AMERICA WEST HOLDINGS CORPORATION

Annual Report 2002

AMERICA WEST HOLDINGS CORPORATION *America West Holdings Corporation is an aviation and travel services company. Wholly owned subsidiary, America West Airlines, is the nation's eighth largest carrier serving 93 destinations in the U.S., Canada and Mexico. The Leisure Company, also a wholly owned subsidiary, is one of the nation's largest tour packagers.*

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Selected Consolidated Financial Data

The selected consolidated 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, 2002, 2001, 2000, 1999 and 1998 are derived from the audited consolidated financial statements of Holdings. The selected consolidated data should be read in conjunction with the consolidated financial statements for the respective periods, the related notes and the related reports of independent accountants.

Year Ended December 31, (in thousands except per share amounts)

	2002	2001 [a] (as restated)	2000	1999	1998
Consolidated statements of operations data:					
Operating revenues	$ 2,047,116	$ 2,065,913	$ 2,344,354	$ 2,210,884	$ 2,023,284
Operating expenses [b]	2,207,196	2,483,784	2,356,991	2,006,333	1,814,221
Operating income (loss)	(160,080)	(417,871)	(12,637)	204,551	209,063
Income (loss) before income taxes and cumulative effect of change in accounting principle [c]	(214,757)	(324,387)	24,743	206,150	194,346
Income taxes (benefit)	(35,071)	(74,536)	17,064	86,761	85,775
Income (loss) before cumulative effect of change in accounting principle	(179,686)	(249,851)	7,679	119,389	108,571
Net income (loss)	(387,909)	(249,851)	7,679	119,389	108,571
Earnings (loss) per share before cumulative effect of change in accounting principle:					
Basic	(5.33)	(7.42)	0.22	3.17	2.58
Diluted	(5.33)	(7.42)	0.22	3.03	2.40
Net income (loss) per share:					
Basic	(11.50)	(7.42)	0.22	3.17	2.58
Diluted	(11.50)	(7.42)	0.22	3.03	2.40
Shares used for computation:					
Basic	33,723	33,670	35,139	37,679	42,102
Diluted	33,723	33,670	35,688	39,432	45,208
Consolidated balance sheet data (at end of period):					
Total assets	$ 1,438,953	$ 1,469,218	$ 1,568,515	$ 1,507,154	$ 1,525,030
Long-term debt, less current maturities [d]	700,983	224,550	145,578	155,168	207,906
Total stockholders' equity	68,178	420,363	667,073	714,169	669,458

(a) The Company has restated its financial statements for the year ended December 31, 2001 to reflect impairment charges on long-lived assets. See Note 2, *"Restatement of Previously Reported Amounts"* in Notes to Consolidated Financial Statements.

(b) Includes $19.0 million of special charges in 2002 primarily related to the restructuring completed on January 18, 2002, resulting from the events of September 11, 2001 and $141.6 million of special charges in 2001 related to the impairment of reorganization value in excess of amounts allocable to identifiable assets ("ERV") and owned aircraft and engines, as well as the earlier than planned return of seven leased aircraft and severance expenses following a reduction-in-force in 2001. See Note 14, *"Special Charges"* in Notes to Consolidated Financial Statements.

(c) Includes federal government assistance of $8.5 million and $108.2 million recognized in 2002 and 2001, respectively, as nonoperating income under the Air Transportation Safety and System Stabilization Act to offset direct and incremental losses incurred as a result of the September 11, 2001 terrorist attacks. See Note 15, *"Nonoperating Income (Expense) - Other, Net"* in Notes to Consolidated Financial Statements.

(d) Includes a $429 million loan supported by a $380 million government loan guarantee that was closed in January 2002 as part of the Company's financial restructuring.

“ As a frequent business traveler, I enjoy flying America West because they understand how important it is for me to get where I need to go – on time. In addition to low fares, the little extras offered by America West, such as kiosk check-ins and first-class upgrades, make a big difference. From my perspective, America West understands that if they don’t take care of the customer, someone else will.”

— Jeff Millard, *Platinum FlightFund Member*
Senior Customer Manager, General Mills

Chairman's Message to Shareholders

From a financial perspective, 2002 was without a doubt the most turbulent year in the history of the U.S. airline industry. Severe economic conditions continued to take their toll on all carriers, as combined losses reached a staggering $7 billion. Amidst this unprecedented financial crisis, several carriers, including some of the nation's oldest and largest, sought Chapter 11 bankruptcy protection. Others ceased operations altogether.

It is clear that the economic rebound we had hoped to see by this time has not yet materialized.

No airline is immune to this crisis. The entire industry is going through a major restructuring, and we have not yet seen the end of it. The next two years, at a minimum, will be difficult and critical years for the airline industry.

