercising its rights and powers as if it were not Administrative Agent.

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*Section 8.8. Indemnification.* Each Lender shall indemnify and hold harmless each of the Transaction Agents and its officers, directors, employees, representatives and agents (to the extent not reimbursed by the Borrower and without limiting the obligation of the Borrower to do so), ratably in accordance with its Percentage Share (or, after the Commitments have been terminated, its Ratable Share) from and against any and all liabilities, obligations, losses, damages, penalties, judgments, settlements, costs, expenses and disbursements of any kind whatsoever (including in connection with any investigative or threatened proceeding, whether or not such Transaction Agent or such Person shall be designated a party thereto) that may at any time be imposed on, incurred by or asserted against such Transaction Agent or such Person as a result of, or related to, any of the transactions contemplated by the Transaction Documents or the execution, delivery or performance of the Transaction Documents or any other document furnished in connection therewith (but excluding any such liabilities, obligations, losses, damages, penalties, judgments, settlements, costs, expenses or disbursements resulting solely from the gross negligence or willful misconduct of such Transaction Agent or such Person as finally determined by a court of competent jurisdiction).

*Section 8.9. Successor Transaction Agents.* Each Transaction Agent may, upon at least\*\* to the Borrower and each Lender, resign its position as a Transaction Agent. Such resignation shall not become effective until a successor Transaction Agent acceptable to the Borrower is appointed by the Required Lenders and has accepted such appointment. Upon such acceptance of its appointment as a Transaction Agent hereunder by a successor Transaction Agent, such successor Transaction Agent shall succeed to and become vested with all the rights and duties of the retiring Transaction Agent, and the retiring Transaction Agent shall be discharged from its duties and obligations under the Transaction Documents. After any retiring Transaction Agent's resignation hereunder, the provisions of Article V and this Article VIII shall inure to its benefit as to any actions taken or omitted to be taken by it while it was a Transaction Agent.

### **Article IX Miscellaneous**

*Section 9.1. Amendments.* Except as otherwise provided for in the Syndication Agreement, neither this Agreement nor any other Transaction Document nor any terms hereof or thereof may be changed, waived, discharged or terminated (excluding any Mortgage Supplement contemplated by the Mortgage) unless such change, waiver, discharge or termination is in writing signed by the Borrower and the Required Lenders, *provided* that no such change, waiver, discharge or termination shall, without the consent of each Lender affected thereby, (i) extend the final scheduled maturity of the Loan or any Note, or reduce the rate or extend the time of payment of interest or fees thereon, or reduce the principal amount thereof, (ii) increase the Commitment of any Lender, (iii) release any Collateral (except as expressly provided in the Mortgage), (iv) amend, modify or waive any provision of Section 1.1(f) of this Agreement, this Section 9.1 or Section 4.04 of the Mortgage, (v) reduce the percentage specified in the definition of Required Lenders, (vi) consent to the assignment or transfer by the Borrower of any of its rights and obligations under this Agreement or (vii) \*\*under a Transaction Document in favor of such Lender; *provided, further*, that no such change, waiver, discharge or termination shall without the consent of a Transaction Agent, amend, modify or waive any provision of Article

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VIII as same applies to such Transaction Agent or any other provision as same relates to the rights or obligations of such Transaction Agent. Solely for the benefit of the Lenders from time to time party hereto, the Collateral Agent hereby agrees that it shall (i) not amend the \*\*without the consent of the Required Lenders and (ii) not modify the provisions of the \*\*Agreement referenced in Section 8(i) of the \*\*Agreement as requiring the consent of each "Senior Lender" affected thereby without the consent of the Lender(s) affected thereby.

*Section 9.2. Notices.* Unless otherwise specified, all notices and other communications hereunder shall be in writing (including by facsimile communication), given to the appropriate Person at its address or facsimile number set forth on the signature pages hereof, or at such other address or facsimile number as such Person may specify, and effective when received at the address specified by such Person. The number of days for any advance notice required hereunder may be waived (orally or in writing) by the Person receiving such notice and, in the case of notices to the Collateral Agent, the consent of each Person to which the Collateral Agent is required to forward such notice.

*Section 9.3. Costs and Expenses.* The Borrower agrees to pay at or prior to Closing, after receipt of reasonably detailed invoices, all \*\*of the initial Lender and each Transaction Agent in connection with the preparation, execution and delivery of the Transaction Documents and Additional Documents (whether or not any such Transaction Document or Additional Document is entered into), including, without limitation the reasonable fees and expenses of (a)\*\* , special counsel to the Lenders, (b) \*\*, special counsel to the Lenders, and (c)\*\*,. The Borrower further agrees to pay on demand (i) the initial and annual fees, and the reasonable expenses of, the Collateral Agent in connection with the transactions contemplated hereby and (ii) all reasonable and actual costs and expenses of each Transaction Agent and the Lenders, if any (including, without limitation, reasonable counsel fees and expenses), in connection with the enforcement (whether through negotiations, legal proceedings or otherwise) of the Transaction Documents after the occurrence of an Event of Default (including, without limitation, reasonable fees and expenses of one counsel for the Collateral Agent and one counsel for all of the Lenders in connection with the enforcement of their rights under the Transaction Documents).

*Section 9.4. Certain Agreements .* (a) Each Lender and each Transaction Agent agrees as to itself with the Borrower that, so long as no Event of Default shall have occurred and be continuing, such person shall not (and shall not permit any Affiliate or other person claiming by, through or under it to) take or cause to be taken any action contrary to the Borrower's right to quiet enjoyment of the Collateral, and to possess, use, retain and control the Pledged Spare Parts and all revenues, income and profits derived therefrom without hindrance.

(b) Each Lender agrees to comply with its obligations under the Mortgage.

*Section 9.5. Entire Agreement.* The Transaction Documents, the Syndication Agreement and the Additional Documents constitute the entire understanding of the parties thereto concerning the subject matter thereof. Any previous agreements, whether written or oral, concerning such matters are superseded thereby.

*Section 9.6. Cumulative Rights and Severability.* All rights and remedies of the Lenders and the Transaction Agents hereunder shall be cumulative and non-exclusive of any

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rights or remedies such Persons have under law or otherwise. Any provision hereof that is prohibited or unenforceable in any jurisdiction shall, in such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof and without affecting such provision in any other jurisdiction.

*Section 9.7. Waivers.* No failure or delay of any party hereto in exercising any power, right, privilege or remedy hereunder shall operate as a waiver thereof, nor shall any single or partial exercise of any such power, right, privilege or remedy preclude any other or further exercise thereof or the exercise of any other power, right, privilege or remedy. Any waiver hereof shall be effective only in the specific instance and for the specific purpose for which such waiver was given. After any waiver, the Borrower, the Lenders and the Transaction Agents shall be restored to their former position and rights and any Potential Default waived shall be deemed to be cured and not continuing, but no such waiver shall extend to (or impair any right consequent upon) any subsequent or other Potential Default.

*Section 9.8. Successors and Assigns; Participations; Assignments.*

(a) *Successors and Assigns.* This Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns. Except as otherwise provided herein, the Borrower may not assign or transfer any of its rights or delegate any of its duties without the prior consent of the Transaction Agents and each of the Lenders.

(b) *Participations.* Any Lender may \*\*s of such Lender hereunder. Such Lender shall remain \*\*responsible for performing its obligations hereunder, and the Borrower and the Transaction Agents shall continue to deal solely and directly with such Lender in connection with such Lender's rights and obligations hereunder. Each Participant shall be entitled to the benefits \*\* *provided* that such Participant shall not be entitled to any greater benefit under Article V than the Lender that sold the participating interest to the Participant would have been entitled to thereunder and no Participant shall be entitled to any benefit thereunder unless it shall perform such obligations as are imposed on the Lenders under \*\*A Lender shall not agree with a Participant to restrict such Lender's right to agree to any amendment, waiver or modification hereto, except amendments described in the proviso to Section 9.1.

(c) *Assignments.* Notwithstanding the foregoing, any Lender may assign all or a portion of its Commitment and its outstanding Notes to a \*\*or assign all, or if less than all, a portion equal to at least \*\*in the aggregate face amount of Notes and of such Commitment (and related Obligations) to one or more Eligible Assignees, each of which assignees referred to in Section 9.8(c) shall become a party to this Agreement as a Lender by execution of a supplement hereto in the form of Exhibit F (a "Transfer Supplement") hereto, provided that such transfer or assignment will not be effective until recorded by the Collateral Agent on the Register pursuant to Section 9.8(d) hereof; provided that no such transfer or assignment will increase the Borrower's obligations under Article V hereof, based on the applicable laws in effect (or scheduled to take effect) at the time of such transfer or assignment, as compared with the liabilities that Borrower would have

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incurred had such transfer or assignment not taken place. To the extent of any assignment pursuant to this Section 9.8(c) (other than an assignment to a Qualified Affiliate pursuant to the preceding sentence), the assigning Lender shall be relieved of its obligations hereunder with respect to its assigned Commitment. At the time of each assignment pursuant to this Section 9.8(c) to a Person which is not already a Lender hereunder, the respective assignee Lender shall provide to the Borrower and the Collateral Agent the Internal Revenue Service forms (and, if applicable, a Certificate re Non-Bank Status) required by Section 5.3(c)(i). Borrower shall provide such cooperation in connection with any such transfer or assignment as any Transaction Agent, the assigning Lender or the assignee Lender may request, including, but not limited to, amending the insurance covering the Collateral so as to name such assignee as an additional insured thereunder, if so requested.

(d) *Register.* The Borrower hereby designates the Collateral Agent to serve as the Borrower's agent, solely for purposes of this Section 9.8(d), to maintain a register (the "Register") on which it will record the registered holder of the Notes and the registration of transfers of Notes made pursuant to and in accordance with Section 9.8(c). The Register shall be available for inspection by the Borrower or any Lender at any reasonable time and from time to time upon reasonable prior notice, and the Collateral Agent shall, reasonably promptly after (a) any person becomes a Lender after the date hereof and (b) any Lender alters or modifies its name or address, notify the Borrower of and deliver to the Borrower a written update of the names and addresses of all Lenders. Failure to make any such recordation, or any error in such recordation shall not affect the Borrower's obligations in respect of the Loan Amount of any Lender. With respect to any Lender, the transfer of the Commitment of such Lender and the rights to the principal of, and interest on, the Loan Amount made pursuant to such Commitment shall not be effective until such transfer is recorded on the Register maintained by the Collateral Agent with respect to ownership of such Commitment and Loan Amount and prior to such recordation all amounts owing to the transferor with respect to such Commitment and Loan Amount shall remain owing to the transferor. The registration of assignment or transfer of all or part of the Commitment and the Loan Amount shall be recorded by the Collateral Agent on the Register only upon the acceptance by the Collateral Agent of a properly executed and delivered Transfer Supplement. Coincident with the delivery of such a Transfer Supplement to the Collateral Agent for acceptance and registration of assignment or transfer of all or part of a Loan Amount, or as soon thereafter as practicable, the assigning or transferor Lender shall surrender the Notes evidencing such Loan Amount, and thereupon one or more new Notes in the same aggregate principal amount shall be issued by the Borrower to the assigning or transferor Lender and/or the new Lender, as appropriate to reflect such assignment. Such new Notes shall be authenticated by the Collateral Agent. By execution and delivery hereof, the Borrower request and directs the Collateral Agent to authenticate and deliver the Notes to be issued hereunder and the Collateral Agent agrees to do so.

*Section 9.9. Confidentiality.* None of the Transaction Agents nor any Lender shall disclose any nonpublic information relating to the Borrower (provided to it by the Borrower) or any Transaction Document or Additional Document to any other Person without the consent of

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\*\* Confidential Treatment Requested.

the Borrower, other than (a) to such Transaction Agent's or Lender's Affiliates and its officers, directors, employees, agents and advisors and, as contemplated by Section 9.8, to actual or prospective assignees and participants, and then, in all such cases, only with an undertaking by the party to whom such information is disclosed to keep such information confidential, (b) as required by any law, rule or regulation or judicial process, (c) as requested or required by any state, federal or foreign authority or examiner regulating banks or banking, and (d) to the extent reasonably necessary in connection with any dispute related to, or enforcement of, the Transaction Documents or Additional Documents.

Notwithstanding anything to the contrary set forth herein or in any other agreement to which the parties hereto are parties or by which they are bound, the obligations of confidentiality contained herein and therein, as they relate to the transactions described in the Transaction Documents and the Additional Documents (the "Transaction"), shall not apply to the U. S. federal tax structure or U. S. federal tax treatment of the Transaction, and each party hereto (and any employee, representative, or agent of any party hereto) may disclose to any and all persons, without limitation of any kind, the U. S. federal tax structure and U. S. federal tax treatment of the Transaction. The preceding sentence is intended to cause the Transaction to be treated as not having been offered under conditions of confidentiality for purposes of Section 1.6011-4(b)(3) (or any successor provision) of the Treasury Regulations promulgated under Section 6011 of the Internal Revenue Code of 1986, as amended, and shall be construed in a manner consistent with such purpose. In addition, each party hereto acknowledges that it has no proprietary or exclusive rights to the U. S. federal tax structure of the Transaction or any U. S. federal tax matter or U. S. federal tax idea related to the Transaction. *Section 9.10. Counterparts.* This Agreement may be executed by different parties on any number of counterparts, each of which shall constitute an original and all of which, taken together, shall constitute one and the same agreement.

*Section 9.11. Governing Law; Submission to Jurisdiction; Venue.*

(a) This Agreement and the rights and obligations of the parties hereunder and thereunder shall be construed in accordance with and be governed by the laws of the State of New York. Any legal action or proceeding with respect to this Agreement may be brought in the courts of the State of New York or the United States for the Southern District of New York located in the Borough of Manhattan, and, by execution and delivery of this Agreement or a Transfer Supplement, each party hereto hereby irrevocably accepts for itself and in respect of its property, generally and unconditionally, the jurisdiction of the aforesaid courts. Each party hereto hereby further irrevocably waives any claim that any such courts lack jurisdiction over such party, and agrees not to plead or claim, in any legal action or proceeding with respect to this Agreement brought in any of the aforesaid courts, that any such court lacks jurisdiction over such party. Each party hereto further irrevocably consents to the service of process out of any of the aforementioned courts in any such action or proceeding by the mailing of copies thereof by registered or certified mail, postage prepaid, to it at its address specified pursuant to Section 9.2, such service to become effective \*\*after such mailing. Nothing herein shall affect the right of any party hereto to serve process in any other manner permitted by law or to commence legal proceedings or otherwise proceed against any other party hereto in any other jurisdiction.

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(b) Each party hereto hereby irrevocably waives any objection which it may now or hereafter have to the laying of venue of any of the aforesaid actions or proceedings arising out of or in connection with this Agreement brought in the courts referred to in clause (a) above and hereby further irrevocably waives and agrees not to plead or claim in any such court that any such action or proceeding brought in any such court has been brought in an inconvenient forum.

*Section 9.12. Waiver of Trial by Jury.* To the extent permitted by applicable law, each party hereto irrevocably waives all right of trial by jury in any action, proceeding or counterclaim arising out of, or in connection with, any Transaction Document or any matter arising thereunder.

*Section 9.13. Effective Date.* Although this Agreement is dated as of October 20, 2008, it shall not be effective unless and until executed by the parties listed on the signature pages hereto.

[Remainder of this page blank]

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In Witness Whereof, the parties hereto have caused this Agreement to be executed and delivered by their duly authorized officers as of the date hereof.

GENERAL ELECTRIC CAPITAL CORPORATION  
as the Administrative Agent

By: /s/ David L. Lloyd, Jr. \_\_\_\_\_

Name: David L. Lloyd, Jr.

Title: Vice President

Address:

General Electric Capital Corporation

c/o GE Commercial Aviation Services LLC

201 High Ridge Road

Stamford, Connecticut 06927

Attention: Customer Services

Facsimile: \*\*

email: \*\*

\_\_\_\_\_  
\*\* Confidential Treatment Requested.

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GENERAL ELECTRIC CAPITAL CORPORATION  
as the Collateral Agent

By: /s/ David L. Lloyd, Jr.

Name: David L. Lloyd, Jr.

Title: Vice President

Address:

General Electric Capital Corporation  
c/o GE Commercial Aviation Services LLC  
201 High Ridge Road  
Stamford, Connecticut 06927

Attention: Customer Services

Facsimile: \*\*

email: \*\*

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US AIRWAYS, INC.

By: /s/ Thomas T. Weir

Name: Thomas T. Weir

Title: Vice President and Treasurer

Address:

US Airways, Inc.  
4000 E. Sky Harbor Blvd.  
Phoenix, Arizona 85034

Attention: Vice President and Treasurer

Telephone: \*\*

Telecopy: \*\*

email: \*\*

With a copy to:

General Counsel

Telecopy: \*\*

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GENERAL ELECTRIC CAPITAL CORPORATION  
as Original Lender

By: /s/ David L. Lloyd, Jr. \_\_\_\_\_

Name: David L. Lloyd, Jr.

Title: Vice President

Notice Address and Lending Office:

General Electric Capital Corporation  
c/o GE Commercial Aviation Services LLC  
201 High Ridge Road  
Stamford, Connecticut 06927

Attention: Customer Services

Facsimile: \*\*

email: \*\*

Commitment: \$270,000,000

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**Schedule 1**  
**Definitions and Other Interpretive Provisions**

1. *Definitions.* The following terms have the meanings set forth, or referred to, below:

“*Act*” means part A of subtitle VII of title 49, United States Code.

“*Actual Knowledge*” means, with respect to (i) any Lender, actual knowledge of any officer of such Lender having responsibility for the transactions contemplated by the Transaction Documents and (ii) any other Person, actual knowledge of a Vice President or more senior officer of such Person or any other officer of such Person having responsibility for the transactions contemplated by the Transaction Documents.

“*Additional Documents*” means the Omnibus Agreement, the Omnibus Intercreditor Agreement, the Subordinated Parts Mortgage, the Subordinated Engines Mortgage, the Subordinated Aircraft Mortgage, the PK Loan Agreement Amendment, and the PK Mortgage Amendment.

“*Adjusted Unrestricted Cash*” is defined in Section 6.2(t).

“*Administrative Agent*” is defined in the first paragraph of this Agreement.

“*Administrative Agent’s Account*” means the Administrative Agent’s account number\*\*, reference US Airways Spare Parts Loan, at Deutsche Bank Trust Company Americas, New York branch, \*\*or such other account at a bank in the United States designated to the Borrower and the Lenders by the Administrative Agent.

“*Affected Lender*” is defined in Section 1.7(c).

“*Affected Loan Amount*” is defined in Section 1.7(c).

“*Affiliate*” means, with respect to any Person, any other Person, directly or indirectly, controlling, controlled by, or under common control with such Person. For purposes of this definition, “*control*” means the power, directly or indirectly, to direct or cause the direction of the management and policies of such Person whether through the ownership of voting securities, by contract or otherwise, and “*controlling*,” “*controlled by*,” and “*under common control with*” have correlative meanings.

“*Aggregate Parts DL Percentage*” has the meaning set forth in the Mortgage.

“*Agreement*” is defined in the first paragraph of this Agreement.

“*Applicable Margin*” means the margin applicable to the Loan, as determined pursuant to Section 2.1(b).

“*Appraisal*” has the meaning set forth in the Mortgage.

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“*Bankruptcy Code*” means Title 11 of the United States Code, as the same may be amended.

“*Borrower*” is defined in the first paragraph of this Agreement.

“*Borrower’s Account*” means initially the account set forth in Section 1.2(a) or any subsequent account designated in writing by the Borrower to the Collateral Agent and Administrative Agent from time to time.

“*Business Day*” means any day other than (i) a Saturday, Sunday or other day on which banks in New York City or \*\* are authorized or required by law to close, and (ii) with respect to all notices and determinations in connection with, and borrowings and payments of principal and interest on the Loan, any day which is a Business Day described in clause (i) above and which is also a day for trading by and between banks in the London interbank Eurodollar market.

“*Cape Town Convention*” means collectively, the official English language texts of the Convention on International Interests in Mobile Equipment (the “Convention”) and the Protocol to the Convention on International Interests in Mobile Equipment on Matters Specific to Aircraft Equipment (the “Protocol”), both signed in Cape Town, South Africa on November 16, 2001, together with any protocols, regulations, rules, orders, agreements, instruments, amendments, supplements, revisions or otherwise that have or will be subsequently made in connection with the Convention or the Protocol by the “Supervisory Authority” (as defined in the Consolidated Text), the International Registry or “Registrar” (as defined in the Consolidated Text) or any other international or national, body or authority, all as in effect in the United States or other relevant Contracting State (as used in the Consolidated Text). All references to articles or sections of the Cape Town Convention shall mean the article or section of the Consolidated Text. Except to the extent otherwise defined in the Transaction Documents, terms used in the Transaction Documents that are defined in the Cape Town Convention shall when used in relation to the Cape Town Convention have the meanings ascribed to them in the Cape Town Convention.

“*Capital Adequacy Change*” is defined in Section 5.2.

“*Capital Lease*”, as applied to any Person, means any lease of any property (whether real, personal or mixed) by that Person as lessee that, in conformity with GAAP, is required to be accounted for as a capital lease on the balance sheet of that Person, and the amount of Indebtedness represented by such lease shall be the capitalized amount of the obligations evidenced thereby determined in accordance with GAAP.

“*Cash Equivalents*” means, as of any date of determination, (i) \*\*(a) issued directly or indirectly and unconditionally guaranteed as to interest and principal by the United States government or (b) issued by any agency or instrumentality if the\*\*, in each case maturing within one year after such date; (ii) marketable direct obligations issued by any state of the United States of America or any political subdivision of any such state or any instrumentality thereof, in each case maturing within \*\*after such date and having, at

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the time of the acquisition thereof, the highest rating obtainable from either S&P or Moody's; (iii) \*\*not issued by the Borrower maturing no more than one year after such date and having at the time of acquisition thereof, a rating of at least\*\*;

(iv) \*\*maturing within after such date and issued or accepted by any Lender or by any commercial bank organized under the laws of the United States of America or any state thereof or the District of Columbia that (a) is at least "adequately capitalized (as defined in the regulations of its primary Federal banking regulator) and (b) has \*\* (as defined in such regulations) of not less than\*\*;

(v) shares of any money market mutual fund that (a) has at least \*\* of its assets invested continuously in the types of investments in clauses (i) and (ii) above, (b) has net assets of not less than\*\*, and (c) has the highest rating obtainable from either S&P or Moody's; and (vi) \*\*that have the highest rating obtainable from either S&P or Moody's and with a maximum reset date at least every 30 days.

"*Certificate re Non-Bank Status*" means a certificate substantially in the form of Exhibit G annexed hereto.

"*Certificated Air Carrier*" is defined in the Mortgage.

"*Closing*" means the time at which the Loan has been advanced to the Borrower.

"*Code*" means the Internal Revenue Code of 1986, as amended from time to time.

"*Collateral*" is defined in the Mortgage.

"*Collateral Agent*" is defined in the first paragraph of this Agreement.

"*Collateral Ratio*" has the meaning set forth in the Mortgage.

"*Collateral Value Tests*" has the meaning set forth in the Mortgage.

"*Commitment*" means, with respect to each Lender that is a signatory to this Agreement on the date it is signed, its obligation to fund a portion of the Loan up to the amount set forth on such Lender's signature page hereto, and, with respect to any Lender that becomes a party to this Agreement by a Transfer Supplement, its obligation to fund (if not already funded) a portion of the Loan up to the amount set forth in such Transfer Supplement as the "Assigned Share"; provided that, in no event shall the aggregate amount of the Commitments of all Lenders exceed the Maximum Facility Amount.

"*Commitment Termination Date*" means \*\*

"*Commodity Agreement*" means any agreement or arrangement the value of which fluctuates based on the value of a commodity.

"*Consolidated Text*" means the combination of the Convention or the Protocol (each as defined in the definition of Cape Town Convention) that was authorized and created pursuant to Resolution No. 1 adopted by the Cape Town Diplomatic Conference and any reference to a provision of the Consolidated Text is a reference to the provision of the Convention or the Protocol from which it is derived.

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“*Currency Agreement*” means any foreign exchange contract, currency swap agreement, futures contract, option contract, synthetic cap or other similar agreement or arrangement.

“*Current Market Value*” has the meaning set forth in the Mortgage.

“*Default Rate*” is defined in Section 2.4.

“*Designated Date*” means the day coinciding with the \*\*anniversary of the Funding Date.

“*Designated Locations*” means the locations designated from time to time by the Borrower at which the Pledged Spare Parts may be stored by or on behalf of the Borrower, which initially shall be the locations set forth on Schedule I to the Mortgage and shall include the additional locations designated by the Company pursuant to Section 3.02(b) of the Mortgage.

“*Dollar*” and “*\$*” means lawful currency of the United States of America.

“*Eligible Assignee*” means (i) prior to the termination of the Commitments in full, a Person approved by the Borrower which approval shall not be unreasonably withheld or delayed and which approval shall not be required if an Event of Default shall be continuing and (ii) after the termination of the Commitments in full, any Person who is not an airline that is a competitor of the Borrower in scheduled passenger service (or an Affiliate thereof).

“*Engine*” means an engine used, or intended to be used, to propel an aircraft, including a part, appurtenance, and accessory of the Engine.

“*ERISA*” means the Employee Retirement Income Security Act of 1974, as amended from time to time, and the relations promulgated and rulings issued thereunder. Section references to ERISA are to ERISA as in effect at the date of this Agreement and any subsequent provisions of ERISA amendatory thereof, supplemental thereto or substituted therefor.

“*ERISA Affiliate*” means, as applied to the Borrower, (i) any corporation which is a member of a controlled group of corporations within the meaning of Section 414(b) of the Internal Revenue Code of which the Borrower is a member; (ii) any trade or business (whether or not incorporated) which is a member of a group of trades or businesses under common control within the meaning of Section 414(c) of the Code of which the Borrower is a member; and (iii) any member of an affiliated service group within the meaning of Section 414(m) or (o) of the Code of which the Borrower, any corporation described in clause (i) above or any trade or business described in clause (ii) above is a member.

“*ERISA Event*” means (a) any “reportable event,” as defined in Section 4043 of ERISA or the regulations issued thereunder with respect to a Plan (other than an event for which the 30 – day notice requirement is waived); (b) the existence with respect to any Plan of an “accumulated funding deficiency” (as defined in Section 412 of the Code) or

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Section 302 of ERISA); (c) the filing pursuant to Section 412(d) of the Code or Section 303(d) of ERISA of an application for a waiver of the minimum funding standard with respect to any Plan; (d) the incurrence by the Borrower or any of its ERISA Affiliates of any liability under Title IV of ERISA with respect to the termination of any Plan; (e) (i) the receipt by the Borrower or any ERISA Affiliate from the PBGC of a notice of determination that the PBGC intends to seek termination of any Plan or to have a trustee appointed for any Plan, or (ii) the filing by the Borrower or any ERISA Affiliate of a notice of intent to terminate any Plan; (f) the incurrence by the Borrower or any ERISA Affiliate of any liability (i) with respect to the withdrawal from a Multiemployer Plan pursuant to Sections 4063 and 4064 of ERISA, (ii) with respect to a facility closing pursuant to Section 4062(e) of ERISA, or (iii) with respect to the withdrawal or partial withdrawal from any Multiemployer Plan; (g) the receipt by the Borrower or any ERISA Affiliate of any notice concerning the imposition of Withdrawal Liability or a determination that a Multiemployer Plan is, or is expected to be, in endangered status or critical status, within the meaning of Section 432 of the Code or Section 305 of ERISA; or (h) the failure of the Borrower or any ERISA Affiliate to make any required contribution to a Multiemployer Plan that could reasonably be expected to result in a Material Adverse Effect.

“*Event of Default*” is defined in Section 7.1.

“*Excluded Cash*” means \*\*maintained in accounts that are segregated from all Unrestricted Cash to the extent that such accounts are any of the following:

(i) subject to Liens arising or granted in the ordinary course of business in favor of Persons performing\*\*, so long as such Liens are on cash and Cash Equivalents that are subject to holdbacks by, or are pledged to, such Persons to secure amounts that may be owed to such Persons under the Borrower’s agreements with them in connection with their provision of \*\*services to the Borrower;

(ii) subject to Liens in favor of customs and revenue authorities arising as a matter of law to secure payment of customs duties in connection with the importation of goods in the ordinary course of business;

(iii) subject to Liens incurred or deposits made in each case required under or in connection with the Trust Agreements (not including the Borrower’s residuary interest in, claims to or refunds of any such trust funds);

(iv) subject to Liens securing reimbursement obligations in respect of letters of credit issued for the account of the Borrower in the ordinary course of business and consistent with past practice, so long as the aggregate amount of such cash and Cash Equivalents does not exceed \*\* of the maximum available amount under the secured letters of credit;

(v) subject to Liens securing reimbursement or other margin requirements in connection with, in the case of Liens contemplated in this clause (v),  
(x) transactions designed to hedge against fluctuations in fuel costs, entered into in the ordinary course of

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business, consistent with past business practice or then current industry practice, and not entered into for speculative purposes, (y) transactions designed to hedge interest rates entered into with respect to notional amounts not to exceed actual or anticipated Indebtedness, not entered into for speculative purposes and (z) transactions designed to hedge against risks associated with fluctuations in currencies entered into in the ordinary course of business;

(vi) subject to Liens securing prepaid \*\*and \*\*expenses in the ordinary course of business and consistent with past practice;

(vii) subject to Liens incurred or deposits (other than with respect to the Plans described in Section 3.1(n)) made in the ordinary course of business in connection with workers' compensation, unemployment insurance and other types of social security, or to secure the performance of tenders, statutory obligations, surety and appeal bonds, bids, leases, government contracts, trade contracts, performance and return-of-money bonds, reimbursement obligations and chargeback rights of Persons performing services for the Borrower (including Liens securing Trade Payables arising from the Borrower's use in the ordinary course of business, consistent with past practice, of credit advance facilities to purchase goods and services) and other similar obligations (exclusive of obligations for the payment of borrowed money);

(viii) \*\*

(ix) subject to Liens securing reimbursement obligations in respect of letters of credit issued for the account of the Borrower for the benefit of any credit card processor, so long as the aggregate amount of such cash and Cash Equivalents does not exceed \*\* of the maximum available amount under the secured letters of credit; or

(x) [RESERVED];

(xi) proceeds of any property subject to a Lien in favor of a Person other than the Term Loan Agent to the extent the Lien on such property is permitted under the Term Loan Agreement or cash and cash equivalents from time to time in possession of a third party pursuant to a mortgage, indenture or similar instrument that the Borrower is permitted to enter into pursuant to the Term Loan Agreement.”

“*Excluded Pledged Parts*” has the meaning set forth in the Mortgage.

“*Excluded Tax*” of a Person means (A) any Tax imposed on all or part of the income, profits or gains (whether worldwide, or only insofar as such income, profits or gains are considered to arise in or to relate to a particular jurisdiction) of that Person, any franchise, doing business, net worth or capital-based Tax imposed on that Person, and any intangibles Tax or similar Tax imposed on the principal amount or value of the Loans, by any jurisdiction (including the United States) (i) in which that Person is organized, (ii) in which that Person's principal office or applicable Lending Office is located, or (iii) in which that Person is subject to such Tax as a result of that Person doing

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business unrelated to making a Loan under this Agreement, (B) any Tax imposed on a transferee (including a Participant) of a Lender or on payments to a transferee to the extent that, under applicable law in effect on the date of the transfer to such transferee, the amount of such Taxes exceeds the amount of such Taxes that would have been imposed on the transferor to such transferee or on payments to such transferor and indemnified against hereunder (with appropriate adjustment to reflect the amount of the Loan acquired by such transferee) or (C) any Tax to the extent that liability for such Tax is caused by, and would not have been incurred but for, (i) the gross negligence or willful misconduct of such Person or a “related” Indemnitee (as defined in Section 5.5(a)) or (ii) the inaccuracy of any representation of such Person in any Transaction Document or (iii) the breach by such Person of any of its obligations under Section 5.3(c)(i).

“*Expendables*” has the meaning set forth in the Mortgage.

“*FAA*” means the Federal Aviation Administration of the United States Department of Transportation, or any agency which may succeed to the rights, duties and obligations thereof under applicable law.

“*FAA Counsel*” means \*\*

“*FAA Filed Documents*” means the Release, the Mortgage, and any Supplemental Mortgage.

“*Federal Aviation Act*” means Title 49 of the United States Code which, among other things, recodified and replaced the U.S. Federal Aviation Act of 1958 and the regulations promulgated thereunder, or any subsequent legislation that amends, supplements or supersedes such provisions.

“*Fee Letter*” means the Fee Letter dated on or about the date hereof between the Administrative Agent and the Borrower.

“*Financing Statements*” means Uniform Commercial Code financing statements covering all the security interests in the Collateral created by or pursuant to the Mortgage and Subordinated Parts Mortgage necessary or desirable to perfect said security interests.

“*Funding Date*” means October 20, 2008 (or such later date on or prior to the Commitment Termination Date on which the Borrower requests the Lenders to fund the Loan in accordance with Section 1.2).

“*GAAP*” means generally accepted accounting principles as set forth in the statements of financial accounting standards issued by the Financial Accounting Standards Board of the American Institute of Certified Public Accountants, as such principles may at any time or from time to time be varied by any applicable financial accounting rules or regulations issued by the SEC and, with respect to any Person, means such principles applied on a basis consistent with prior periods except as may be disclosed in such Person’s financial statements. For purposes of determining the Borrower’s Unrestricted Cash (including the application of any defined terms in this Agreement that reference GAAP) at any time that the Term Loan Agreement remains in

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effect, the term “GAAP” has the meaning specified in the Term Loan Agreement as in effect at the time of determination.

“*Governmental Authority*” means any (a) governmental entity, board, bureau, agency or instrumentality, (b) administrative or regulatory authority (including any central bank or similar authority) or (c) court, judicial authority or arbitrator, in each case, whether foreign or domestic.

“*Guarantee*” means any obligation, contingent or otherwise, of any Person directly or indirectly guaranteeing any Indebtedness of any other Person and, without limiting the generality of the foregoing, any obligation, direct or indirect, contingent or otherwise, of such first Person (i) to purchase or pay (or advance or supply funds for the purchase or payment of) such Indebtedness of such other Person (whether arising by virtue of partnership arrangements, or by agreement to keep-well, to purchase assets, goods, securities or services, to take-or-pay, or to maintain financial statement conditions or otherwise), (ii) entered into for purposes of assuring in any other manner the obligee of such Indebtedness of the payment thereof or to protect such obligee against loss in respect thereof (in whole or in part), including any pledge of any assets to secure indebtedness of another or (iii) to maintain working capital, equity capital or any other financial statement condition or liquidity or level of income or cash flow of such other Person so as to enable such Person to pay such Indebtedness. The term “Guarantee” used as a verb has a corresponding meaning.

“*Indebtedness*” means, with respect to any Person at any date of determination (without duplication), (i) all indebtedness of such Person for borrowed money; (ii) all obligations of such Person evidenced by bonds, debentures, notes or other similar instruments; (iii) all obligations of such Person in respect of letters of credit or other similar instruments (including reimbursement obligations with respect thereto); (iv) all obligations of such Person to pay the deferred and unpaid purchase price of property or services, which purchase price is due more than six (6) months after the date of placing such property in service or taking delivery and title thereto or the completion of such services, except Trade Payables; (v) all Capital Lease obligations of such Person (the amount of the Indebtedness in respect of Capital Lease obligations to be determined as provided in the definition of Capital Lease); (vi) all Indebtedness of other Persons secured by a Lien on any asset of such Person, whether or not such Indebtedness is assumed by such Person, provided that the amount of such Indebtedness shall be the lesser of (A) the fair market value of such asset at such date of determination and (B) the stated principal amount of such Indebtedness, provided, however, that if such Indebtedness is assumed by such Person or provides for recourse against such Person, the amount of such Indebtedness shall be the greater of (A) and (B) above; (vii) all Indebtedness of other Persons Guaranteed by such Person to the extent such Indebtedness is Guaranteed by such Person; (viii) to the extent not otherwise included in this definition and to the extent treated as a liability under GAAP, obligations under Currency Agreements, Interest Rate Agreements and Commodity Agreements; (ix) the capitalized amount of remaining lease payments owing by such Person under Synthetic Leases that would appear on the balance sheet of such Person if such lease were treated as a Capital Lease; (x) the aggregate amount of uncollected accounts receivable of such Person

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subject at such time to a sale of receivables (or similar transaction) to the extent such transaction is effected with recourse to such Person (whether or not such transaction would be reflected on the balance sheet of such Person in accordance with GAAP); (xi) the Indebtedness of any partnership or unincorporated joint venture in which such Person is a general partner or a joint venturer to the extent such Indebtedness is recourse to such Person; and (xii) all prepaid forward sales in bulk of dividend miles or available seat miles or like transactions other than in the ordinary course of business. The amount of Indebtedness of any Person at any date shall be the outstanding balance at such date of all unconditional obligations as described above and the maximum liability, upon the occurrence of the contingency giving rise to the obligation, of any contingent obligations at such date; provided that the amount outstanding at any time of any Indebtedness issued with original issue discount is the face amount of such Indebtedness less the remaining unamortized portion of the original issue discount of such Indebtedness at such time as determined in conformity with GAAP.

“*Independent Appraiser*” has the meaning specified in the Mortgage.

“*Interest Payment Date*” means, subject to Section 1.8(b), the date numerically corresponding to the Funding Date in each of\*\*, commencing the next such date occurring after the Funding Date and the final such date for any Note shall be the Maturity Date for such Note.

“*Interest Period*” means a period used for calculating the interest rate applicable to the Loan, as determined pursuant to Section 2.2.

“*Interest Rate*” is defined in Section 2.1 hereof.

“*Interest Rate Agreement*” means any interest rate future agreement, interest rate option agreement, interest rate swap agreement, interest rate cap agreement, interest rate collar agreement, interest rate hedge agreement or other similar agreement or arrangement.

“*Interest Rate Determination Date*” means, with respect to any Interest Period for a Loan, the second Business Day prior to the first day of such Interest Period.

“*International Interest*” has the meaning set forth in the Consolidated Text.

“*International Registry*” has the meaning set forth in the Consolidated Text.

“*Key Repairables*” has the meaning set forth in the Mortgage.

“*Lenders*” is defined in the first paragraph of this Agreement.

“*Lending Office*” means the lending office of each Lender set forth on the signature page of this Agreement with respect to such Lender, or such other lending office as a Lender from time to time shall notify the Borrower as its lending office hereunder; *provided* that a Lender shall not, without the Borrower’s request, change its

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Lending Office if it would increase the Borrower's obligations under Section 1.7, 5.1, 5.2 or 5.3.

\*\*is defined in Section 1.7(d).

\*\*means, with respect to any \*\* (or on any successor or substitute page of such service, or any successor to or substitute for such service, providing rate quotations comparable to those currently provided on such page of such service) at approximately 11:00 a.m., London time, on the \*\* for such \*\*, as the \*\* for dollar deposits with a maturity of three months. In the event that such rate is not available at such time for any reason, then the \*\* for such \*\* shall be the average (rounded upwards to the nearest 1/100% if necessary), as determined by the Administrative Agent, of the per annum \*\* at which dollar deposits of amounts comparable to the outstanding principal amount of the Loan and for a maturity of three months are offered by the principal London offices of the Reference Banks, in each case offered to prime banks in the London interbank market, in each case at or about 11:00 a.m., London time, on the Interest Rate Determination Date for such Interest Period.

"*Lien*" means any mortgage, pledge, lien, charge, claim, encumbrance, lease, sublease, sub-sublease or security interest affecting the title to or any interest in property. Solely for the purposes of the definition of "Excluded Cash" and "Indebtedness", however, "Lien" shall mean any lien, mortgage, pledge, assignment for security, security interest, charge, hypothecation, lease or encumbrance of any kind (including any conditional sale or other title retention agreement, any lease in the nature thereof, any easement, right of way or other encumbrance on title to real property and any agreement to give any security interest).

"*Lien of Record*" means, with respect to any Pledged Spare Parts, any Lien that is recorded in the records of the aircraft registry maintained by the FAA in Oklahoma City, Oklahoma in accordance with the Act (or any successor thereto under applicable law) against property located at the Designated Locations and having a description which would include any of such Pledged Spare Parts.

"*Loan*" means the aggregate amount of funds advanced by the Lenders to the Borrower on the Funding Date pursuant to the terms of this Agreement.

"*Loan Amount*" means, for each Lender, the aggregate outstanding principal amount of the Notes held by such Lender.

"*Material Adverse Change*" means any event, development or circumstance that has had or could reasonably be expected to have a Material Adverse Effect.

"*Material Adverse Effect*" means a material adverse effect on (i) the business or financial condition, including the liabilities, operations and prospects, of the Borrower and its Subsidiaries taken as a whole, (ii) the ability of the Borrower to perform its obligations under the Transaction Documents, or (iii) the validity or enforceability of any of the Transaction Documents or the ability of the Transaction Agents or the Lenders to

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enforce the rights or remedies of the Transaction Agents and the Lenders under the Transaction Documents or to exercise any other right or remedy customarily afforded to a lender or creditor secured by spare engines or spare parts used by a Certificated Air Carrier.

“*Maturity Date*” means the date that is the seventy-second (72<sup>nd</sup>) monthly anniversary of the Funding Date; provided, however, if the Borrower makes the prepayment contemplated by Section 1.1(e), then the Maturity Date shall be the sixtieth (60<sup>th</sup>) monthly anniversary of the Funding Date.

“*Maximum Collateral Ratio*” has the meaning set forth on Schedule 3 to this Agreement.

“*Maximum Facility Amount*” has the meaning set forth on Schedule 3 to this Agreement.

“*Maximum Rotables and Key Repairables Ratio*” has the meaning set forth on Schedule 3 to this Agreement.

“*Maximum Self-Insurance Amount*” has the meaning set forth on Schedule 3 to this Agreement.

“*Minimum 1110 Percentage*” has the meaning set forth on Schedule 3 to this Agreement.

“*Minimum QDL Collateral Percentage*” has the meaning set forth on Schedule 3 to this Agreement.

“*Minimum QDL Rotables and Key Repairables Percentage*” has the meaning set forth on Schedule 3 to this Agreement.

“*Minimum Unrestricted Cash Amount*” is defined in Section 4.1(h).

“*Moody’s*” means Moody’s Investors Service, Inc.

“*Mortgage*” means the Spare Parts Mortgage and Security Agreement in substantially the form of *Exhibit A* to this Agreement entered into by the Borrower and the Collateral Agent to secure the Loans.

“*Multiemployer Plan*” means a multiemployer plan as defined in Section 4001(a)(3) of ERISA, and in respect of which Borrower or an ERISA Affiliate is (a) an “employer” as defined in Section 3(5) of ERISA or (b) a “seller” as defined in Section 4204 of ERISA with continuing liability (including contingent liability) under Section 4204 of ERISA.

“*Note*” means a promissory note of the Borrower issued in connection with the funds advanced by a Lender to the Borrower pursuant to this Agreement and payable to

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the order of such Lender, in substantially the form of *Exhibit B* hereto, evidencing the indebtedness of the Borrower to such Lender resulting from such advance.

“*Notice of Borrowing*” means a notice substantially in the form of *Exhibit C* annexed hereto delivered by the Borrower to the Administrative Agent pursuant to Section 1.2(a) with respect to a proposed borrowing.

“*Obligations*” is defined in the Mortgage.

“*Officer’s Certificate*” is defined in the Mortgage.

“*Omnibus Agreement*” means the \*\*among the Borrower, the Collateral Agent and certain other parties thereto.

“*Omnibus \*\*Agreement*” means the Omnibus \*\*Agreement substantially in the form of *Exhibit L* being entered into contemporaneously with this Agreement among the “Collateral Agent” under each of the Senior Mortgages and the “Collateral Agent” under each of the Subordinated Mortgages, and acknowledged by the Borrower.

“*Original Lender*” has the meaning specified in the introductory paragraph to this Agreement.

“*Other GE Agreement*” means any and all\*\* to which both (i) Borrower \*\*is a party and (ii) General Electric \*\*of which the trustee is a party (but\*\* all debt instruments (including pass-through trust arrangements) acquired by assignment or purchased on the secondary market structured as pass-through trust arrangements), \*\*without limitation, each agreement set forth on Schedule I of the \*\*(and all documents and agreements defined in each such agreement as an “operative document” or a “transaction document” or otherwise identified in any such agreement as an one of the documents or agreements being entered into in connection with transaction contemplated by such agreement).

“*Other Taxes*” means any and all present or future Taxes arising from any payment made under any Transaction Document or from the execution, delivery, performance, filing, recording or enforcement of, or otherwise with respect to, any Transaction Document or the transactions contemplated by the Transaction Documents.

“*Participant*” is defined in Section 9.8(b).

“*Payment Date*” means, subject to Section 1.8(b), the date numerically corresponding to the Funding Date in each of\*\*, commencing with such date\*\*. The final “Payment Date” for any Note shall be the Maturity Date for such Note.

“*PBGC*” means the Pension Benefit Guaranty Corporation, or any successor agency or entity performing substantially the same functions.

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“*Percentage Share*” means, for each Lender, (i) prior to the termination of the\*\*, the amount of such Lender’s Commitment divided by the aggregate amount of the Commitments of all the Lenders, and (ii) at any time after the\*\*, the Loan Amount held by such Lender divided by the aggregate outstanding principal amount of the Loan.

“*Permitted Investments*” is defined in the Mortgage.

“*Permitted Liens*” is defined in the Mortgage.

“*Persons*” or “*persons*” means individuals, firms, partnerships, joint ventures, trusts, trustees, Governmental Authorities, organizations, associations, corporations, limited liability companies, or any committees, departments, authorities and other bodies thereof, corporate or incorporate, whether having distinct legal status or not, or any member of any of the same.

“*PK Aircraft*” means, collectively, all of the “Aircraft” as defined in the PK Loan Agreement.

“*PK Aircraft Lease*” means\*\*, howsoever titled or designated, being entered into on or about the Funding Date between the \*\*and \*\*in respect of \*\*aircraft subject to the PK Mortgage.

“*PK Engine*” means the “Spare Engine” as defined in the PK Loan Agreement.

“*PK Loan Agreement*” means that certain Credit Agreement dated as of February 1, 2008 among US Airways, Inc., as Borrower, \*\*as Administrative Agent and Collateral Agent and\*\*, as Initial Lender.

“*PK Loan Agreement Amendment*” means that certain Credit Agreement Amendment substantially in the form of Exhibit *M* hereto between the Borrower and \*\*

“*PK Mortgage*” means that certain Aircraft and Engine Mortgage and Security Agreement dated as of February 1, 2008 between US Airways, Inc., as Grantor, and \*\*as Collateral Agent, as Mortgagee..

“*PK Mortgage Amendment*” means that certain Aircraft and Engine Mortgage and Security Agreement Amendment No. 1 substantially in the form of Exhibit *N* hereto between the Borrower and \*\*

“*Plan*” means an “employee benefit plan (as such term is defined in Section 3(3) of ERISA or any “plan” (as such term is defined in Section 4975(e)(1) of the Code that is subject to Title IV of ERISA and has been established or maintained or contributed to by Borrower or an ERISA Affiliate other than a Multiemployer Plan.

“*Pledged Spare Parts*” has the meaning set forth in Clause (a) of the first paragraph of Section 2.01 of the Mortgage.

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“*Potential Default*” means any Event of Default or any event or condition that with the lapse of time or giving of notice, or both, would constitute an Event of Default.

“*Prepayment Date*” has the meaning specified in Section 1.1(c)(i).

“*Primary Syndication*” has the meaning set forth in the Syndication Agreement.

“*QDL Collateral Percentage*” has the meaning set forth in the Mortgage.

“*QDL Rotables and Key Repairables Percentage*” has the meaning set forth in the Mortgage.

“*Qualified Affiliate*” means, as to any Lender, an Affiliate of such Lender engaged in the business of making loans.

“*Reference Banks*” means (a) \*\*and (d) such other bank or banks as may from time to time be agreed by the Borrower and the Required Lenders.

“*Register*” is defined in Section 9.8(d).

“*Regulatory Change*” is defined in Section 5.1.

“*Related Loan*” means the “Loan” as defined in the Related Loan Agreement.

“*Related Loan Agreement*” means that certain Loan Agreement [Engines] dated the date hereof among the Borrower, the Administrative Agent, the Collateral Agent, and the Original Lender.

“*Related Mortgage*” means the “Mortgage” as defined in the Related Loan Agreement.

“*Release*” means the instrument of release and discharge in the form to be filed with the FAA on the Funding Date in order to release the Collateral from the Lien in favor of the Term Loan Agent for the benefit of the secured parties under or in respect of the Term Loan Agreement.

“*Required Collateral Amount*” has the meaning set forth on Schedule 3 to this Agreement.

“*Required Collateral Amount Test*” has the meaning set forth in the Mortgage.

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“*Rotables*” has the meaning set forth in the Mortgage.

“*Rotables and Key Repairables Ratio*” has the meaning set forth in the Mortgage.

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\*\* Confidential Treatment Requested.

“SEC” means the Securities and Exchange Commission of the United States, or any Governmental Authority succeeding to the functions of such Securities and Exchange Commission.

“S&P” means Standard & Poor’s Ratings Services, a division of The McGraw-Hill Companies, Inc. and any successor thereto that is a nationally recognized rating agency.

“Senior Mortgages” means, collectively, the Mortgage, the Related Mortgage and the \*\*and “Senior Mortgage” means any of them as the context may require.

“Software” has the meaning set forth in the Mortgage.

“Special Default” means any Event of Default pursuant to Section 7.1(a), and/or (b) or any event or condition that with the lapse of time or giving of notice, or both, would constitute an Event of Default under Section 7.1(a) and/or (b).

“Special Prepayment” is defined in Section 1.1(e) hereof.

“Special Prepayment Amount” is defined in Schedule 3 hereof.

“Subordinated Aircraft Mortgage” means the Subordinated Aircraft and Engine Mortgage and Security Agreement in substantially the form of *Exhibit K* being entered into on the Funding Date between the Borrower and the Subordinated Collateral Agent to secure the obligations of the Borrower under the Omnibus Agreement, and shall include each supplemental mortgage thereto.

“Subordinated Collateral Agent” means General Electric Capital Corporation in its capacity as collateral agent under the Subordinated Mortgages.

“Subordinated Engine Mortgage” means the Subordinated Engine Mortgage and Security Agreement in substantially the form of *Exhibit J* to this Agreement being entered into on the Funding Date by the Borrower and the Subordinated Collateral Agent to secure the obligations of the Borrower under the Omnibus Agreement, and shall include each supplemental mortgage thereto.

“Subordinated Lease Assignment” means a Subordinated Assignment of Lease and Lessee Acknowledgment and Agreement substantially in the form of *Exhibit O* hereto.

“Subordinated Mortgages” means, collectively, the Subordinated Parts Mortgage, the Subordinated Engine Mortgage and the Subordinated Aircraft Mortgage, and “Subordinated Mortgage” means any of them as the context may require.

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\*\* Confidential Treatment Requested.



“*Subordinated Parts Mortgage*” means the Subordinated Spare Parts Mortgage and Security Agreement in substantially the form of *Exhibit I* being entered into on the Funding Date by the Borrower and the Subordinated Collateral Agent to secure the obligations of the Borrower under the Omnibus Agreement, and shall include each supplemental mortgage thereto.

“*Subsidiary*” means, as to any Person, any other Person of which at least **\*\***(or equivalent equity interests) is owned or controlled by such first Person or by one or more other Subsidiaries of such first Person.

“*Substitute Basis*” is defined in Section 1.7(f).

“*Supplemental Mortgage*” means a supplement to the Mortgage substantially in the form of Exhibit A to the Mortgage.

“*Syndication Agreement*” means that certain **\*\***entered into concurrently with this Agreement between **\*\***and**\*\***.

“*Synthetic Lease*” means (a) a so-called synthetic, off-balance sheet lease or lease in which the lessee is contractually entitled to the tax benefits of ownership of the leased assets, or (b) an agreement for the use or possession of property creating obligations that do not appear on the balance sheet of such Person but which, upon the insolvency or bankruptcy of such Person, would be characterized as the indebtedness of such Person (without regard to accounting treatment).

“*Taxes*” means all taxes, charges, fees, levies or other assessments (including income, gross receipts, profits, withholding, excise, property, sales, use, license, occupation and franchise taxes and including any related interest, penalties or other additions) imposed by any jurisdiction or taxing authority (whether international, foreign or domestic).

“*Term Loan Agent*” is defined in the definition of “Term Loan Agreement” below.

“*Term Loan Agreement*” means that certain \$1,600,000,000 Loan Agreement dated as of March 23, 2007, as the same may have been amended from time to time among US Airways Group, Inc., as borrower, its subsidiaries from time to time party thereto, the several lenders from time to time party thereto, and Citicorp North America, Inc., as Administrative Agent and Collateral Agent (in such capacity, the (“Term Loan Agent”)), with Citigroup Global Markets Inc., as Joint Lead Arranger and Bookrunner, Morgan Stanley Senior Funding, Inc., as Joint Lead Arranger and Bookrunner and Syndication Agent, and General Electric Capital Corporation, as Documentation Agent.

“*Term Loan Agreement Amendment*” means that certain first amendment to the Term Loan Agreement effective as of the Funding Date.

“*Term Loan Facility*” means the aggregate amount of the financing facilities provided to the Borrower under the Term Loan Agreement.

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**\*\*** Confidential Treatment Requested.

“*Threshold Amount*” has the meaning set forth in Schedule 3 to this Agreement.

“*Trade Payables*” means, with respect to any Person, any accounts payable or any other indebtedness or monetary obligation to trade creditors created, assumed or Guaranteed by such Person or any of its Subsidiaries and arising in the ordinary course of business in connection with the acquisition of goods or services but limited to current liabilities in accordance with GAAP.

“*Transaction Agents*” is defined in Section 8.1 hereof.

“*Transaction Documents*” means this Agreement, the Notes, the Mortgage and each Mortgage Supplement, the Syndication Agreement, the Fee Letter and the Waiver Letter.

“*Transfer Supplement*” is defined in Section 9.8(c).

“*Trust Agreements*” means all special purpose trust funds established by the Borrower to manage the collection and payment of amounts collected by the Borrower for the express benefit of third-party beneficiaries relating to (a) federal income tax withholding and backup withholding tax, employment taxes, transportation excise taxes and security related charges, including (i) federal payroll withholding taxes, as described in Sections 3101, 3111 and 3402 of the Internal Revenue Code; (ii) federal Unemployment Tax Act taxes, as described in Chapter 23 of Subtitle C of the Internal Revenue Code; (iii) federal air transportation excise taxes, as described in Sections 4261 and 4271 of the Internal Revenue Code; (iv) federal security charges, as described in Title 49 of the Code of Federal Regulations of 2002 (referred to in this definition as the “CFR”), Chapter XII, Part 1510; (v) federal Animal and Plant Health Inspection Service of the United States Department of Agriculture (APHIS) user fees, as described in Title 21 United States Code (2002) (referred to in this definition as “U.S.C.”) Section 136a and 7 CFR Section 354.3; (vi) U.S. Citizenship and Immigration Services fees, as described in 8 U.S.C. Section 1356 and 8 CFR Part 286; (vii) federal customs fees as described in 19 U.S.C. Section 58c and 19 CFR Section 24.22; and (viii) federal jet fuel taxes as described in Sections 4091 and 4092 of the Internal Revenue Code collected on behalf of and owed to the federal government, (b) any and all state and local income tax withholding, employment taxes and related charges and fees and similar taxes, charges and fees, including, but not limited to, state and local payroll withholding taxes, unemployment and supplemental unemployment taxes, disability taxes, workman’s or workers’ compensation charges and related charges and fees that are analogous to those described in Subtitle C of the Internal Revenue Code and that are described in or are analogous to Chapter 23 of Title 19 Delaware Code Annotated (2002) (referred to in this definition as “D.C.A.”) collected on behalf of and owed to state and local authorities, agencies and entities, (c) Passenger Facility Charges as described in Title 49 United States Code Section 40117 (2004) and Title 14 of the Code of Federal Regulations, Subchapter 1, Part 158 collected on behalf of and owed to various administrators, institutions, authorities, agencies and entities and (d) voluntary and/or other non-statutorily required employee payroll deductions, whether authorized by the employee, imposed by court order, agreed to pursuant to collective bargaining arrangement or

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\*\* Confidential Treatment Requested.

otherwise, including (i) employee contributions made for the purpose of participating in any employer-sponsored retirement plan as described and defined in Section 401(k) of the Internal Revenue Code (including repayment of any 401(k) related loans made to the employee but excluding any funds matched and/or contributed by the employer on behalf of any employee), (ii) employee payments made for the purpose of participating in any employer-sponsored medical, dental or related health plan, (iii) employee payments made for the purpose of satisfying periodic union dues, (iv) employee payments made for the purpose of purchasing United States Savings Bonds, (v) employee payments made for the purpose of making deposits to an account at or making repayment of an extension of credit from an employer-associated credit union, (vi) employee payments made for the purpose of purchasing life, accident, disability or other insurance, (vii) employee payments made for the purpose of participating in any employer-sponsored cafeteria plan as described and defined in Section 125 of the Internal Revenue Code, (viii) employee-directed donations to charitable organizations and (ix) levies, garnishments and other attachments on employee compensation (as described in Sections 6305 and 6331 of the Internal Revenue Code, in Section 4913 of Title 10 of D.C.A. or in any analogous provision of other applicable federal, state or local law) collected on behalf of any Governmental Authority or any other Person authorized to receive funds of the type described in this clause (d).

“*UCC*” or “*Uniform Commercial Code*” means the Uniform Commercial Code as in effect in any applicable jurisdiction.

“*UCC Release*” means one or more releases on form UCC-3, pursuant to which the Collateral is released from the Lien in favor of the Term Loan Agent for the benefit of the secured parties under or in respect of the Term Loan Agreement.

“*Unrestricted Cash*” means \*\*of the Borrower that (i) may be classified, in accordance with GAAP, as “unrestricted” on the consolidated balance sheets of the \*\*or (ii) may be classified, in accordance with GAAP, as “restricted” on the consolidated balance sheets of the Borrower and its Subsidiaries solely in favor of the Term Loan Agent for the benefit of the secured parties under and in respect of the Term Loan Agreement; provided, however, that Unrestricted Cash shall not include (a) \*\*held in the Collateral Account (as such terms are defined in the Term Loan Agreement) pursuant to the Term Loan Agreement, (b) \*\*, (c) \*\*, (d) \*\*or other assets carried in deposit accounts and securities accounts subject to a control agreement in favor of the Term Loan Agent during any period when a “Notice of Exclusive Control” or the equivalent is in effect with respect thereto or (e) Cash Collateral (as defined in the Mortgage and the Related Mortgage, respectively) held by the Collateral Agent pursuant to the Mortgage or the Related Mortgage.

“*USA*” means the United States of America (including all states and political subdivisions thereof).

“*Letter*” means the \*\*Letter, dated as of the Funding Date, among \*\*

“*Withdrawal Liability*” means liability to a Multiemployer Plan as a result of a

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\*\* Confidential Treatment Requested.

complete or partial withdrawal from such Multiemployer Plan, as such terms are defined in Part I of Subtitle E of Title IV of ERISA.

2. *Other Interpretive Provisions.* (a) The foregoing definitions shall be equally applicable to both the singular and plural forms of the defined terms. All terms defined directly or by incorporation in this Agreement shall have the defined meanings when used in any certificate or other document delivered pursuant hereto unless otherwise defined therein. For purposes of this Agreement and all such certificates and other documents, unless the context otherwise requires: (i) accounting terms not otherwise defined in this Agreement, and accounting terms partly defined in this Agreement to the extent not defined, shall have the respective meanings given to them under GAAP; (ii) references to any amount as on deposit or outstanding on any particular date means such amount at the close of business on such day; (iii) the words “hereof,” “herein” and “hereunder” and words of similar import refer to this Agreement (or the certificate or other document in which they are used) as a whole and not to any particular provision of this Agreement (or such certificate or document); (iv) references to any Section, Schedule or Exhibit are references to Sections, Schedules and Exhibits in or to this Agreement (or the certificate or other document in which the reference is made), and references to any paragraph, subsection, clause or other subdivision within any Section or definition refer to such paragraph, subsection, clause or other subdivision of such Section or definition; (v) the term “including” means “including without limitation”; (vi) references to any law or regulation refer to that law or regulation as amended from time to time and include any successor law or regulation; (vii) references to any agreement refer to that agreement as from time to time amended or supplemented or as the terms of such agreement are waived or modified in accordance with its terms; (viii) references to any Person include that Person’s successors and assigns; and (ix) headings are for convenience of reference only and shall not otherwise affect the meaning or interpretation of any provision hereof.

(b) Each exhibit and schedule to this Agreement is incorporated in, and shall be deemed a part of, this Agreement.

(c) All terms defined in the Mortgage and used herein have such respective defined meanings unless otherwise defined herein.

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\*\* Confidential Treatment Requested.

SCHEDULE 2  
Amortization of the Loan  
Part 1

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\*\* Confidential Treatment Requested.

Part 2

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\*\* Confidential Treatment Requested.

SCHEDULE 3

Part 1

Certain Information

"*Maximum Collateral Ratio*" means, as of any date of determination,\*\*.

"*Maximum Facility Amount*" means \$270,000,000.

"*Maximum Self Insurance Amount*"\*\*

"*Maximum Rotables and Key Repairables Ratio*" means, as of any date of determination,\*\*).

"*Minimum 1110 Percentage*" means\*\*.

"*Minimum Liability Amount*" means\*\*.

"*Minimum QDL Collateral Percentage*" means\*\*.

"*Minimum QDL Rotables and Key Repairables Percentage*" means\*\*.

"*Required Collateral Amount*" means, as of any date of determination,\*\*.

"*Special Prepayment Amount*" means \*\*

"*Threshold Amount*" means\*\*.

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\*\* Confidential Treatment Requested.

Part 2

Payment Date	A	B	C	D	E	F
	Maximum Collateral Ratio	Assumes** Maximum Rotable & Key Repairable Ratio	Required Collateral Amount	Maximum Collateral Ratio	Assumes** Maximum Rotable & Key Repairable Ratio	Required Collateral Amount
<b>Funding Date</b>	**	**	**	**	**	**
Jan-09	**	**	**	**	**	**
Apr-09	**	**	**	**	**	**
Jul-09	**	**	**	**	**	**
Oct-09	**	**	**	**	**	**
Jan-10	**	**	**	**	**	**
Apr-10	**	**	**	**	**	**
Jul-10	**	**	**	**	**	**
Oct-10	**	**	**	**	**	**
Jan-11	**	**	**	**	**	**
Apr-11	**	**	**	**	**	**
Jul-11	**	**	**	**	**	**
Oct-11	**	**	**	**	**	**
Jan-12	**	**	**	**	**	**
Apr-12	**	**	**	**	**	**
Jul-12	**	**	**	**	**	**
Oct-12	**	**	**	**	**	**
Jan-13	**	**	**	**	**	**
Apr-13	**	**	**	**	**	**
Jul-13	**	**	**	**	**	**
Oct-13	**	**	**	**	**	**
Jan-14	**	**	**	**	**	**
Apr-14	**	**	**	**	**	**
Jul-14	**	**	**	**	**	**
Oct-14	**	**	**	**	**	**

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\*\* Confidential Treatment Requested.



SCHEDULE 4  
ERISA Plans

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\*\* Confidential Treatment Requested.

SCHEDULE 5  
Certain Rotables and Key Repairables

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\*\* Confidential Treatment Requested.

**Exhibit A**

[Insert Form of Mortgage]

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**Exhibit B**

**Form of Promissory Note**

THIS NOTE HAS NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "ACT"), OR UNDER THE SECURITIES OR SIMILAR LAWS OF ANY STATE OR OTHER JURISDICTION AND MAY NOT BE OFFERED, TRANSFERRED, SOLD OR OTHERWISE DISPOSED OF EXCEPT WHILE SUCH A REGISTRATION UNDER THE ACT AND SUCH SECURITIES OR SIMILAR LAWS IS IN EFFECT OR PURSUANT TO AN EXEMPTION FROM SUCH REGISTRATION.

THIS NOTE IS SUBJECT TO CERTAIN ADDITIONAL RESTRICTIONS ON TRANSFER SET FORTH IN SECTION 9.8 OF THE LOAN AGREEMENT REFERRED TO BELOW.

**SECURED PROMISSORY NOTE [SPARE PARTS]**

**DUE \_\_\_\_\_ [\_\_\_\_], 2014**

No. [\*] — New York, New York

\_\_\_\_\_, 200[ ]

\$ \_\_\_\_\_

FOR VALUE RECEIVED, the undersigned, US AIRWAYS, INC., a Delaware corporation (together with its successors and permitted assigns, the "Borrower") hereby unconditionally promises to pay to \_\_\_\_\_, or the registered assignee thereof, the principal amount of \_\_\_\_\_ DOLLARS (\$ \_\_\_\_\_), in lawful currency of the United States of America, in installments on the Payment Dates set forth in Annex A hereto, each such installment to be in the amount set forth in Annex A hereto opposite the Payment Date on which such installment is due, and to pay interest in arrears on each Interest Payment Date at the Debt Rate (as defined herein below) for the Interest Period ending on such Interest Payment Date on the amount of such principal amount remaining unpaid from time to time from the date hereof until such principal amount is paid in full; *provided* that in the event (i) that this Note shall have been prepaid in part pursuant to the Loan Agreement, the amounts of such installments shall be reduced in accordance with the Loan Agreement and (ii) of any repayment or prepayment of any principal amount hereof, accrued interest on the principal amount repaid or prepaid shall be payable on the date of such repayment or prepayment; and *provided further* that the final principal payment hereon shall in any and all events equal the then outstanding principal balance hereof and such final payment shall discharge all amounts due under this Note. Interest shall be computed on the basis of a year of 360 days and the actual days elapsed (including the first day but excluding the last day) in the period for which interest is payable. The Applicable Margin for this Note is \*\*annum. As used herein, the term "Debt Rate" means the \*\*for the relevant Interest Period plus the Applicable Margin, unless the Substitute Basis shall have become applicable pursuant to Section 1.7 of the Loan Agreement, in which case the "Debt Rate" shall mean the sum of the Substitute Basis and the Applicable Margin.

Notwithstanding the foregoing, this Note shall bear interest at the Default Rate on overdue principal and, to the extent permitted by applicable law, on any interest and any other amounts payable hereunder not paid when due and payable for any period during which the same shall be overdue, payable on demand by the holder hereof.

This Note is one of the Notes referred to in, and is entitled to the benefits of, the Loan Agreement [Spare Parts] dated as of \_\_\_\_\_, 2008, among the Borrower, General Electric Capital Corporation, as Administrative Agent, General Electric Capital Corporation, as Collateral Agent, General Electric Capital Corporation, as Original Lender, and the Lenders from time to time party thereto (as amended or modified from time to time, the "Loan Agreement"; the terms defined therein being used herein as therein defined). The Loan Agreement, among other things, (i) provides for the making of a Loan by the Lenders to the Borrower on the Funding Date and (ii) contains provisions for acceleration of the maturity hereof upon the happening of certain stated events and also prepayments on account of principal hereof prior to the maturity hereof upon the terms and conditions therein specified. The obligations of the Borrower under this Note and the Loan Agreement are secured by collateral as provided in the Spare Parts Mortgage and Security Agreement (as amended or supplemented from time to time) dated as of \_\_\_\_\_, 2008, executed by the Borrower and General Electric Capital Corporation, as Collateral Agent (the "Mortgage").

Each holder hereof, by its acceptance of this Note, agrees that each payment received by it hereunder shall be applied, *first*, to the payment of any amount (other than principal of or interest on this Note) then due in respect of this Note, including, without limitation, \*\*, if any; *second*, to the payment of accrued interest on this Note (as well as any interest on overdue principal, or, to the extent permitted by law, on \*\*, if any, on interest and on other amounts due hereunder) due and payable to the date of such payment; and *third*, to the payment of principal then due hereunder (applied, in the case of a partial prepayment, in inverse order of maturity).

There shall be maintained a Note Register for the purpose of registering transfers and exchanges of Notes at the office of the Collateral Agent or at the office of any successor Collateral Agent in the manner provided in Section 9.8(d) of the Loan Agreement. As provided in the Loan Agreement and subject to certain limitations therein set forth, the Notes may be assigned, and the Notes are exchangeable for a like aggregate original principal amount of Notes of different authorized denominations, as requested by the Lender surrendering the same.

Unless the certificate of authentication hereon has been executed by or on behalf of the Collateral Agent by manual signature, this Note shall not be entitled to any benefit under the Loan Agreement or the Mortgage or be valid or obligatory for any purpose.

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\*\* Confidential Treatment Requested.

THIS NOTE SHALL BE CONSTRUED IN ACCORDANCE WITH AND GOVERNED BY THE LAW OF THE STATE OF NEW YORK.

US AIRWAYS, INC.

By: \_\_\_\_\_

Name:

Title:

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COLLATERAL AGENT'S CERTIFICATE OF AUTHENTICATION

This is one of the Notes referred to in the within-mentioned Loan Agreement and Mortgage.

[\_\_\_\_\_]

By:

\_\_\_\_\_  
Name:  
Title:

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**Exhibit C**  
**Form of Notice of Borrowing**  
**NOTICE OF BORROWING**

General Electric Capital Corporation  
as Administrative Agent  
Attention: [\_\_\_\_\_]

\_\_\_\_\_, 2008

Ladies and Gentlemen:

We refer to the Loan Agreement [Spare Parts] dated as of \_\_\_\_\_, 2008, among US Airways, Inc., General Electric Capital Corporation, as Administrative Agent, General Electric Capital Corporation, as Collateral Agent, General Electric Capital Corporation, as Original Lender and the Lenders from time to time party thereto (as amended or modified from time to time, the "Loan Agreement"; the terms defined therein being used herein as therein defined). We hereby give you notice requesting a Loan pursuant to Section 1.2(a) of the Loan Agreement, and in that connection we set forth below the required information relating to such Loan (the "Proposed Loan"):

- (1) The Funding Date on which the Proposed Loan shall be made is \_\_\_\_\_.
- (2) The aggregate principal amount of the Proposed Loan is \$ \_\_\_\_\_.

Very truly yours,

US AIRWAYS, INC.

By: \_\_\_\_\_  
Name:  
Title:

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**Exhibit D**

[Insert Form of Opinion of Special Counsel to Borrower]

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**Exhibit E**

[Insert Form of Opinion of Borrower's Legal Department]

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**Exhibit F**  
**Form of Transfer Supplement**

Date \_\_\_\_\_, \_\_\_\_\_

Reference is made to the Agreement described in Item 2 of Annex I hereto (as such Loan Agreement may hereafter be amended, supplemented or otherwise modified from time to time, the "*Loan Agreement*"). Unless defined in Annex I hereto, terms defined in the Loan Agreement are used herein as therein defined. \_\_\_\_\_ (the "*Assignor*") and \_\_\_\_\_ (the "*Assignee*") hereby agree as follows:

1. The Assignor hereby sells and assigns to the Assignee without recourse and without representation or warranty (other than as expressly provided herein), and the Assignee hereby purchases and assumes from the Assignor, that interest in and to all of the Assignor's rights and obligations under the Loan Agreement as of the date hereof which represents the percentage interest specified in Item 4 of Annex I hereto (the "*Assigned Share*") of all of the outstanding rights and obligations under the Loan Agreement relating to the Loan and Commitments listed in Item 4 of Annex I hereto. After giving effect to such sale and assignment, the amount of the outstanding principal owing to the Assignee and the Assignor (if any) will be as set forth in Item 4 of Annex I hereto.

2. The Assignor (i) represents and warrants that it is the legal and beneficial owner of the interest being assigned by it hereunder and that such interest is free and clear of any adverse claim; (ii) makes no representation or warranty and assumes no responsibility with respect to any statements, warranties or representations made in or in connection with the Loan Agreement or the other Transaction Documents or the execution, legality, validity, enforceability, genuineness, sufficiency or value of the Loan Agreement or the other Transaction Documents or any other instrument or document furnished pursuant thereto; and (iii) makes no representation or warranty and assumes no responsibility with respect to the financial condition of any party to the Transaction Documents or the performance or observance by any party to the Transaction Documents of any of their respective obligations under the Loan Agreement or the other Transaction Documents to which they are a party or any other instrument or document furnished pursuant thereto.

3. The Assignee (i) confirms that it has received a copy of the Loan Agreement and the other Transaction Documents, together with copies of the financial statements referred to therein and such other documents and information as it has deemed appropriate to make its own credit analysis and decision to enter into this Transfer Supplement; (ii) agrees that it will, independently and without reliance upon the Transaction Agents, the Assignor or any other Lender and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit decisions in taking or not taking action under the Loan Agreement; (iii) confirms that it is an Eligible Assignee under Section 9.8(c) of the Loan Agreement; (iv) appoints and authorizes the Transaction Agents to take such action as an agent on its behalf and to exercise such powers under the Loan Agreement and the other Transaction Documents as are delegated to the Transaction Agents, as the case may be, by the terms thereof,

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together with such powers as are reasonably incidental thereto; (vi) agrees that it will perform in accordance with their terms all of the obligations which by the terms of the Loan Agreement are required to be performed by it as a Lender; (vii) makes the representations and warranties contained in Section 3.4 of the Loan Agreement[; and (viii) attaches the forms described in Sections 5.3(c) and 9.8(c) of the Loan Agreement.]<sup>1</sup>

4. Following the execution of this Transfer Supplement by the Assignor and the Assignee, an executed original hereof (together with all attachments) will be delivered to the Collateral Agent. This Transfer Supplement shall be effective, unless a later date is otherwise specified in Item 5 of Annex I hereto (the “*Settlement Date*”), upon the date upon which each of the following conditions shall have been satisfied: (i) each of the Assignor and Assignee shall have executed a copy hereof and delivered the same to the other party, (ii) the registration of the transfer on the Register as provided by Section 9.8(d) of the Loan Agreement and (iii) receipt by the Assignee of such other documentation or fees specified on Item 9 of Annex I hereto.

5. Upon the delivery of a fully executed original hereof to the Collateral Agent, as of the Settlement Date of this Transfer Supplement, (i) the Assignee shall be a party to the Loan Agreement and, to the extent provided in this Transfer Supplement, have the rights and obligations of a Lender thereunder and under the other Transaction Documents and (ii) the Assignor shall, to the extent provided in this Transfer Supplement, relinquish its rights and be released from its obligations under the Loan Agreement and the other Transaction Documents.

6. It is agreed that the Assignee shall be entitled to all interest on the Assigned Share of the Loans at the rates specified in Item 6 of Annex I which are paid by the Borrower on and after the Settlement Date, such interest to be paid by the Administrative Agent directly to the Assignee. It is further agreed that all payments of principal made on the Assigned Share of the Loans which occur on and after the Settlement Date will be paid directly by the Administrative Agent to the Assignee. Upon the Settlement Date, the Assignee shall pay to the Assignor an amount specified by the Assignor in writing which represents the Assigned Share of the principal amount of the Loans pursuant to the Loan Agreement which are outstanding on the Settlement Date, and which are being assigned hereunder. The Assignor and the Assignee shall make all appropriate adjustments in payments under the Loan Agreement for periods prior to the Settlement Date directly between themselves.

7. The Borrower is an intended third party beneficiary of, and may enforce, this Transfer Supplement.

8. THIS TRANSFER SUPPLEMENT SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK.

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1. Include if the Assignee is organized under the laws of a jurisdiction outside of the United States.

IN WITNESS WHEREOF, the parties hereto have caused their duly authorized officers to execute and deliver this Transfer Supplement, as of the date first above written, such execution also being made on Annex I hereto.

[NAME OF ASSIGNOR],  
as Assignor

By \_\_\_\_\_  
Title:

[NAME OF ASSIGNEE],  
as Assignee

By \_\_\_\_\_  
Title:

Acknowledged and Agreed:

GENERAL ELECTRIC CAPITAL CORPORATION  
as Collateral Agent

By \_\_\_\_\_  
Name:  
Title:

**ANNEX FOR TRANSFER SUPPLEMENT**

**ANNEX I**

1. Borrower: US Airways, Inc.

2. Name and Date of Loan Agreement:

Loan Agreement [Spare Parts], dated as of \_\_\_\_\_, 2008, among US Airways, Inc., as Borrower, General Electric Capital Corporation, as Administrative Agent, General Electric Capital Corporation, as Collateral Agent, General Electric Capital Corporation, as Original Lender, and the Lenders from time to time party thereto.

3. Date of Assignment Agreement:

4. Amounts (as of date of Item 3 above):

	Principal Amount of Outstanding Notes (or Commitment)	Percentage Holding (Expressed as % of Facility)
a. Aggregate Amount for all Lenders	\$ _____	**
b. Amount held by Assignor immediately prior to Assignment	\$ _____	____%
c. Amount of Assigned Share	\$ _____	____%
d. Amount Retained by Assignor	\$ _____	____%

5. Settlement Date:

\_\_\_\_\_  
\*\* Confidential Treatment Requested.

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6. Rate of Interest to the Assignee:

As set forth in Section 2.1 of the Loan Agreement (unless otherwise agreed to by the Assignor and the Assignee)\*

7. Notice and Lending Office:

ASSIGNOR:

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

Attention:  
Telephone:  
Telecopier:

ASSIGNEE:

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

Attention:  
Telephone:  
Telecopier:

8. Payment Instructions:

ASSIGNOR:

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

Attention:  
Reference:

ASSIGNEE:

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

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\* The Borrower and the Administrative Agent shall direct the entire amount of the interest to the Assignee at the rate set forth in Section 2.1 of the Loan Agreement, with the Assignor and Assignee effecting the agreed upon sharing of the interest through payments by the Assignee to the Assignor.

Attention:

Reference:

9. Other Documents or Fees for Closing (if any):

Acknowledged and Agreed:

[NAME OF ASSIGNEE]

[NAME OF ASSIGNOR]

By \_\_\_\_\_

By \_\_\_\_\_

\_\_\_\_\_  
(Print Name and Title)

\_\_\_\_\_  
(Print Name and Title)



**Exhibit G**

**Form of Certificate re Non-Bank Status**

**CERTIFICATE RE NON-BANK STATUS**

Reference is hereby made to the Loan Agreement [Spare Parts], dated as of \_\_\_\_\_, 2008, among US Airways, Inc., General Electric Capital Corporation, as Administrative Agent, General Electric Capital Corporation, as Collateral Agent, General Electric Capital Corporation, as Original Lender, and the Lenders from time to time party thereto (as amended or modified from time to time, the "Loan Agreement"). Pursuant to the provisions of Section 5.3(c) of the Loan Agreement, the undersigned hereby certifies that (i) it is not a "bank" as such term is used in Section 881(c)(3)(A) of the Internal Revenue Code of 1986, as amended (the "Code"), (ii) it is not a controlled foreign corporation (within the meaning of Section 957(a) of the Code) related (within the meaning of Section 864(d)(4) of the Code) to the Borrower, and (iii) it is not a \*\* (within the meaning of Section 871(h)(3)(B) of the Code) of the Borrower.

[NAME OF LENDING INSTITUTION]

By \_\_\_\_\_  
Title: \_\_\_\_\_  
Date: \_\_\_\_\_

\_\_\_\_\_  
\*\* Confidential Treatment Requested.

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**Exhibit H**

[Insert Form of FAA Counsel's Opinion]

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**Exhibit I**

[Insert Form of Subordinated Parts Mortgage]

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**Exhibit J**

[Insert Form of Subordinated Engine Mortgage]

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**Exhibit K**

[Insert Form of Subordinated Aircraft Mortgage]

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**Exhibit L**

[Insert Form of Omnibus Intercreditor Agreement]

**AMENDMENT NO. 1  
TO  
LOAN AGREEMENT [SPARE PARTS]**

THIS AMENDMENT NO. 1 TO LOAN AGREEMENT [SPARE PARTS] (the "Amendment") is entered into as of this 5th day of December 2008 among US AIRWAYS, INC., a Delaware corporation (the "Borrower"), GENERAL ELECTRIC CAPITAL CORPORATION, a Delaware corporation, as Administrative Agent for the Lenders (the "Administrative Agent"), GENERAL ELECTRIC CAPITAL CORPORATION, a Delaware corporation, as the Collateral Agent (the "Collateral Agent"), GENERAL ELECTRIC CAPITAL CORPORATION, as the Original Lender (herein called the "Original Lender"), and such other lenders as may from time to time become party to the Loan Agreement (as hereinafter defined) (together with the Original Lender, the "Lenders").

RECITALS:

A. The Borrower, the Administrative Agent, the Lenders and the Collateral Agent have heretofore executed and delivered a Loan Agreement [Spare Parts], dated as of October 20, 2008 prior to the effectiveness of this Amendment (the "Original Loan Agreement"), pursuant to which Lenders agreed to make loans to the Borrower to be secured by a Lien (such term and other capitalized terms used without definition herein have the meanings assigned to them in, or by reference in, the Loan Agreement) on certain spare parts and related property owned by the Borrower and stored at certain locations.

B. The Borrower wishes to exercise its option to make the Special Prepayment as provided in the Original Loan Agreement.

C. In connection with such Special Prepayment, the Borrower has requested that the Administrative Agent, the Lenders and the Collateral Agent enter into this Amendment in order to permit the Borrower to solicit and obtain new loan commitments from new lenders and to provide the Borrower with the right to borrow certain new loans, all on the terms and subject to the provisions set forth herein.

D. The Administrative Agent, the Lenders and Collateral Agent are willing to amend the Original Loan Agreement on the terms and conditions set forth herein.

NOW, THEREFORE, in consideration of the premises and other good and valuable consideration, receipt of which is hereby acknowledged, the parties hereto agree as follows:

Section 1. Amendments.

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\*\* Confidential Treatment Requested.

A. Section 1.1 of the Original Loan Agreement is amended in full to read as follows:

“Section 1.1. *The Loan*.

(a) *Commitments*.

(1) *Funding Date*. Subject to the terms and conditions of this Loan Agreement, on the Funding Date, each Original Lender shall advance funds in an amount equal to its Percentage Share of the Maximum Facility Amount; provided that no Original Lender shall have any obligation to advance funds in excess of the amount of its Commitment. As evidence of the funds advanced by each Original Lender, on the Funding Date the Borrower shall issue and deliver to each Original Lender, as provided hereunder, a Note payable to such Original Lender in an original principal amount equal to the amount of such Lender’s Percentage Share of the Original Loan.

(2) *New Loan Dates*. Provided that no Potential Default has occurred and is continuing and that the Borrower has elected to make and has made the Special Prepayment, the Borrower shall be entitled at any time and from time to time prior to March 31, 2009 (or such earlier date as the Borrower notifies the Administrative Agent in writing that it is irrevocably relinquishing its right to obtain New Loans pursuant to this Section 1.1(a)(2)), to solicit and obtain loan commitments (each, a “New Loan Commitment”) from additional lenders (each a “New Lender”), in an amount not less than \*\* per New Lender, and in an aggregate maximum amount for all New Lenders of \$100,000,000 (the “Maximum New Loan Commitment”), with each such New Loan Commitment providing for the funding by such New Lender of loans (a “New Loan”) on any Business Day (a “New Loan Date”) on or prior to March 31, 2009 (or such earlier date as the Borrower notifies the Administrative Agent in writing that it is irrevocably relinquishing its right to obtain New Loans pursuant to this Section 1.1(a)(2)). The Borrower acknowledges and agrees that neither the Borrower nor any Affiliate of the Borrower shall be, or shall be permitted to be, a New Lender. \*\*. A New Lender shall have rights under this Agreement, and may advance a New Loan under this Agreement, only after executing and delivering to the Administrative Agent an agreement in a form reasonably satisfactory to the Administrative Agent by which such New Lender is joined to the Loan Agreement as a party thereto and a “Lender” thereunder (herein, a “NL Joinder”). On each New Loan Date, each New Lender shall make a Loan to the Borrower in an amount equal to its New Loan Commitment; provided that (a) no New Lender shall have any obligation to make a loan to the Borrower in excess of the amount of its respective New Loan Commitment, and (b) no other Lender shall have any obligation to advance any funds or have any other liability resulting from a New Lender’s failure to make New Loans to the Borrower. As evidence of the funds advanced by each New Lender, on the New Loan Date, the Borrower shall issue and deliver to each New Lender, as provided hereunder, a Note payable to such New Lender in an original principal amount equal to the amount of such New Lender’s New Loan and reflecting the amortization schedule in respect of such Note, after giving effect to the New Loan. The terms and provisions of any New Loan shall, except to the extent expressly set forth herein, be identical to the Original Loans, and any New Loan made pursuant to the New

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\*\* Confidential Treatment Requested.



Loan Commitments will constitute Obligations hereunder for all purposes of this Agreement and the other Transaction Documents and will be secured by the Collateral securing the other Obligations. The parties hereto acknowledge and agree that the Administrative Agent may hereunder or pursuant to any NL Joinder, without the consent of any Lender, effect such amendments to this Agreement and the other Transaction Documents as may be necessary or appropriate, in the opinion of the Administrative Agent, to effect the provisions of this Section 1.1(a)(2) including, without limitation, conforming amendments (which may be in the form of an amendment and restatement) to provide for each New Loan Commitment to share ratably in the benefits of this Agreement and the other Transaction Documents (including the accrued interest and fees in respect thereof) with the Loans; provided that such amendments may not alter the obligations of the Borrower under the Transaction Documents except as provided in this Section. In addition, unless otherwise specifically provided herein, all references in Transaction Documents to Loans shall be deemed, unless the context otherwise requires, to include references to the New Loans. If any New Lender or the Borrower reasonably requests any amendments or modifications to any of the Transaction Documents or the entry into or issuance of any other documentation or other assurances (including without limitation, amendments, modifications, documentation or assurances related to granting or re-granting the security interest in the Collateral, reaffirmations of the security interest, making filings with the FAA or the International Registry, or making any other filings to evidence or perfect the Collateral Agent's security interest in the Collateral) (collectively, the "New Lender Requests"), in connection with (or as condition to) the making of such New Lender's New Loans, the Transaction Agents and the Lenders agree to consider such New Lender Requests in good faith and to effectuate (at the Borrower's expense) each such New Lender Request that is acceptable to all of the Transaction Agents and the Lenders; provided that no Transaction Agent or Lender shall be obligated to take any action or approve any New Lender Request that it determines (in its good faith judgment) is adverse to it.

(3) *Form of Notes*. The Notes and the Collateral Agent's certificate of authentication thereon shall each be substantially in the form set forth in Exhibit B.

(b) *The Notes; Amortization; Release of Expendables*. The Loan shall mature on the Maturity Date, and the principal of the Loan shall be payable in twenty-four (24) consecutive quarterly installments in the amount set forth in Part 1 of Schedule 2 to this Agreement with respect to each Payment Date;\*\*. On the Funding Date, Annex A to each Note shall be completed so that the aggregate amount of principal due on each Payment Date on all of the Notes, taken together, is equal to the amount of principal due on such Payment Date as set forth on Part 1 of Schedule 2. In the event the Borrower incurs New Loans, (i) the quarterly installments of principal in respect of the Original Loan shall be as set forth in Part 3 of Schedule 2, and (ii) the quarterly installments of principal in respect of any New Loan shall be in an amount agreed between such New Lender and the Borrower and reasonably acceptable to each Transaction Agent; provided, however, that in no event shall the \*\*installments of principal in respect of the New Loans (at any time in the aggregate) be less than the amount of the corresponding \*\*installment of principal set forth in Part 5 of Schedule 2. \*\*. Notwithstanding anything to the contrary set forth in this Agreement (including Schedule 2), no

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\*\* Confidential Treatment Requested.

amendment to this Agreement shall increase the principal amount of the Loan payable on any date prior to the Maturity Date as compared to the analogous date as set forth in the Original Loan Agreement.

(c) *Optional Prepayment.*

(i) *In General.* \*\*, the Borrower may prepay all, or any portion of the outstanding principal amount of the Loan without premium or penalty; provided, however, that no partial prepayment of the Loan shall be for less than \*\*of principal. If the Borrower elects to prepay the Loan in whole or in part, the Borrower shall pay on the Prepayment Date to the Administrative Agent, for the account of the Lenders, the principal amount specified to be prepaid in the applicable notice of prepayment together with all accrued and unpaid interest thereon, \*\*, and all other amounts then due and payable under the Transaction Documents. Prepayments in part (other than the Special Prepayment and prepayments pursuant to Section 1.1(c)(ii) and Section 1.7(f) below) shall be applied to principal in the inverse order of maturity.

(ii) *Limited Optional Prepayment.* Notwithstanding anything to the contrary in Section 1.1(c)(i) above and without limiting the Borrower's obligations under Sections 5.1, 5.2 and 5.3, in the event that the Borrower receives notice from any Lender of any costs that the Borrower is required to pay to such Lender pursuant to any of Sections 5.1, 5.2 or 5.3, and the Lender is not able to mitigate the relevant costs by changing its Lending Office pursuant to Section 1.10 below, then the Borrower shall have the right, exercisable upon not less than \*\*prior notice to the applicable Lender (with a copy to the Administrative Agent), to prepay in full the Loan Amount held by such Lender, without premium or penalty. If the Borrower elects to make such a prepayment, then the Borrower shall pay the full Loan Amount held by the applicable Lender, together with accrued interest thereon, any \*\*and any amounts due to such Lender pursuant to Sections 5.1, 5.2 and 5.3, as applicable. Any prepayment by the Borrower pursuant to this Section 1.1(c)(ii) shall be made by the Borrower directly to the applicable Lender, and no prepayment by the Borrower pursuant to this Section 1.1(c)(ii) shall have any effect on the Borrower's obligations with respect to the remaining outstanding balance of the Loan to any of the other Lenders hereunder. For the avoidance of doubt such prepayment may be made prior to the Designated Date and may be in an amount less than\*\*.

(d) *Collateral Compliance Prepayment.* In the event that, in accordance with Section 3.03 of the Mortgage, the Borrower is entitled to make, and elects to make, a prepayment of the Loan, then the principal amount of such prepayment, together with accrued interest thereon to the date of such prepayment, \*\*, shall be paid, without premium or penalty, by the Borrower to the Administrative Agent for the account of all Lenders. Any prepayment pursuant to this Section 1.1(d) shall be applied to principal\*\*. For the avoidance of doubt such prepayment may be made prior to the Designated Date and may be in an amount less than\*\*.

(e) *Special Prepayment.* Notwithstanding anything to the contrary elsewhere in this Agreement or the other Transaction Documents, the Borrower may prepay an

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\*\* Confidential Treatment Requested.

amount equal to the Special Prepayment Amount\*\*. In the event that the Borrower makes the prepayment contemplated by this Section 1.1(e), then the schedule for the payment of the remaining outstanding principal balance of the Loan shall be as set forth in Part 2 of Schedule 2; provided, that the foregoing change in amortization schedule shall be deferred until\*\*.

(f) *Pro Rata Treatment*. Except to the extent otherwise provided herein (including, but not limited to, as otherwise specified in Sections 1.1(a)(2) and 1.1(c)(ii) above): (a) the borrowing of the Original Loans from the Original Lenders under Section 1.2 shall be made from the Original Lenders pro rata according to the amounts of their respective Commitments; (b) each payment or prepayment of principal of the Loan shall be made for account of the Lenders pro rata in accordance with the respective unpaid principal amounts of the Loan held by them (as evidenced by the Notes held by them); and (c) each payment of interest on the Loan shall be made for account of the Lenders pro rata in accordance with the amounts of interest on the Loan then due and payable to the Lenders, but must in all respects comply with the terms of the Mortgage.

(g) \*\*so long as (i) the Borrower has\*\*, (ii) no Potential Default has occurred and is continuing, (iii) the Borrower no longer has the right to incur New Loans (including, in the event that the Borrower relinquishes such right), (iv) \*\*and (v) the remaining Pledged Spare Parts, after giving effect to such release (and any cure pursuant to Section 3.03 of the Mortgage), will satisfy each of the Collateral Value Tests, in each case as measured as of the date when the\*\*, but based on the Current Market Value of such Pledged Spare Parts as of the most recent Valuation Date. In the event that the Borrower no longer has the right to incur New Loans (including, in the event that the Borrower relinquishes such right), no New Loans have been incurred by the Borrower and the \*\* (or such earlier date as the Borrower notifies the Administrative Agent in writing that it is irrevocably relinquishing its right to obtain New Loans pursuant to Section 1.1(a)(2)), then the schedule for the payment of the remaining outstanding principal balance of the Loan shall be as set forth in Part 4 of Schedule 2.

B. Section 1.2(a) of the Original Loan Agreement is amended in full to read as follows:

“Section 1.2. *Making the Loan*.

(a) *Notice of Borrowing*.

(1) *Funding Date*. The Original Loan shall be requested by the delivery of a Notice of Borrowing by the Borrower to the Administrative Agent not later than 4:00 p.m. (New York City time) on the second Business Day prior to the Funding Date specified in such notice. The Administrative Agent shall give to each Lender prompt notice thereof. The Notice of Borrowing shall be irrevocable and binding on the Borrower. The Notice of Borrowing shall be in writing specifying therein (i) the aggregate amount of the Original Loan to be funded, and (ii) the proposed Funding Date. Each Lender shall, before 10:00 a.m. (New York City time) on the scheduled Funding

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\*\* Confidential Treatment Requested.

Date, make available for the account of its Lending Office to the Administrative Agent's Account, in immediately available funds, the amount of its Commitment. After the Administrative Agent's receipt of such funds and upon fulfillment of the applicable conditions set forth in Article VI as confirmed during a closing conference call pursuant to which the Administrative Agent or its counsel shall indicate such fulfillment, the Administrative Agent shall transfer such funds to the escrow account at\*\*.

(2) *New Loan Date*. Promptly following the Borrower obtaining a New Loan Commitment, the Borrower shall notify the Administrative Agent of the same, including the name of the New Lender, the amount of the New Loan Commitment and the projected New Loan Date (which shall be a date not less than five (5) Business Days (or such earlier date as may be acceptable to the Administrative Agent in its sole and absolute discretion) after the date that the Borrower gives such notice). The increase to the Loan through New Loans shall be requested by the delivery of a Notice of Borrowing by the Borrower to the New Lender and the Administrative Agent not later than 4:00 p.m. (New York City time) on the second Business Day prior to the New Loan Date specified in such notice; provided, however, that no such Notice of Borrowing may be issued until the New Lender has executed and delivered an NL Joinder to the Administrative Agent. The Administrative Agent shall give to each Lender prompt notice thereof. The Notice of Borrowing shall be irrevocable and binding on the Borrower. The Notice of Borrowing shall be in writing specifying therein (i) the aggregate amount of the increase to the Loan to be funded, and (ii) the proposed New Loan Date. The New Lender shall, before 10:00 a.m. (New York City time) on the scheduled New Loan Date, make available for the account of its Lending Office to the Administrative Agent's Account, in immediately available funds, the amount of its New Loan Commitment. After the Administrative Agent's receipt of such funds and upon fulfillment of the applicable conditions set forth in Article VI as confirmed during a closing conference call pursuant to which the Administrative Agent or its counsel shall indicate such fulfillment, the Administrative Agent shall transfer such funds to \*\*

C. Section 1.4 of the Original Loan Agreement is amended in full to read as follows:

“Section 1.4. *Commitment Termination*. The Commitment of each Lender other than a New Lender shall \*\*

D. Section 2.1(b) of the Original Loan Agreement is amended in full to read as follows:

“(b) \*\*

E. Section 2.2(a) of the Original Loan Agreement is amended in full to read as follows:

“(a) *Interest Periods*. The first Interest Period shall be the period commencing on the Funding Date (provided, that in the case of a delayed Funding Date, the date the

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\*\* Confidential Treatment Requested.

funds for such Note are made available to the Administrative Agent shall be the commencement date of such Interest Period pursuant to Section 1.2(b)), except that in respect of any New Loan, the first Interest Period shall commence on the New Loan Date, and in all cases such first Interest Period shall end on, but shall exclude, the next Interest Payment Date (and the LIBOR Rate for such first Interest Period shall be the same as the LIBOR Rate in effect at such time for the Original Loans), and thereafter each successive Interest Period shall commence on (and shall include) the last day of the next preceding Interest Period and shall end on (but shall exclude) the next succeeding Interest Payment Date, provided however that notwithstanding anything in this Agreement to the contrary, the final Interest Period shall end on the Maturity Date.”

F. The Original Loan Agreement is amended by the addition of Section 6.4, to read as follows:

“Section 6.4. *Conditions to New Loans*. The obligation of each New Lender to fund the increase to the Loan in the amount of its New Loan Commitment is subject to the fulfillment, prior to or on the applicable New Loan Date, of the following additional conditions precedent:

(a) The Administrative Agent shall have received a replacement Note for each Lender other than the New Lenders and a Note for such New Lender (in each case, duly executed by the Borrower and authenticated by the Collateral Agent) issued to each Lender in an original principal amount equal to such Lender’s Percentage Share of the Loan and reflecting the revised amortization schedule applicable to each such Note.

(b) On the New Loan Date, no event shall have occurred and be continuing, or would result from the New Loan, which constitutes an Event of Default or a Potential Default.”

G. Section 9.3 of the Original Loan Agreement is amended in full to read as follows:

“Section 9.3. *Costs and Expenses*. The Borrower agrees to pay at or prior to Closing, after receipt of reasonably detailed invoices, all reasonable and actual costs and expenses of the initial Lender and each Transaction Agent in connection with the preparation, execution and delivery of the Transaction Documents and Additional Documents (whether or not any such Transaction Document or Additional Document is entered into), including, without limitation the reasonable fees and expenses of (a)\*\*, special counsel to the Lenders, (b)\*\*, special counsel to the Lenders, and (c)\*\*. The Borrower further agrees to pay on demand (i) the initial and annual fees, and the reasonable expenses of, the Collateral Agent in connection with the transactions contemplated hereby, (ii) all reasonable and actual costs and expenses of each Transaction Agent and the Lenders, if any (including, without limitation, reasonable counsel fees and expenses), in connection with any New Loan, and (iii) all reasonable and actual costs and expenses of each Transaction Agent and the Lenders, if any (including, without limitation, reasonable counsel fees and expenses), in connection with

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\*\* Confidential Treatment Requested.

the enforcement (whether through negotiations, legal proceedings or otherwise) of the Transaction Documents after the occurrence of an Event of Default (including, without limitation, reasonable fees and expenses of one counsel for the Collateral Agent and one counsel for all of the Lenders in connection with the enforcement of their rights under the Transaction Documents).”

H. Schedule 1 to the Original Loan Agreement is amended by adding the following terms, to read as follows:

““*Expendables Release*” is defined in Section 1.1(g) of this Agreement.”

““*Maximum New Loan Commitment*” is defined in Section 1.1(a)(2) of this Agreement.””

““*New Lender*” is defined in Section 1.1(a)(2) of this Agreement.”

““*New Lender Requests*” is defined in Section 1.1(a)(2) of this Agreement.”

““*New Loan*” is defined in Section 1.1(a)(2) of this Agreement.”

““*New Loan Commitment*” is defined in Section 1.1(a)(2) of this Agreement.”

““*New Loan Date*” is defined in Section 1.1(a)(2) of this Agreement.”

““*NL Joinder*” is defined in Section 1.1(a)(2) of this Agreement.”

““*Original Lender*” means General Electric Capital Corporation.”

““*Original Loan Agreement*” means the Loan Agreement [Spare Parts], dated as of October 20, 2008, among the Borrower, the Administrative Agent, the Lenders and the Collateral Agent, as in effect immediately prior to that certain Amendment No.1 to Loan Agreement [Spare Parts] dated as of December 5, 2008 among the Borrower, the Administrative Agent, the Lenders and the Collateral Agent becoming effective.”

““*Original Loans*” means Loans advanced by the Original Lender to the Borrower on the Funding Date.”

I. The following terms in Schedule 1 to the Original Loan Agreement are amended in full to read as follows:

““*Closing*” means the time on the Funding Date at which the Loan has been advanced to the Borrower.”

““*Commitment*” means (i) with respect to each Lender that is a signatory to this Agreement on the date it is signed, its obligation to fund a portion of the Loan up to the amount set forth on such Lender’s signature page hereto, (ii) with respect to any Lender that becomes a party to this Agreement by a Transfer Supplement, its obligation to fund (if not already funded) a portion of the Loan up to the amount set forth in such Transfer

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\*\* Confidential Treatment Requested.

Supplement as the “Assigned Share”, and (iii) with respect to each New Lender, its obligation to extend New Loans in accordance with its New Loan Commitment; provided that, in no event shall the aggregate amount of the Commitments of all Lenders exceed the Maximum Facility Amount.”

“*Lenders*” is defined in the first paragraph of this Agreement, and for avoidance doubt includes any New Lenders.”

“*Loan*” means the sum of Original Loans and the New Loan; and “*Loans*” means Original Loans and New Loans.”

“*Maturity Date*” means the date that is the seventy-second (72<sup>nd</sup>) monthly anniversary of the Funding Date; provided, however, if the Expendables Release occurs, then the Maturity Date shall be the sixtieth (60<sup>th</sup>) monthly anniversary of the Funding Date.”

“*Required Lenders*” \*\*

J. Part 1 of Schedule 2 (Amortization of the Loan) to the Original Loan Agreement is amended by adding the following the end of such Schedule:

“Notwithstanding anything to the contrary set forth in this Agreement (including Schedule 2), no amendment to this Agreement shall increase the principal amount of the Loan payable on any date prior to the Maturity Date as compared to the analogous date as set forth in the Original Loan Agreement.”

K. Part 2 of Schedule 2 (Amortization of the Loan) to the Original Loan Agreement is amended in full to read as follows:

“Part 2

Quarterly principal payments due on the Loan, assuming the Expendables Release occurs:

\*\*.

Notwithstanding anything to the contrary set forth in this Agreement (including Schedule 2), no amendment to this Agreement shall increase the principal amount of the Loan payable on any date prior to the Maturity Date as compared to the analogous date as set forth in the Original Loan Agreement.”

L. Schedule 2 (Amortization of the Loan) to the Original Loan Agreement is amended by adding a new “Part 3” to read in full as follows:

“Part 3

Quarterly principal payments due on the Original Loan, assuming the Borrower makes the Special Prepayment and obtains New Loans shall be:

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\*\* Confidential Treatment Requested.

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Notwithstanding anything to the contrary set forth in this Agreement (including Schedule 2), no amendment to this Agreement shall increase the principal amount of the Loan payable on any date prior to the Maturity Date as compared to the analogous date as set forth in the Original Loan Agreement.”

M. Schedule 2 (Amortization of the Loan) to the Original Loan Agreement is amended by adding a new “Part 4” to read in full as follows:

“Part 4

Quarterly principal payments due on the Loan, assuming the Borrower makes the Special Prepayment, does not obtain New Loans and the Expendables Release does not occur:

\*\*

Notwithstanding anything to the contrary set forth in this Agreement (including Schedule 2), no amendment to this Agreement shall increase the principal amount of the Loan payable on any date prior to the Maturity Date as compared to the analogous date as set forth in the Original Loan Agreement.”

N. Schedule 2 (Amortization of the Loan) to the Original Loan Agreement is amended by adding a new “Part 5” to read in full as follows:

“Part 5

Quarterly principal payments due in respect of New Loans (in the aggregate) in the first twelve Periods shall, at no time, be no less than the amounts calculated below in respect of each Period:

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with each such scheduled amortization payment being reduced to an amount calculated pursuant to the following formula:

\*\*

Where:

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Notwithstanding anything to the contrary set forth in this Agreement (including Schedule 2), no amendment to this Agreement shall increase the principal amount of the Loan payable on any date prior to the Maturity Date as compared to the analogous date as set forth in the Original Loan Agreement.”

Section 2. Amendments to Senior Mortgage.

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\*\* Confidential Treatment Requested.



That certain Spare Parts Mortgage and Security Agreement dated as of October 20, 2008 between the Borrower and the Collateral Agent (the "Senior Mortgage") shall be deemed amended upon this Amendment becoming effective pursuant to Section 4 below as follows:

A. The first sentence of Section 7.01(c) of the Senior Mortgage shall be deleted in its entirety; and

B. The definition of "Expendable Parts Release" set forth in Appendix A to the Senior Mortgage shall be amended and restated in its entirety to read: "*Expendables Parts Release*" has the meaning given to the term "Expendables Release" in the Loan Agreement."

The Borrower and the Collateral Agent hereby agree to enter into a confirmatory amendment to the Senior Mortgage promptly following this Amendment becoming effective pursuant to Section 4 below in order to document the amendments to the Senior Mortgage set forth in this Section 2.

Section 3. Amendments to Subordinated Mortgage.

That certain Subordinated Spare Parts Mortgage and Security Agreement dated as of October 20, 2008 between the Borrower and the Collateral Agent (the "Subordinated Mortgage") shall be deemed amended upon this Amendment becoming effective pursuant to Section 4 below as follows:

A. The first sentence of Section 7.01(c) of the Subordinated Mortgage shall be deleted in its entirety; and

B. The definition of "Expendable Parts Release" set forth in Appendix A to the Subordinated Mortgage shall be amended and restated in its entirety to read: "*Expendables Parts Release*" has the meaning given to the term "Expendables Release" in the Loan Agreement."

The Borrower and the Collateral Agent hereby agree to enter into a confirmatory amendment to the Subordinated Mortgage promptly following this Amendment becoming effective pursuant to Section 4 below in order to document the amendments to the Subordinated Mortgage set forth in this Section 3.

Section 4. Miscellaneous.

A. Effectiveness: This Amendment shall become effective upon the making of the Special Prepayment by the Borrower on or before December 5, 2008, which the Borrower may elect to do or not to do, at its option.

B. Effect on Syndication Agreement: Reference is made to the Syndication Agreement dated as of October 20, 2008 (the "Syndication Agreement") among the Borrower and General Electric Capital Corporation ("GECC"). GECC acknowledges that if Borrower

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\*\* Confidential Treatment Requested.

makes the Special Prepayment, which the Borrower may elect to do or not to do, at its option, the Syndication Agreement shall automatically terminate and be of no further force or effect.

C. Limitation on Amendment: Except as expressly amended hereby, all terms and provisions of the Loan Agreement remain in full force and effect and are hereby ratified and confirmed.

D. Counterparts. This Amendment may be executed in any number of counterparts and by the parties hereto on separate counterparts. All counterparts of this Amendment executed by the parties hereto together shall constitute one instrument.

E. Governing Law. This Amendment is being delivered in the State of New York and shall in all respects, including all matters of construction, validity and performance, be governed by, and construed in accordance with, the laws of the State of New York.

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\*\* Confidential Treatment Requested.

IN WITNESS WHEREOF, this Amendment No. 1 to Loan Agreement [Spare Parts] has been duly executed and delivered all as of the date first above written.

US AIRWAYS, INC.

By: /s/ Thomas T. Weir

Name: Thomas T. Weir

Title: Vice President and Treasurer

GENERAL ELECTRIC CAPITAL CORPORATION  
as the Administrative Agent, Collateral Agent and  
Original Lender

By: /s/ Ricardo B. Silva

Name: Ricardo B. Silva

Title: Vice President

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**AMENDMENT TO  
LOAN AGREEMENT, SECURITY AGREEMENT AND AIRCRAFT MORTGAGE**

**dated as of October 20, 2008,**

**between**

**US AIRWAYS GROUP, INC.,  
as Borrower,**

**certain subsidiaries of the Borrower**

**and**

**CITICORP NORTH AMERICA, INC.,  
as Administrative Agent**

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AMENDMENT TO LOAN AGREEMENT, SECURITY AGREEMENT AND AIRCRAFT  
MORTGAGE

AMENDMENT NO. 3 TO LOAN AGREEMENT, dated as of October 20, 2008, between US AIRWAYS GROUP, INC., a Delaware corporation (the "Borrower"), certain Subsidiaries of the Borrower signatory hereto and CITICORP NORTH AMERICA, INC. ("Citicorp"), as administrative agent and collateral agent for the Lenders (in such capacity, together with its successors and permitted assigns, the "Administrative Agent"), AMENDMENT NO. 1 TO SECURITY AGREEMENT, dated as of October 20, 2008, between the Borrower, certain Subsidiaries of the Borrower signatory hereto and the Administrative Agent and, AMENDMENT NO. 1 TO AIRCRAFT MORTGAGE, dated as of October 20, 2008, between the Borrower, certain Subsidiaries of the Borrower signatory hereto and the Administrative Agent (collectively, the "Amendment").

WHEREAS, the Borrower, the direct and indirect Subsidiaries of the Borrower party thereto, the Lenders and the Administrative Agent entered into the Loan Agreement, dated as of March 23, 2007 (as amended, supplemented or otherwise modified prior to the date hereof, the "Loan Agreement");

WHEREAS, the Borrower, the direct and indirect Subsidiaries of the Borrower party thereto and the Administrative Agent entered into the Security Agreement, dated as of March 23, 2007 (as amended, supplemented or otherwise modified prior to the date hereof, the "Security Agreement");

WHEREAS, the Borrower, the direct and indirect Subsidiaries of the Borrower party thereto and the Administrative Agent entered into the Aircraft, Engines, Propellers and Spare Parts Mortgage and Security Agreement, dated as of March 23, 2007 (as amended, supplemented or otherwise modified prior to the date hereof, the "Aircraft Mortgage");

WHEREAS, the Borrower wishes to amend certain provisions of the Loan Agreement, the Security Agreement and the Aircraft Mortgage as set forth herein;

WHEREAS, at the request of the Borrower, the Requisite Lenders have delivered consent letters, each in the form of Exhibit A hereto (a "Lender Consent Letter"), to the Administrative Agent consenting to the amendments as set forth herein in their entirety; and

NOW, THEREFORE, in consideration of the mutual agreements contained herein, the parties hereto agree as follows:

## ARTICLE I

### DEFINITIONS

Section 1.1 Definitions Except as otherwise defined in this Amendment, terms defined in Section 1.1 of the Loan Agreement are used herein as defined therein.

## ARTICLE II

### AMENDMENTS TO THE LOAN AGREEMENT, THE SECURITY AGREEMENT AND THE AIRCRAFT MORTGAGE THE AIRCRAFT MORTGAGE

Section 2.1 Amendments to Definitions The following definitions contained in Section 1.1 of the Loan Agreement are hereby amended as follows as of the Effective Date:

(a) **Airbus Financing Letter Agreement.** The definition of Airbus Financing Letter Agreement is hereby amended and restated in its entirety as follows:

““Airbus Financing Letter Agreement” means, collectively, (i) the A350 XWB Financing Letter Agreement, dated as of October 2, 2007, among US Airways, AWA, the Borrower, and AVSA, S.A.R.L., or any financing pursuant thereto, as amended, restated, supplemented or modified from time to time, (ii) the A320 Family Financing Letter Agreement, dated as of October 2, 2007, among US Airways, AWA, the Borrower, and AVSA, S.A.R.L., or any financing pursuant thereto, as amended, restated, supplemented or modified from time to time, and (iii) the A321 Junior Financing Letter Agreement, dated as of October 20, 2008, among US Airways and Airbus S.A.S., or any financing pursuant thereto, as amended, restated, supplemented or modified from time to time.”

(b) **Asset Sale.** The definition of Asset Sale is hereby amended by (i) deleting the parenthetical “(including available seat miles and frequent flier miles (including dividend and flightfund miles))” from clause (a) of the proviso; (ii) deleting the word “or” immediately prior to clause (l) thereof; and (iii) adding “; or (m) the sale, transfer or other disposition of available seat miles and frequent flier miles (including dividend miles)” after the word “amounts” at the end of clause (l) thereof.

(c) **Collateral Release Value.** The definition of Collateral Release Value is hereby amended by adding the following proviso after the parenthetical at the end of the definition: “; provided that with respect to any Specified Transaction, the Collateral Release Value is the minimum amount necessary to satisfy the applicable Specified Transaction Prepayment Condition with respect to such Specified Transaction”.

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(d) **Excess Cash Flow.** The definition of Excess Cash Flow is hereby amended by amending and restating clause (iii)(A) thereof as follows:

“(iii) the sum of (A) payments by the Obligors of scheduled principal and interest with respect to the consolidated Indebtedness of the Borrower (but excluding Indebtedness that is solely the obligation of any Subsidiary that is not an Obligor) during such period, to the extent such payments are not prohibited under this Agreement”.

(e) **Excluded Cash.** The definition of Excluded Cash is hereby amended by (i) deleting the word “or” at the end of clause (vii) thereof; (ii) replacing the period at the end of clause (viii) thereof with “; or” and (iii) adding the following new clauses (ix), (x) and (xi):

“(ix) subject to Liens securing reimbursement obligations in respect of letters of credit issued for the account of any Obligor for the benefit of any credit card processor, so long as the aggregate amount of such cash and Cash Equivalents does not exceed 115% of the maximum available amount under the secured letters of credit;

(x) subject to Liens securing the GECAS Financing to cure collateral deficiencies thereunder; or

(xi) proceeds of any property subject to a Lien in favor of a Person other than the Administrative Agent to the extent the Lien on such property is permitted hereunder or cash and cash equivalents from time to time in possession of a third party pursuant to a mortgage, indenture or similar instrument that the Obligors are permitted to enter into hereunder.”

(f) **Excluded Property — Leases.** The definition of Excluded Property is hereby amended by adding the following immediately after the end of clause (i)(3) thereof: “, in each case together with improvements and fixtures located on such leased real property”.

(g) **Excluded Property — Aircraft Related Equipment.** The definition of Excluded Property is hereby amended by (i) deleting the word “Spare” in the parenthetical in clause (ii) thereof and (ii) adding the following immediately after the words “Supporting Route Facilities” in clause (ii) thereof: “and any rights of any Obligor as lessee, licensee, lessor or licensor with respect to a lease or license of any of the foregoing and any other assets customarily securing Indebtedness used to acquire, finance or refinance such Aircraft Related Equipment, Gates, Slots or Supporting Route Facilities such as all books, records, logs,

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manuals, data and inspection, modification and overhaul records, related intellectual property (whether owned or leased) or the like and, in the case of spare parts, spare part tracking systems and any and all computer programs and inventory management systems (including but not limited to all source codes and user interfaces associated therewith as well as all data files used as input thereto and data files or other records generated thereby) used to track and manage the location, use, and maintenance status of spare parts and appliances, in each case”.

(h) **Excluded Property — Property Subject to a Lien.** The definition of Excluded Property is hereby amended by deleting the phrases “on the Closing Date” and “, or following the Closing Date,” in clause (iii) thereof.

(i) **Excluded Property — Engine and Simulator Purchase Agreements.** The definition of Excluded Property is hereby amended by adding the following immediately after the words “aircraft purchase agreements” in clause (vii) thereof: “, engine purchase agreements, Flight Simulator purchase agreements and, to the extent entered into after the Closing Date, other agreements for the purchase of Aircraft Related Equipment, in each case”.

(j) **Excluded Property — Property Pledged or Sold in Specified Transactions.** The definition of Excluded Property is hereby amended by (i) deleting the word “and” immediately prior to clause (viii) thereof and (ii) adding the following at the end of clause (viii) thereof: “; (ix) any property sold, transferred, disposed of, or pledged or financed in connection with a Specified Transaction (it being understood that such property (and all subsequently acquired property of the same type) shall remain Excluded Property regardless of whether it is subsequently released from such Specified Transaction)”.

(k) **Flight Simulators.** The definition of Flight Simulators is hereby amended by adding “, whether now owned or hereafter acquired” immediately after the word “Obligor”.

(l) **Gates.** The definition of Gates is hereby amended and restated in its entirety as follows:

““Gates” means all of the right, title, privilege, interest and authority of any Obligor with respect to premises used for the purpose of holdroom seating and boarding space and related aircraft parking positions to enplane and deplane passengers at any airport or terminal in the United States or in any foreign country, at which such Obligor, or any sublessee of such Obligor, as the case may be, conducts scheduled operations, arising under any lease, usufruct, use agreement, facility agreement or similar agreement governing the right to use that portion of the premises demised or covered by such lease, usufruct, use agreement, facility agreement or similar agreement, whether now owned or hereafter acquired.”

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(m) **Loan.** The definition of Loan is hereby amended by deleting “(a)” immediately after the words “Section 2.1”.

(n) **Net Condemnation Proceeds.** The definition of Net Condemnation Proceeds is hereby amended by inserting “, or having a Lien on,” immediately after the words “beneficial interest in” in clause (ii)(c) thereof.

(o) **Net Insurance Proceeds.** The definition of Net Insurance Proceeds is hereby amended by inserting “, or having a Lien on,” immediately after the words “beneficial interest in” in clause (ii)(c) thereof.

(p) **Replacement Secured Financing.** The definition of Replacement Secured Financing is hereby amended by adding the following immediately after the word “transaction” the last time it appears in the definition: “; provided that the GECAS Financing and any other Specified Transaction that is structured as a financing transaction that is secured by any of the Obligors’ Appraised Collateral or Accounts shall be deemed to constitute a Replacement Secured Financing so long as the applicable Specified Transaction Prepayment Condition is satisfied with respect thereto.”

(q) **Routes.** The definition of Routes is hereby amended and restated in its entirety as follows:

““Routes” means a right, license, permit, or other authorization held by the Borrower or any other Obligor, whereby the Borrower, or, if applicable, such other Obligor is entitled or permitted to fly between two or more points, either within one country or between two countries, including without limitation, applicable designations pursuant to any transport agreement between the United States and a foreign government, frequencies, exemption and certificate authorities, Fifth Freedom Rights and “behind/beyond rights”, whether now owned or hereafter acquired.”

(r) **Supporting Route Facilities.** The definition of Supporting Route Facilities is hereby amended and restated in its entirety as follows:

““Supporting Route Facilities” means the takeoff and/or landing rights (which are not Slots), ticket counters, office space, terminals, maintenance facilities and baggage claim areas at each airport which are necessary to operate a Route held by the Borrower or any other Obligor, whether now held or hereafter acquired.”

Section 2.2 New Definitions. The following new definitions are hereby added to Section 1.1 in proper alphabetical order:

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(a) **Barclays Financing.** “Barclays Financing” America West Co-Branded Card Agreement, dated January 25, 2005, between US Airways and Barclays as amended, restated, supplemented or modified from time to time.

(b) **Engines.** “Engines” means any aircraft engines owned by an Obligor, whether now owned or hereafter acquired.

(c) **GECAS Financing.** “GECAS Financing” means, collectively, the Senior Secured Spare Parts Financing Facility, dated as of October 20, 2008 and the Senior Secured Spare Engines Financing Facility, dated as of October 20, 2008, to be entered into with General Electric Capital Corporation which financing facilities shall be secured by, among other things, spare parts (including all rotables, repairables, expendables and appliances), spare engines (including all appliances) and other property customarily securing spare parts and spare engines financings, including, among other things, computer software, all books, records, logs, manuals, data and inspection, modification and overhaul records relating to such spare parts or spare engines, insurance, requisition and condemnation proceeds relating to such spare parts and spare engines, warranty assignments, purchase agreement assignments and the like and proceeds of the foregoing.

(d) **Other Specified Transaction.** “Other Specified Transaction” means any sale, transfer or other disposition of Appraised Collateral and/or Accounts and related assets or any financing secured by any such assets that previously secured the Obligations (whether pursuant to a loan agreement, note purchase agreement, credit facility, indenture, mortgage, sale and leaseback transaction or otherwise) so long as, in each case, such transaction is consummated on or after the Third Amendment Effective Date and on or before September 30, 2009 and at the time of the closing of any such transaction the Borrower has satisfied the Other Specified Transaction Prepayment Condition.

(e) **Other Specified Transaction Prepayment Condition.** “Other Specified Transaction Prepayment Condition” means, with respect to any Other Specified Transaction, the requirement that at the time of the consummation of such Other Specified Transaction, the Borrower shall have delivered to the Administrative Agent, for the ratable benefit of the Lenders, an amount in cash equal to not less than 75% of the aggregate Appraised Value of the Appraised Collateral sold, transferred, disposed of, pledged or financed in such Other Specified Transaction (or in the case of any sale, transfer, disposition or financing of Accounts, 75% of the Collateral Value of all Eligible Accounts sold, transferred, disposed of or pledged in such transaction), which amount shall be applied to prepay the Loan in accordance with Section 2.5.

(f) **Primary Specified Transaction.** “Primary Specified Transaction” means the GECAS Financing so long as such transaction is consummated on the Third Amendment Effective Date and at the time of the closing of any such transaction the Borrower has satisfied the Primary Specified Transaction Prepayment Condition.

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(g) **Primary Specified Transaction Prepayment Condition.** “Primary Specified Transaction Prepayment Condition” means the requirement that at the time of the consummation of the Primary Specified Transaction, the Borrower shall have prepaid the Loan in an aggregate amount of not less than \$400 million.

(h) **Specified Transaction.** “Specified Transaction” means the Primary Specified Transaction and any Other Specified Transaction.

(i) **Specified Transaction Prepayment Condition.** “Specified Transaction Prepayment Condition” means (i) in the case of the Primary Specified Transaction, the Primary Specified Transaction Prepayment Condition and (ii) in the case of any Other Specified Transaction, the Other Specified Transaction Prepayment Condition.

(j) **Third Amendment.** “Third Amendment” means the Amendment to Loan Agreement, Security Agreement and Aircraft Mortgage, dated as of October 20, 2008, among the Administrative Agent, the Borrower and certain Subsidiaries of the Borrower party thereto.

(k) **Third Amendment Effective Date.** “Third Amendment Effective Date” means the “Effective Date” as defined in the Third Amendment.

#### Section 2.3 Further Amendments.

(a) **Notice of Voluntary Prepayments.** Section 2.4(a) is hereby amended by adding the following parenthetical immediately after the words “fifteen (15) days,”: “(or three (3) days, in the case of a prepayment in connection with the Primary Specified Transaction and five (5) days, in case of a prepayment in connection with an Other Specified Transaction)”.

(b) **Mandatory Prepayments — Replacement Secured Financings.** Section 2.5(a) is hereby amended by adding the following proviso to the end of the first sentence thereof: “provided that if the Replacement Secured Financing is also a Primary Specified Transaction or Other Specified Transaction, the amount required to be prepaid pursuant to this Section 2.5(a) shall be limited to the minimum amount, if any, necessary to be prepaid to satisfy the Primary Specified Transaction Prepayment Condition (in the case of the Primary Specified Transaction) or the Other Specified Transaction Prepayment Condition (in the case of an Other Specified Transaction).”

(c) **Mandatory Prepayments — Asset Sales.** Section 2.5(b) is hereby amended by adding the following proviso to the end of the first paragraph thereof: “provided,

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further, however that if the Asset Sale is also a Primary Specified Transaction or an Other Specified Transaction, the amount required to be prepaid pursuant to this Section 2.5(b) shall be limited to the minimum amount, if any, necessary to be prepaid to satisfy the Primary Specified Transaction Prepayment Condition (in the case of the Primary Specified Transaction) or the Other Specified Transaction Prepayment Condition (in the case of an Other Specified Transaction).”

(d) **Additional Obligors; Collateral**. Section 5.8(d) is hereby amended by (i) adding the words “or additional assets are being deposited or pledged in accordance with the definition of Other Specified Transaction Prepayment Condition” immediately following the words “Section 5.8(c)” and (ii) adding the words “or additional assets” immediately after the words “Cure Collateral” in the second place those words appear in Section 5.8(d).

(e) **Permitted Liens — PDP Payments**. Section 6.1(a)(ii) is hereby amended by adding the words “engines, Flight Simulators and other Aircraft Related Equipment” immediately after the word “aircraft” in clause (E) thereof.

(f) **Permitted Liens — Insurance and Requisition Proceeds; Standard Warranties**. Section 6.1(a)(ii) is hereby further amended by (i) replacing the term “Aircraft” with the term “aircraft” each place it appears in clause (H) thereof. In addition, Section 6.1(a)(iii) is hereby amended and restated in its entirety as follows:

“Liens on any insurance and requisition proceeds received with respect to any aircraft, engine, Flight Simulator or other Aircraft Related Equipment and the benefit of all standard warranties related thereto, in each case to the extent that the aircraft, engine, Flight Simulator or other Aircraft Related Equipment does not constitute Collateral”.

(g) **Permitted Liens — Replacement Secured Financing**. Section 6.1(a)(ix) is hereby amended by deleting the words “with the Net Issue Proceeds of” and replacing such words with “in connection with”.

(h) **Permitted Liens — Second Lien**. Section 6.1(a)(xiii) is hereby amended and restated in its entirety as follows:

“Liens on any of the Collateral securing Indebtedness or other obligations so long as they are junior to the Liens in favor of the Administrative Agent securing the Obligations pursuant to an intercreditor agreement containing the terms set forth on Exhibit K, it being understood and agreed that the Administrative Agent is authorized to execute and deliver such an intercreditor agreement on behalf of itself, the

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Lenders and the other Secured Parties (without the need for any further consent or action by any Lender or any other Secured Party)”).

(i) **Permitted Liens — No Restrictions on Subsidiary Distributions**. Section 6.1(b) is hereby amended by deleting the word “or” immediately before clause (v) thereof, and adding the following after the end of clause (v) and before the phrase “, no Obligor will, nor will it permit any other Obligor to, create or otherwise cause to exist any Payment Restriction with respect to any Subsidiary of any Obligor”: “or (vi) for restrictions on property or assets subject to a Lien permitted hereunder”.

(j) **Restricted Payments — Prepayments**. Section 6.3(g) is hereby amended by replacing the word “Borrower” the first time it appears with the word “Obligors”.

(k) **Minimum Unrestricted Cash**. Section 6.4(c) is hereby amended by adding the following proviso immediately after “\$1,250,000,000”: “; provided that the minimum amount of Unrestricted Cash required to be maintained pursuant to this Section 6.4(c) shall be reduced on a dollar-for-dollar basis for each dollar of the Loan prepaid in connection with a Specified Transaction until the minimum Unrestricted Cash is \$750,000,000, at which point there shall be no further reductions”.

(l) **No Further Negative Pledge**. Section 6.11 is hereby amended by (i) replacing the words “Asset Sale” with the words “asset sale” in clause (a) thereof and (ii) adding the following immediately after the words “Airbus Financing Letter Agreement” in clause (c) thereof: “, the GECAS Financing”.

(m) **Asset Sales**. Section 6.13 is hereby amended by adding the following sentence at the end thereof: “Notwithstanding the foregoing, to the extent that any Specified Transaction is structured as an Asset Sale, (i) the Borrower or any Obligor shall be permitted to consummate such Asset Sale without regard to the provisions of this Section 6.13 so long as the applicable Specified Transaction Prepayment Condition is satisfied and (ii) the Net Cash Proceeds received from any such Asset Sale shall not count against the \$250,000,000 cap in clause (i) of this Section 6.13.”

(n) **Events of Default — Cross Default**. Section 7.1(b) is hereby amended by adding the words “or the Barclays Financing” immediately after the words “Juniper Financing” each place they appear.

(o) **Events of Default — Default under Agreement**. Section 7.1(c) is hereby amended and restated in its entirety as follows:

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“(c) failure by an Obligor (1) to perform or comply with any term or condition contained in Section 5.2, Section 5.10 or Article VI of this Agreement (other than Section 6.4) or (2) to perform or comply with the provisions set forth in Section 6.4(a), except that, in the case of any such failure to perform or comply arising by reason of a fluctuation in the value of all cash and other investments in accounts subject to the Control Agreements referred to therein, no Event of Default shall occur unless such failure to perform or comply shall not have been remedied or waived within 5 Business Days after the date of such failure to perform or comply”.

(p) **Exhibit K.** Exhibit K is hereby amended and restated in the form of Exhibit B hereto.

Section 2.4 Amendments to the Security Agreement.

(a) **Excluded Assets — Aircraft Related Equipment .** Clauses (i) and (ii) of the definition of Excluded Assets are hereby amended and restated in their entirety as follows:

(i) any aircraft, airframes, aircraft engines or propellers and parts and appliances attached thereto, all spare parts and appliances relating to any aircraft, airframes, aircraft engines or propellers, any rights of any Obligor as lessee, licensee, lessor or licensor with respect to a lease or license of any of the foregoing any other assets customarily securing Indebtedness used to acquire, finance or refinance such assets such as all books, records, logs, manuals, data and inspection, modification and overhaul records, related Intellectual Property (whether owned or leased) and, in the case of spare parts, spare part tracking systems and any and all computer programs and inventory management systems (including but not limited to all source codes and user interfaces associated therewith as well as all data files used as input thereto and data files or other records generated thereby) used to track and manage the location, use, and maintenance status of spare parts and appliances and related purchase agreements and warranty rights and the like, and all assets of the type specified in Sections 2.1(a) through (j) of the Aircraft Mortgage, in each case whether now owned or hereafter acquired, including all Airframes, Engines, Propellers and Spare Parts (each as defined in the Aircraft Mortgage);

(ii) any Slots, Gates, Routes and Supporting Route Facilities (each as defined in the Loan Agreement) now held or owned or hereafter acquired by any of the Grantors;

(b) **Excluded Assets — Flight Simulators .** Clause (vii) of the definition of Excluded Assets is hereby amended and restated as follows:

(vii) any Flight Simulator (other than any Flight Simulator described on part (a) of Schedule I hereto and any other Flight Simulator specifically

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identified and subjected to the Lien hereof pursuant to a supplement hereto) and, all replacements and substitutions therefor and any other assets customarily securing Indebtedness used to acquire, finance or refinance Flight Simulators, such as all records, logs and other documents and the like at any time maintained with respect to the foregoing, all purchase agreements and warranty rights with respect to any of the foregoing, all Intellectual Property embedded in or used primarily with respect thereto, all rents, issues, profits, revenues and other income therefrom, and all proceeds thereof.

(c) **Excluded Assets — Leased Property**. Clause (viii) of the definition of Excluded Assets is hereby amended by inserting the following immediately after the word “material” at the end thereof: “and any fixtures and improvements located on the leased premises”.

(d) **Excluded Assets — Liens**. The definition of Excluded Assets is hereby amended by deleting the words “on the Closing Date” in clause (ix) thereof.

(e) **Excluded Assets — Tempe Property, CFCs, Aircraft Purchase Agreements, Aircraft Related Equipment, Property Subject to Specified Transactions, Proceeds**. (i) clause (xi) of the definition of Excluded Assets is hereby amended by deleting the word “and” at the end thereof; (ii) clause (xii) of the definition of Excluded Assets is hereby amended by replacing the period at the end thereof with a semicolon; and (iii) the following new clauses (xiii) through (xviii) are added to the definition of Excluded Assets:

(xiii) the Tempe Property and any Investments permitted under Section 6.2(xiii) of the Loan Agreement;

(xiv) 35% of the Voting Stock of Subsidiaries of the Grantors that are CFCs;

(xv) aircraft purchase agreements, engine purchase agreements, Flight Simulator purchase agreements and, to the extent entered into after the Closing Date, other agreements for the purchase of Aircraft Related Equipment, in each case which by their terms are not assignable;

(xvi) all property described in clause (ii) of the definition of Excluded Property that is acquired after the Closing Date (other than Ground Service Equipment, it being understood that Ground Service Equipment shall be included in Pledged Equipment and shall constitute Collateral whether now owned or hereafter acquired);

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(xvii) from and after the consummation of a Specified Transaction, all property sold, transferred, disposed of or pledged or financed in connection with such Specified Transaction (and all subsequently acquired property of the same type) regardless of whether such property remains subject to such Specified Transaction; and

(xviii) Proceeds of the foregoing.

(f) **Flight Simulator.** The definition of Flight Simulator is hereby amended and restated in its entirety as follows:

“Flight Simulators” has the meaning set forth in the Loan Agreement.

Section 2.5 Amendments to the Aircraft Mortgage.

(a) **Grant of Security Interest.** The proviso immediately following the first sentence of Section 2.1 is hereby amended by inserting immediately following “Section 2.1,” the first time such section reference appears: “(A) from and after the Third Amendment Effective Date, and without limiting the definition of Engines or the provisions of Section 3.5(a) to (e) hereof, Collateral shall not include any estate, right, title or interest of (x) US Airways (but, except as provided in clause (y) and (z) below, shall continue to include the right, title and interest of each other Grantor) in Spare Parts, Released Engines identified as being owned on Schedule V hereto by US Airways (or formerly owned by America West Airlines, LLC) or any Contract Rights, Records, insurance proceeds, condemnation proceeds or monies or securities related thereto, (y) PSA in Released Engines identified as being owned on Schedule V hereto by PSA or any Contract Rights, Records, insurance proceeds, condemnation proceeds or monies or securities related thereto and (z) America West Airlines, LLC (formerly known as America West Airlines Inc.), if any, in Spare Parts and or Released Engines formerly owned by it and currently owned by US Airways or any Contract Rights, Records, insurance proceeds, condemnation proceeds or monies or securities, if any, related thereto and (B)”.

(b) **Appendix A — Released Engines.** The following new definitions are hereby added to Appendix A in proper alphabetical order:

“Released Engines” means the engines listed on Schedule V hereto.”

(c) **Schedule V.** Schedule V is to be added to the Aircraft Mortgage in the form of Exhibit C hereto.

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**ARTICLE III**  
**LENDER CONSENT**

Each Lender executing a Lender Consent Letter and providing it to the Administrative Agent hereby consents to and authorizes (a) this Amendment and the amendments to the Loan Agreement contained herein, including the terms, conditions, and forms of the exhibits hereto, (b) the amendments to the Security Agreement and Aircraft Mortgage contained herein, including the terms, conditions and forms of the exhibits and schedules thereto, (c) the Administrative Agent to release any Liens on assets not constituting Collateral or any assets sold, transferred, disposed of, pledged or financed in any Specified Transaction, including after giving effect to this Amendment, and to execute and file such documents, instruments and agreements (including releases under the Aircraft Mortgage) necessary or desirable to effectuate such release and (d) the Administrative Agent to execute and perform an intercreditor agreement on terms not inconsistent with those set forth in Exhibit B hereto.

**ARTICLE IV**  
**REPRESENTATION AND WARRANTIES**

Section 4.1 Representations and Warranties. The Borrower represents and warrants to each of the parties to the Loan Agreement that (a) the execution and delivery by the Borrower of this Amendment have been duly authorized by the Borrower and, when executed and delivered, this Amendment will constitute the valid, legally binding and (subject to general equitable principles, insolvency, liquidation, reorganization and other laws of general application relating to creditors' rights or claims or the concepts of materiality, reasonableness, good faith and fair dealing) enforceable obligation of the Borrower, (b) no Default or Event of Default has occurred and is continuing on the date hereof and (c) all written information that has been or will hereafter be made available to the Administrative Agent, any Lender or any potential Lender by or on behalf of the Borrower, its subsidiaries, any of its affiliates or any of their respective representatives in connection with this Amendment in respect of the Borrower, its subsidiaries and its affiliates is and will be, when taken as a whole and in light of the circumstances under which such information was provided, complete and correct in all material respects at the time provided and does not and will not, when taken as a whole and in light of the circumstances under which such information was provided, at the time provided, contain any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements contained therein not misleading in light of the circumstances under which such statements were or are made; provided that with respect to projected financial information contained in any such document or furnished to any party hereto by or on behalf of the Borrower, the Borrower represents only that such information was prepared in good faith based upon assumptions believed to be reasonable at the time, it being recognized that such projections as to future events are not to be viewed as facts and that actual results during the period or periods covered thereby may differ from the projected results.

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**ARTICLE V**  
**EFFECTIVENESS**

Section 5.1 Effectiveness. This Amendment shall become effective upon the satisfaction of all of the following conditions precedent (the date of satisfaction of such conditions being referred to herein as the “Effective Date”):

- (a) The Administrative Agent shall have received a counterpart signature page of this Amendment duly executed by each of the Obligors.
- (b) The Requisite Lenders shall have consented to this Amendment, by executing a Lender Consent Letter.
- (c) The Primary Specified Transaction shall be consummated on the Effective Date immediately following the effectiveness of this Amendment.
- (d) The Administrative Agent shall have received (i) reimbursement of its reasonable, out-of-pocket expenses incurred in connection with this Amendment, (ii) for the account of each Lender that provides a Lender Consent Letter on or before midnight New York time on October 17, 2008, an amendment fee equal to 1.5% of such Lender’s outstanding Loans as at 9:00 a.m. New York time on the Effective Date (and prior to any prepayment of Loans made on such date), (iii) for the account of each Lender that provides a Lender Consent Letter after midnight New York time on October 17, 2008 and before 5:00 p.m. on October 20, 2008, an amendment fee equal to 0.75% of such Lender’s outstanding Loans as at 9:00 a.m. New York time on the Effective Date (and prior to any prepayment of Loans made on such date) and (iv) all other fees payable by the Borrower pursuant to the Fee Letter, dated as of October 2, 2008, between Citigroup Global Markets Inc. and the Borrower.

**ARTICLE VI**  
**MISCELLANEOUS**

Section 6.1 Miscellaneous. The Loan Agreement, the Security Agreement, the Aircraft Mortgage the SGR Security Agreement and all other Loan Documents shall remain unchanged (except as provided in Article II hereof) and in full force and effect. No amendments to the Security Agreement affect the liens granted or purported to be granted or required to be granted under the Aircraft Mortgage, the SGR Security Agreement or the Leasehold Mortgage, Security Agreement, Assignment of Rents and Leases and Fixture Filing (Pennsylvania) dated as of March 21, 2007 among US Airways, Inc. and the Administrative Agent. This Amendment may be executed in any number of counterparts, all of which taken together shall constitute one and the same instrument, and any of the parties hereto may execute this Amendment by signing

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any such counterpart. This Amendment shall be governed by, and construed in accordance with, the law of the State of New York. Each reference to the Loan Agreement, the Security Agreement and the Aircraft Mortgage in the Loan Documents shall be deemed to be a reference to the Loan Agreement, Security Agreement or Aircraft Mortgage (as applicable) as amended hereby.

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IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be duly executed and delivered as of the day and year first above written.

US AIRWAYS GROUP, INC.,  
as Borrower

By: /s/ Thomas T. Weir  
Name: Thomas T. Weir  
Title: Vice President and Treasurer

US AIRWAYS, INC.

By: /s/ Thomas T. Weir  
Name: Thomas T. Weir  
Title: Vice President and Treasurer

AMERICA WEST AIRLINES, LLC (as successor to  
AMERICA WEST AIRLINES, INC.)

By: /s/ Thomas T. Weir  
Name: Thomas T. Weir  
Title: Vice President and Treasurer

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AMERICA WEST HOLDINGS, LLC (as successor to  
AMERICA WEST HOLDINGS CORPORATION)

By: /s/ Thomas T. Weir

Name: Thomas T. Weir

Title: Vice President and Treasurer

MATERIAL SERVICES COMPANY, INC.

By: /s/ Caroline B. Ray

Name: Caroline B. Ray

Title: Secretary

PSA AIRLINES, INC.

By: /s/ Keith Houk

Name: Keith Houk

Title: President and Chief Executive Officer

PIEDMONT AIRLINES, INC.

By: /s/ Caroline B. Ray

Name: Caroline B. Ray

Title: Secretary

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CITICORP NORTH AMERICA, INC.,  
as Administrative Agent

By: /s/ James J. McCarthy

Name: James J. McCarthy

Title: Managing Director and Vice President

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FORM OF LENDER CONSENT

CONSENT

Dated as of October \_\_, 2008

Reference is hereby made to the \$1,600,000,000 Loan Agreement dated as of March 23, 2007 (as amended, modified and supplemented and in effect from time to time, the "Loan Agreement"), by and among US Airways Group, Inc., as borrower, its subsidiaries from time to time party thereto, the several lenders from time to time party therto and Citicorp North America, Inc., as administrative agent and collateral agent (the "Agent") for the Lenders. Capitalized terms used but not defined herein have the meaning given to such terms in the Loan Agreement (as amended by the Amendment).

The undersigned, as a Lender under the Loan Agreement, hereby (a) consents to an Amendment to Loan Agreement, Security Agreement and Aircraft Mortgage substantially in the form of Exhibit A hereto (the "Amendment") and consents to the execution, delivery and performance by the Agent, on behalf of the Lender, of the Amendment, (b) authorizes the Agent to release any Liens on assets not constituting Collateral or any assets sold, transferred, disposed of, pledged or financed in any Specified Transaction, including after giving effect to the Amendment, and to execute and file such documents, instruments and agreements (including releases under the Aircraft Mortgage) necessary or desirable to effectuate such release or as more fully provided in Article III of the Amendment and (c) the Agent to execute, deliver and perform an intercreditor agreement on terms not inconsistent with those set forth in Exhibit B of the Amendment.

This consent shall terminate and be of no further force or effect if the Effective Date of the Amendment does not occur on or before November 14, 2008.

Print Name of Institution: \_\_\_\_\_

By \_\_\_\_\_  
Title:



[see attached]

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EXHIBIT K

TERMS OF LIEN SUBORDINATION

- (i) the Lenders will have exclusive rights to exercise, and a block on the ability of the lenders under the second lien facility (the “Junior Lienholders”) to exercise lien-related rights and remedies until after the expiration of a standstill period of 180 days and thereafter so long as the Lenders have commenced the exercise of remedies;
  - (ii) the Junior Lienholders will not object to the amount, enforceability or priority of the Lenders’ claims or liens and will acknowledge that the Lenders’ senior obligations for purposes of the intercreditor agreement will include post petition interest, whether or not allowed;
  - (iii) the Junior Lienholders will not object to (or support others in objecting to) a “debtor-in-possession” financing or use of cash collateral;
  - (iv) the Junior Lienholders will not object to the Lenders’ adequate protection, nor will the Junior Lienholders seek adequate protection in the form of cash payments without the consent of the Lenders; provided that, Junior Lienholders shall be entitled to obtain replacement liens on the Collateral if the Lender’s first obtain a replacement lien on such Collateral so long as the Junior Lienholders’ lien is subordinate to the Lender’s lien on at least the same terms hereof;
  - (v) the Junior Lienholders will not object, and will be deemed to have consented to (including for purposes of Section 363(f) of the Bankruptcy Code), any sale or disposition of the Collateral under the Loan Documentation consented to by the Lenders whether in a consensual sale or disposition, upon enforcement of rights outside of bankruptcy, in any bankruptcy proceeding or otherwise, and the Junior Lienholders will be deemed to have released their liens on such assets (but shall retain their lien on the sale proceeds thereof subject to all rights of the Lenders to such proceeds);
  - (vi) the Junior Lienholders shall retain the same rights as any unsecured creditor;
  - (vii) the Lenders and the Junior Lienholders shall have separate grants of security and vote as separate classes on any plan of reorganization in connection with any bankruptcy proceeding;
  - (viii) the documentation with respect to the second lien facility will not be amended in certain respects without the consent of the Lenders; and
  - (ix) No provisions inconsistent with the terms of this Exhibit shall be included in any documentation related to the Junior Lienholders’ facilities.
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**SCHEDULE V  
RELEASED ENGINES**

**SCHEDULE OF RELEASED ENGINES — PSA Airlines**

Manufacturer	Model	Serial Number
General Electric	CF34-3B1	E950494
General Electric	CF34-8C1	E965668

**SCHEDULE OF RELEASED ENGINES — US Airways**

Manufacturer	Model	Serial Number
Pratt & Whitney	PW4168A	733466
Pratt & Whitney	PW4168A	733486
Pratt & Whitney	PW4168A	733514
Rolls Royce	RB211-535E4	30549
Rolls Royce	RB211-535E4	30591
Rolls Royce	RB211-535E4	30921
Rolls Royce	RB211-535E4	31202
Rolls Royce	RB211-535E4	31411
Rolls Royce	RB211-535E4	31415
Rolls Royce	RB211-535E4	31416
CFM International	CFM56-3B2	720235
CFM International	CFM56-3B2	721196
CFM International	CFM56-3B2	721222
CFM International	CFM56-3B2	722445
CFM International	CFM56-3B2	724636
General Electric	CF6-80C2B2	695424
General Electric	CF6-80C2B2	695425
CFM International	CFM56-3B2	720601*
CFM International	CFM56-3B1	720772*
CFM International	CFM56-3B1	720867*
CFM International	CFM56-3B2	721179*
CFM International	CFM56-3B2	721395*
Rolls Royce	RB211-535E4	30503*
IAE	V2500-A1	V0089*
IAE	V2500-A1	V0334*
IAE	V2500-A1	V0340*
IAE	V2527-A5	V10120 *

<b>Manufacturer</b>	<b>Model</b>	<b>Serial Number</b>
IAE	V2527-A5	V10335*
IAE	V2527-A5	V10516*
IAE	V2527-A5	V10549*
IAE	V2527-A5	V10642*
IAE	V2527-A5	V10676*
IAE	V2524-A5	V10783*
IAE	V2527-A5	V10817*

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\* Formerly assets of America West Airlines, LLC (as successor to America West Airlines, Inc.)

**FORM OF ANNUAL GRANT AGREEMENT**  
US AIRWAYS GROUP, INC.  
2008 EQUITY INCENTIVE PLAN  
DIRECTOR VESTED SHARE AWARD AGREEMENT

Pursuant to the Director Vested Share Award Grant Notice (“*Grant Notice*”) and this Director Vested Share Award Agreement (“*Award Agreement*”), US Airways Group, Inc. (the “*Company*”) grants you a Vested Share Award under its 2008 Equity Incentive Plan (the “*Plan*”) for the number of vested shares of Company Stock (“*Vested Shares*”) as indicated in the Grant Notice (collectively, the “*Award*”). Terms not defined in this Award Agreement but defined in the Plan have the same definitions as in the Plan.

The details of your Award are as follows:

1. **NUMBER OF VESTED SHARES OF COMPANY STOCK.** The number of Vested Shares subject to your Award is stated in the Grant Notice. Each Vested Share represents one (1) share of Company Stock.
  2. **VESTING.** The Vested Shares are fully vested on the Date of Grant as provided in your Grant Notice,
  3. **PAYMENT.** This Award was granted in consideration of your services to the Company. You will not be required to make any payment to the Company (other than your past and future services with the Company) with respect to your receipt of the Award or the delivery of the shares of Company Stock.
  4. **DELIVERY OF SHARES.** The Company will deliver to a broker designated by the Company on your behalf, a number of shares of Company Stock equal to the number of Vested Shares subject to your Award. The Company shall determine the form of delivery of the shares of Company Stock subject to your Award.
  5. **SECURITIES LAW COMPLIANCE.** Your Award is subject to the provisions of Section 17 of the Plan on continuing securities law compliance.
  6. **TRANSFER RESTRICTIONS.** Before the shares of Company Stock subject to your Award have been delivered to you, you may not transfer, pledge, sell, or otherwise dispose of the shares. This restriction on transfer will lapse upon delivery to you of shares of Company Stock in respect of your Vested Shares. Your Award is not transferable, except by will or by the laws of descent and distribution.
  7. **AWARD NOT A SERVICE CONTRACT.** Your Award is not a service contract, and nothing in your Award shall be deemed to create in any way whatsoever any obligation on your part to continue in the service of the Company or any Related
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Company, or on the part of the Company or any Related Company to continue your service. Nothing in your Award shall obligate the Company or its stockholders to continue any relationship that you have as an Outside Director of the Company.

8. NOTICES. Any notices provided for in your Award or the Plan shall be given in the manner designated by the Company and shall be deemed effectively given upon receipt or, in the case of notices delivered by the Company to you, five (5) days after deposit in the United States mail, postage prepaid, addressed to you at the last address you provided to the Company.

#### 9. MISCELLANEOUS.

(a) The Company's rights and obligations with respect to your Award shall be transferable by the Company to any one or more persons or entities, and all of your covenants and agreements shall inure to the benefit of, and be enforceable by the Company's successors and assigns.

(b) You agree upon request to execute any further documents or instruments necessary or desirable in the Company's sole determination to carry out the purposes or intent of your Award.

(c) You acknowledge and agree that you have reviewed your Award in its entirety, have had an opportunity to obtain the advice of counsel prior to accepting your Award, and fully understand all provisions of your Award.

(d) This Agreement will be subject to all applicable laws, rules, and regulations, and to any required governmental agency or national securities exchange approvals.

(e) The Company's obligations under the Plan will be binding on any successor to the Company, whether the existence of the successor is the result of a direct or indirect purchase, merger, consolidation, or otherwise, of all or substantially all of the Company's business and/or assets.

10. HEADINGS. This Agreement's Section headings are for convenience only and shall not constitute a part of this Agreement or affect this Agreement's meaning.

11. SEVERABILITY. If all or any part of this Agreement or the Plan is declared by any court or governmental authority to be unlawful or invalid, then that shall not invalidate any portion of this Agreement or the Plan not declared to be unlawful or invalid. Any Section of this Agreement (or part of such a Section) declared to be unlawful or invalid shall, if possible, be construed in a manner that will give effect to the terms of the Section or part of a Section to the fullest extent possible while remaining lawful and valid.

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12. GOVERNING PLAN DOCUMENT. Your Award is subject to all the provisions of the Plan, the provisions of which are made a part of your Award, and is further subject to all interpretations, amendments, rules and regulations which may be promulgated and adopted under the Plan. If there is a conflict between the provisions of your Award and those of the Plan, then the provisions of the Plan shall control.



**U S AIRWAYS GROUP, INC.  
2008 Long Term Incentive Program  
(Established Effective March 28, 2008)**

**Section I. Purpose**

The purpose of the US Airways Group, Inc. 2008 Long Term Incentive Program (the "Program") is to

- *Focus management efforts on the creation of long-term stockholder value.*
- *Encourage strategic decision-making by providing rewards for the long-term achievement of Company goals.*

The Program sets forth the terms and conditions for performance cash awards to be paid to eligible officers under the US Airways Group, Inc. 2005 Equity Incentive Plan (the "Plan").

**Section II. Eligibility Criteria**

Officers of US Airways Group, Inc. (the "Company") or an Affiliate (as that term is defined in the Plan) whose responsibilities have a direct and significant impact on Company results are eligible to participate in the Program. The Compensation and Human Resources Committee of the Board of Directors of the Company (the "Committee") will, at its sole discretion, select individual officers to participate in the Program (each a "Participant"). Participation in one performance cycle (as such term is defined in Section IV) under the Program does not assure participation in any other performance cycle.

A person who is hired by the Company (or an Affiliate) as an eligible officer or promoted to eligible officer status, in either case after the commencement of a performance cycle (as such term is defined in Section IV) shall participate in performance cycles on such basis, if any, as the Committee may provide.

**Section III. Award Levels**

Participants have the opportunity to earn cash awards under the Program based on the achievement of long-term Company performance and, with certain exceptions set forth in Section V, continued active employment by the Company (or an Affiliate) in an eligible position through the date of payment of the cash awards. Threshold, target, and maximum award levels are set forth below. All award levels are expressed as a percentage of a Participant's base salary, as in effect on the date of payment of the cash award.

**Award Levels Expressed as  
Percentages of Base Salary**

<b>Officer Level</b>	<b>Threshold</b>	<b>Target</b>	<b>Maximum</b>
CEO	54%	125%	200%
President	49%	115%	200%
EVP	43%	100%	175%
SVP	30%	70%	140%
VP	20%	45%	90%

Performance below the threshold level for any performance cycle (as such term is defined in Section IV) will result in no cash award. The maximum award for any performance cycle is two times the target award, subject to further limitations contained in the Plan.

**Section IV. Award Calculation**

Awards are calculated based on Total Stockholder Return (“TSR”) of the Company over the performance cycle (as such term is defined in this section) relative to the TSRs of a pre-defined competitive peer group. TSR, for purposes of this Program, is the rate of return, including both the price appreciation of the Company’s Class A Common Stock or a competitive peer company’s common stock and the reinvestment of any dividends declared on such common stock, over the relevant performance cycle. In order to smooth out market fluctuations, the average daily closing price (adjusted for splits and dividends) for the common stock of the Company and of the companies in the pre-defined competitive peer group for the three months prior to the first and last days of the performance cycle will be used to determine TSR. Daily closing price of a share of common stock is the stock price at the close of trading (4:00 p.m. Eastern Time) of the national exchange (New York Stock Exchange, the Nasdaq Stock Market or the American Stock Exchange) on which such stock is traded.

**A) Performance Cycles**

A performance cycle, over which TSR is measured, is the three-year period beginning January 1 of a given year and ending December 31 of the second following year (each a “Performance Cycle”). The Committee, in its sole discretion, may authorize Performance Cycles, and it is anticipated, although not assured, that a three-year Performance Cycle will begin each January 1.

All officers of the Company (or an Affiliate) otherwise eligible to participate in the Program will be eligible to participate in a Performance Cycle commencing January 1, 2008, and ending December 31, 2010.

**B) Peer Group and Award Payout Percentages**

The competitive peer group consists of the following eleven companies: AirTran Holdings, Inc., Alaska Air Group, Inc., AMR Corporation, Continental Airlines, Inc., Delta Air Lines, Inc., Frontier Airlines Holdings, Inc., Hawaiian Holdings, Inc., JetBlue Airways Corporation, Northwest Airlines Corporation, Southwest Airlines Co. and UAL Corporation. Such competitive peer group is subject to modification, in the Committee’s



sole discretion, to take account of unforeseen events such as mergers, dispositions, bankruptcies and other significant business changes.

Award payout percentages will be based on the TSR of the Company relative to the TSRs of competitive peer group companies, as follows:

Company TSR Relative Rank	Payout as a % of Base Salary					
	VP	SVP	EVP	President	CEO	
<i>1-2 of 12</i>	<i>90%</i>	<i>140%</i>	<i>175%</i>	<i>200%</i>	<i>200%</i>	<i>(Maximum)</i>
3 of 12	78.75%	122.5%	156.25%	178.75%	181.25%	
4 of 12	67.5%	105%	137.5%	157.5%	162.5%	
5 of 12	56.25%	87.5%	118.75%	136.25%	143.75%	
<b>6 of 12</b>	<b>45%</b>	<b>70%</b>	<b>100%</b>	<b>115%</b>	<b>125%</b>	<b>(Target)</b>
7 of 12	32.5%	50%	71.5%	82%	89.5%	
<i>8 of 12</i>	<i>20%</i>	<i>30%</i>	<i>43%</i>	<i>49%</i>	<i>54%</i>	<i>(Threshold)</i>
9-12 of 12		0	0%	0%	0%	

#### Section V. Award Payment Timing, Early Payment and Termination

If the TSR of the Company is at or above the threshold for a Performance Cycle, awards will be paid in cash within sixty (60) days following the end of the Performance Cycle. For example, awards for the Performance Cycle that runs from January 1, 2008, through December 31, 2010 will be paid no later than March 1, 2011. Payments will be subject to all required federal, state, and local tax withholding.

In the event of the termination of a Participant's employment with the Company (or an Affiliate) on account of retirement (as defined below), total disability (as defined in the long term disability plan under which the Participant is covered) or death, (i) the Company shall pay to the Participant (or the Participant's estate in the case of death), at the same time as awards, if any, are paid to other Participants for the same Performance Cycle, the award that the Participant would have earned and received with respect to the Performance Cycle, if any, that ends with the calendar year in which such termination occurs, had the Participant's employment continued until the award payment date for such Performance Cycle. For purposes of the foregoing,

“retirement” shall mean the termination of the Participant’s employment with the Company (or an Affiliate) after attainment of age fifty-five (55) and completion of ten (10) years of service with the Company (or an Affiliate). Awards for any other Performance Cycles will not be earned or paid.

If the Participant’s employment with the Company (or an Affiliate) is terminated for any reason other than retirement, total disability or death (whether such termination is voluntary or involuntary), no awards will be earned or paid under the Program with respect to any Performance Cycles.

#### **Section VI. Program Administration**

The Program will be administered by the Committee in accordance with the Plan and in a manner that satisfies the requirements of Section 162(m) of the Internal Revenue Code for qualified “performance-based” compensation.

Awards generally are calculated and distributed as provided in Sections IV and V; *provided, however*, that no award payments will be made unless the Committee certifies in writing (a) the relative TSR ranking of the Company, (b) that all other material terms of the Program have been satisfied and (c) that payments to Participants in stated amounts are appropriate under the Program.

#### **Section VII. Absence of Program Funding; No Equity Interest**

Benefits under the Program shall be paid from the general funds of the Company, and a Participant (or the Participant’s estate in the event of death) shall be no more than an unsecured general creditor of the Company with no special or prior right to any assets of the Company.

Nothing contained in the Program shall be deemed to give any Participant any equity or other interest in the assets, business or affairs of the Company or any related company. It is not intended that a Participant’s interest in the Program shall constitute a security or equity interest within the meaning of any state or federal securities laws.

#### **Section VIII. No Transferability**

A Participant shall not have any right to transfer, sell, alienate, assign, pledge, mortgage, collateralize or otherwise encumber any of the payments provided by this Program.

#### **Section IX. No Employment Rights**

This Program is not intended to be a contract of employment. Both the Participant and the Company have the right to end their employment relationship with or without cause or notice.

#### **Section X. Interpretation, Amendment and Termination**

The Committee shall have the power to interpret all provisions of the Program, which interpretations shall be final and binding on all persons. The provisions of this document shall

supersede all provisions of any and all such prior documents relating to the Program and its subject matter. However, if the provisions of this document conflict with any provision of the Plan, the provisions set forth in the Plan shall govern in all cases. The laws of the State of Delaware shall govern all questions concerning the construction, validity and interpretation of the Program, without regard to such state's conflict of laws rules.

The Committee reserves the right to amend or terminate the Program at any time, with or without prior notice; *provided, however*, that all amendments to the Program shall preserve the qualification of awards under the Program as "performance-based" compensation under Section 162(m) of the Internal Revenue Code. Notwithstanding the foregoing, (a) except as provided in Section IV with respect to the calculation of TSR and in the following clause (b), the Committee may not amend the Program in a way that would materially impair the rights of a Participant with respect to a Performance Cycle that already has begun at the time of such amendment, unless such Participant has consented in writing to such amendment; and (b) in the event of any act of God, war, natural disaster, aircraft grounding, revocation of operating certificate, terrorism, strike, lockout, labor dispute, work stoppage, fire, epidemic or quarantine restriction, act of government, critical materials shortage, or any other act beyond the control of the Company, whether similar or dissimilar (each a "Force Majeure Event"), which Force Majeure Event affects the Company or its subsidiaries or other affiliates, the Committee, in its sole discretion, may (i) terminate or (ii) suspend, delay, defer (for such period of time as the Committee may deem necessary), or substitute any awards due currently or in the future under the Program, including, but not limited to, any awards that have accrued to the benefit of Participants but have not yet been paid.

**SUMMARY OF DIRECTOR COMPENSATION AND BENEFITS**

Non-employee directors of US Airways Group, Inc. (“US Airways Group”) and US Airways, Inc. (“US Airways”) currently receive the following compensation for their Board service:

Annual Retainer: \$20,000

Annual Committee Chair Retainer (other than Audit): \$4,000

Audit Committee Chair Retainer: \$10,000

Attendance Fees: \$1,000 for each Board or committee meeting attended

2008 Equity Incentive Plan Grants

In accordance with the terms of the 2008 Equity Incentive Plan (the “2008 Plan”) and subject to the discretion of the Board of Directors (the “Board”), each incumbent non-employee director will receive, following each annual meeting of stockholders, an annual equity award of fully vested shares of common stock, with such vested shares having an aggregate Fair Market Value (as defined in the 2008 Plan) on the date of grant equal to \$60,000, rounded down to the next whole number of shares.

Travel Benefits

Non-employee directors and their immediate family members, including dependent children under the age of 19 (or under the age of 24 for children who are unmarried, dependent full-time students) but not including parents, as well as a limited number of non-eligible family members and unrelated persons, are provided free transportation on US Airways and US Airways Express, along with reimbursement for federal and state income taxes in connection with that travel.

Expense Reimbursement

Non-employee directors will also be reimbursed for all reasonable out-of-pocket expenses incurred in connection with attendance at meetings upon submission of receipts.

Stock Ownership Guidelines

Effective as of June 11, 2008, each incumbent non-employee director is required to retain, until his or her completion of service on the Board, a number of shares equal to at least 50% of the cumulative shares of common stock granted to that director pursuant each annual equity award granted in the three years following the effective date of these guidelines. For each non-employee director who joins the Board on or after the effective date of these guidelines, he or she is required to retain, until his or her completion of service on the Board, a number of shares equal to at least 50% of the cumulative shares of common stock granted to that director pursuant each annual equity award granted in each of his or her first three years on the Board.

**Subsidiaries of US Airways Group, Inc.**

100% owned by US Airways Group, Inc.:

Airways Assurance Limited LLC  
Organized under the laws of Bermuda

Material Services Company, Inc.  
Incorporated under the laws of the State of Delaware

Piedmont Airlines, Inc. (operates under the trade name "US Airways Express")  
Incorporated under the laws of the State of Maryland

PSA Airlines, Inc. (operates under the trade name "US Airways Express")  
Incorporated under the laws of the State of Pennsylvania

US Airways, Inc.  
Incorporated under the laws of the State of Delaware

AWHQ LLC (real estate holding company)  
Organized under the laws of the State of Arizona (99% owned by US Airways Group, Inc. and 1% owned by US Airways, Inc.)

100% owned by US Airways, Inc.:

America West Holdings, LLC  
Organized under the laws of the State of Delaware

America West Airlines, LLC  
Organized under the laws of the State of Delaware

100% owned by America West Airlines, LLC:

FTCHP LLC (real estate holding company)  
Organized under the laws of the State of Delaware

US Airways Company Store LLC  
Organized under the laws of the State of Arizona

**Consent of Independent Registered Public Accounting Firm**

The Board of Directors and Stockholders  
US Airways Group, Inc.:

We consent to the incorporation by reference in Registration Statements No. 333-137806, 333-129896, 333-129899, and 333-130063 on Form S-3 of US Airways Group, Inc. and to the incorporation by reference in Registration Statements No. 333-152033 and 333-128766 on Form S-8 of US Airways Group, Inc. of our reports dated February 17, 2009, with respect to the consolidated balance sheets of US Airways Group, Inc. and subsidiaries as of December 31, 2008 and 2007, and the related consolidated statements of operations, stockholders' equity (deficit), and cash flows for each of the years in the three-year period ended December 31, 2008, and the effectiveness of internal control over financial reporting as of December 31, 2008, which reports appear in the December 31, 2008 Annual Report of Form 10-K of US Airways Group, Inc.

Our report on the consolidated financial statements dated February 17, 2009 contains an explanatory paragraph that states that US Airways Group, Inc. adopted the provisions of Statement of Financial Accounting Standards (SFAS) No. 157, *Fair Value Measurements*, and the measurement date provisions of SFAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*.

/s/ KPMG LLP

Phoenix, Arizona  
February 17, 2009

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**Consent of Independent Registered Public Accounting Firm**

The Board of Directors and Stockholders  
US Airways, Inc.:

We consent to the incorporation by reference in Registration Statements No. 333-137806 and 333-47348 on Form S-3 and No. 333-74734 on Form S-4 of US Airways, Inc. and subsidiaries (US Airways) of our reports dated February 17, 2009, with respect to the consolidated balance sheets of US Airways as of December 31, 2008 and 2007, and the related consolidated statements of operations, cash flows, and stockholder's equity (deficit) for each of the years in the three-year period ended December 31, 2008, and the effectiveness of internal control over financial reporting as of December 31, 2008, which reports appear in the December 31, 2008 Annual Report on Form 10-K of US Airways.

Our report on the consolidated financial statements dated February 17, 2009 contains an explanatory paragraph that states that US Airways adopted the provisions of Statement of Financial Accounting Standards (SFAS) No. 157, *Fair Value Measurements*, and the measurement date provisions of SFAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*.

/s/ KPMG LLP

Phoenix, Arizona  
February 17, 2009

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, THAT I, Herbert M. Baum, Director of US Airways Group, Inc. (the "Company") and US Airways, Inc. ("Airways"), do hereby appoint Derek J. Kerr and J. Scott Kirby, and each of them (with full power to each of them to act alone), attorney and agent for me and in my name and on my behalf to sign any Annual Report on Form 10-K of the Company and Airways for the year ended December 31, 2008 and any amendments or supplements thereto which shall be filed with the Securities and Exchange Commission under the Securities and Exchange Act of 1934, as amended.

I hereby give and grant to said attorneys and agents, and each of them, full power and authority generally to do and perform all acts and things necessary to be done in the premises as fully and effectually in all respects as I could do if personally present; and I hereby ratify and confirm all that said attorneys and agents, and each of them, shall do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, I have hereunto set my hand this 16<sup>th</sup> day of February, 2009.

/s/ Herbert M. Baum

Herbert M. Baum

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POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, THAT I, Matthew J. Hart, Director of US Airways Group, Inc. (the "Company") and US Airways, Inc. ("Airways"), do hereby appoint Derek J. Kerr and J. Scott Kirby, and each of them (with full power to each of them to act alone), attorney and agent for me and in my name and on my behalf to sign any Annual Report on Form 10-K of the Company and Airways for the year ended December 31, 2008 and any amendments or supplements thereto which shall be filed with the Securities and Exchange Commission under the Securities and Exchange Act of 1934, as amended.

I hereby give and grant to said attorneys and agents, and each of them, full power and authority generally to do and perform all acts and things necessary to be done in the premises as fully and effectually in all respects as I could do if personally present; and I hereby ratify and confirm all that said attorneys and agents, and each of them, shall do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, I have hereunto set my hand this 16<sup>th</sup> day of February, 2009.

/s/ Matthew J. Hart

Matthew J. Hart

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POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, THAT I, Richard C. Kraemer, Director of US Airways Group, Inc. (the "Company") and US Airways, Inc. ("Airways"), do hereby appoint Derek J. Kerr and J. Scott Kirby, and each of them (with full power to each of them to act alone), attorney and agent for me and in my name and on my behalf to sign any Annual Report on Form 10-K of the Company and Airways for the year ended December 31, 2008 and any amendments or supplements thereto which shall be filed with the Securities and Exchange Commission under the Securities and Exchange Act of 1934, as amended.

I hereby give and grant to said attorneys and agents, and each of them, full power and authority generally to do and perform all acts and things necessary to be done in the premises as fully and effectually in all respects as I could do if personally present; and I hereby ratify and confirm all that said attorneys and agents, and each of them, shall do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, I have hereunto set my hand this 16<sup>th</sup> day of February, 2009.

/s/ Richard C. Kraemer

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Richard C. Kraemer

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POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, THAT I, Cheryl G. Krongard, Director of US Airways Group, Inc. (the "Company") and US Airways, Inc. ("Airways"), do hereby appoint Derek J. Kerr and J. Scott Kirby, and each of them (with full power to each of them to act alone), attorney and agent for me and in my name and on my behalf to sign any Annual Report on Form 10-K of the Company and Airways for the year ended December 31, 2008 and any amendments or supplements thereto which shall be filed with the Securities and Exchange Commission under the Securities and Exchange Act of 1934, as amended.

I hereby give and grant to said attorneys and agents, and each of them, full power and authority generally to do and perform all acts and things necessary to be done in the premises as fully and effectually in all respects as I could do if personally present; and I hereby ratify and confirm all that said attorneys and agents, and each of them, shall do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, I have hereunto set my hand this 16<sup>th</sup> day of February, 2009.

/s/ Cheryl G. Krongard

Cheryl G. Krongard

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POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, THAT I, Bruce R. Lakefield, Director of US Airways Group, Inc. (the "Company") and US Airways, Inc. ("Airways"), do hereby appoint Derek J. Kerr and J. Scott Kirby, and each of them (with full power to each of them to act alone), attorney and agent for me and in my name and on my behalf to sign any Annual Report on Form 10-K of the Company and Airways for the year ended December 31, 2008 and any amendments or supplements thereto which shall be filed with the Securities and Exchange Commission under the Securities and Exchange Act of 1934, as amended.

I hereby give and grant to said attorneys and agents, and each of them, full power and authority generally to do and perform all acts and things necessary to be done in the premises as fully and effectually in all respects as I could do if personally present; and I hereby ratify and confirm all that said attorneys and agents, and each of them, shall do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, I have hereunto set my hand this 16<sup>th</sup> day of February, 2009.

/s/ Bruce R. Lakefield

Bruce R. Lakefield

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POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, THAT I, Denise M. O'Leary, Director of US Airways Group, Inc. (the "Company") and US Airways, Inc. ("Airways"), do hereby appoint Derek J. Kerr and J. Scott Kirby, and each of them (with full power to each of them to act alone), attorney and agent for me and in my name and on my behalf to sign any Annual Report on Form 10-K of the Company and Airways for the year ended December 31, 2008 and any amendments or supplements thereto which shall be filed with the Securities and Exchange Commission under the Securities and Exchange Act of 1934, as amended.

I hereby give and grant to said attorneys and agents, and each of them, full power and authority generally to do and perform all acts and things necessary to be done in the premises as fully and effectually in all respects as I could do if personally present; and I hereby ratify and confirm all that said attorneys and agents, and each of them, shall do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, I have hereunto set my hand this 16<sup>th</sup> day of February, 2009.

/s/ Denise M. O'Leary  
Denise M. O'Leary

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POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, THAT I, George M. Philip, Director of US Airways Group, Inc. (the "Company") and US Airways, Inc. ("Airways"), do hereby appoint Derek J. Kerr and J. Scott Kirby, and each of them (with full power to each of them to act alone), attorney and agent for me and in my name and on my behalf to sign any Annual Report on Form 10-K of the Company and Airways for the year ended December 31, 2008 and any amendments or supplements thereto which shall be filed with the Securities and Exchange Commission under the Securities and Exchange Act of 1934, as amended.

I hereby give and grant to said attorneys and agents, and each of them, full power and authority generally to do and perform all acts and things necessary to be done in the premises as fully and effectually in all respects as I could do if personally present; and I hereby ratify and confirm all that said attorneys and agents, and each of them, shall do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, I have hereunto set my hand this 16<sup>th</sup> day of February, 2009.

/s/ George M. Philip

George M. Philip

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POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, THAT I, J. Steven Whisler, Director of US Airways Group, Inc. (the "Company") and US Airways, Inc. ("Airways"), do hereby appoint Derek J. Kerr and J. Scott Kirby, and each of them (with full power to each of them to act alone), attorney and agent for me and in my name and on my behalf to sign any Annual Report on Form 10-K of the Company and Airways for the year ended December 31, 2008 and any amendments or supplements thereto which shall be filed with the Securities and Exchange Commission under the Securities and Exchange Act of 1934, as amended.

I hereby give and grant to said attorneys and agents, and each of them, full power and authority generally to do and perform all acts and things necessary to be done in the premises as fully and effectually in all respects as I could do if personally present; and I hereby ratify and confirm all that said attorneys and agents, and each of them, shall do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, I have hereunto set my hand this 16<sup>th</sup> day of February, 2009.

/s/ J. Steven Whisler

J. Steven Whisler

**CEO CERTIFICATION**

I, W. Douglas Parker, certify that:

1. I have reviewed this Annual Report on Form 10-K of US Airways Group, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 17, 2009

/s/ W. Douglas Parker

\_\_\_\_\_  
Name: W. Douglas Parker

Title: Chief Executive Officer



CFO CERTIFICATION

I, Derek J. Kerr, certify that:

1. I have reviewed this Annual Report on Form 10-K of US Airways Group, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 17, 2009

/s/ Derek J. Kerr

Name: Derek J. Kerr

Title: Chief Financial Officer

CEO CERTIFICATION

I, W. Douglas Parker, certify that:

1. I have reviewed this Annual Report on Form 10-K of US Airways, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 17, 2009

/s/ W. Douglas Parker

Name: W. Douglas Parker

Title: Chief Executive Officer

CFO CERTIFICATION

I, Derek J. Kerr, certify that:

1. I have reviewed this Annual Report on Form 10-K of US Airways, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 17, 2009

/s/ Derek J. Kerr

Name: Derek J. Kerr

Title: Chief Financial Officer

**Certification of CEO and CFO Pursuant to  
18 U.S.C. Section 1350,  
as Adopted Pursuant to  
Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with the Annual Report on Form 10-K of US Airways Group, Inc. (the Company) for the year ended December 31, 2008 as filed with the Securities and Exchange Commission on the date hereof (the Report), W. Douglas Parker, as Chief Executive Officer of the Company, and Derek J. Kerr, as Chief Financial Officer of the Company, each hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of his knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ W. Douglas Parker

Name: W. Douglas Parker  
Title: Chief Executive Officer  
Date: February 17, 2009

/s/ Derek J. Kerr

Name: Derek J. Kerr  
Title: Chief Financial Officer  
Date: February 17, 2009

This certification accompanies the Report pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by the Sarbanes-Oxley Act of 2002, be deemed filed by the Company for purposes of Section 18 of the Securities Exchange Act of 1934, as amended.

**Certification of CEO and CFO Pursuant to  
18 U.S.C. Section 1350,  
as Adopted Pursuant to  
Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with the Annual Report on Form 10-K of US Airways, Inc. (the Company) for the year ended December 31, 2008 as filed with the Securities and Exchange Commission on the date hereof (the Report), W. Douglas Parker, as Chief Executive Officer of the Company, and Derek J. Kerr, as Chief Financial Officer of the Company, each hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of his knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ W. Douglas Parker

Name: W. Douglas Parker  
Title: Chief Executive Officer  
Date: February 17, 2009

/s/ Derek J. Kerr

Name: Derek J. Kerr  
Title: Chief Financial Officer  
Date: February 17, 2009

This certification accompanies the Report pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by the Sarbanes-Oxley Act of 2002, be deemed filed by the Company for purposes of Section 18 of the Securities Exchange Act of 1934, as amended.