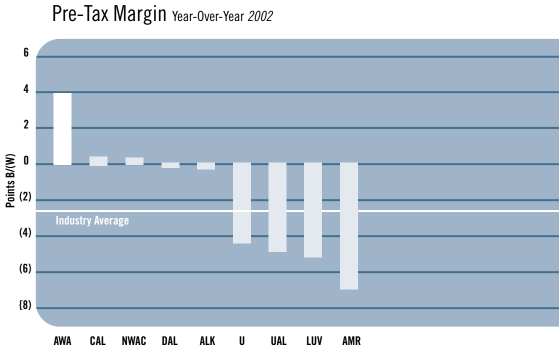
If there's a silver lining to be found in any of this, it's the fact that low-cost carriers like America West are outperforming our high-cost competitors. While this has not yet translated into profitability, America West has seen significant improvements in its revenue performance, an encouraging sign in an otherwise discouraging environment. Furthermore, our improvement in margins has led the industry, and we have widened our important strategic cost advantage.

We believe our company is well positioned to build upon this trend, largely as a result of dramatic steps we took last year to respond to our customers' needs and to ensure the viability of our airline.

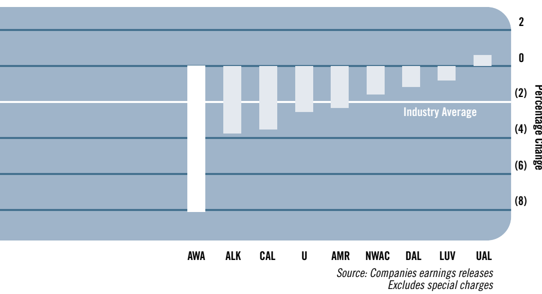
Revolutionary Fare Structure In late March 2002, in response to the demands of business travelers, America West broke rank with other major carriers by introducing a revolutionary pricing structure that dramatically reduced one-way and unrestricted, or "walkup" fares, and eliminated the traditional Saturday night stay requirements that in the past frustrated so many business travelers. As a result of this move, America West's unrestricted fares fell 40 to 75 percent below those of other major carriers, further solidifying our position as the nation's second largest low-fare airline.

This action was met with immediate reaction by several large carriers that historically have relied on steeply-priced unrestricted fares to feed their high cost structures. In an apparent attempt to force our airline to reverse course, these carriers retaliated by slashing fares on routes served non-stop solely by

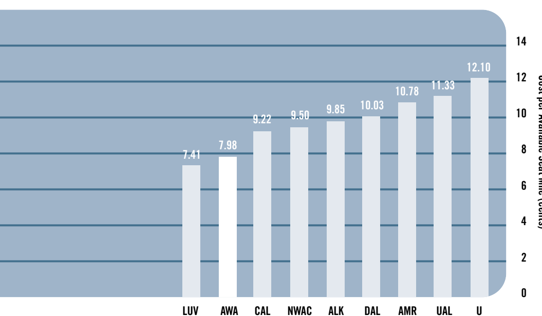
Pre-Tax Margin Year-Over-Year *2002*



Cost per Available Seat Mile Year-Over-Year Change *2002*



Lowest Cost Hub-and-Spoke Airline *2002*



America West, such as Phoenix to Boston. Additional fallout from our pricing initiative included the cancellation by Continental Airlines of longstanding codeshare, frequent flyer and airport club agreements.

In spite of this retaliation, the new fare structure has improved our revenue performance. In the nine full months of 2002 following implementation of the pricing, America West reported one of the largest domestic revenue per available seat mile (RASM) increases among major airlines.

Business travelers have greeted America West's fare structure with tremendous enthusiasm, a point not lost on other major airlines. In fact, several other carriers have followed America West's lead, albeit primarily with experimental initiatives or on limited portions of their networks. While each has positioned the moves as far-reaching, America West was the first to respond to the needs of business travelers on a systemwide basis and is still the only major hub-and-spoke airline to provide lower fares and greater flexibility every day, on every flight.

Financial Restructuring Additionally, we made great strides toward financial restructuring by securing federal loan guarantees under the Air Transportation Safety and Stabilization Act.

In January 2002, upon approval of $380 million of federal loan guarantees, America West closed a term loan in the amount of $429 million. In addition to this immediate cash infusion, we negotiated concessions and additional financing, resulting in a restructuring of the company's indebtedness and lease commitments. In short, we were able to accomplish through this process much of what other airlines are being forced to do through bankruptcy courts.

And with less pain to our employees and customers. While tens of thousands of airline employees remain out of work, America West recalled in July 2002 virtually all of those who were furloughed as a direct result of the September 11 terrorist attacks. Additionally, while other airlines continue to operate reduced schedules and capacity, America West is one of the few to have returned to pre-September 11 levels.

Remaining Diligent on Costs America West has the lowest cost structure among major hub-and-spoke airlines, and the second lowest among all major carriers. This is our single largest competitive advantage. Maintaining this strategic advantage by remaining diligent on costs is more important now, in

"America West offers outstanding service along with competitive business and leisure fares no matter when I book my travel or actually fly. Its new fare structure recognizes the needs of frequent travelers like me, offering both flexibility and affordability without the restrictions that many other airlines have in place. After more than eight years of commuting to Southern California, and flying almost three-quarters of a million actual flight miles, America West remains my airline of choice."

— Gregg Goldman, ***Platinum FlightFund Member***
Senior Assistant Dean, Finance and Administration
University of California – Irvine Graduate School of Management

Our outstanding employees deserve credit for their continued dedication, perseverance and commitment to customer service.

this difficult environment, than ever. I am pleased to say that in 2002, thanks to the efforts of our employees, America West reported the largest decrease in cost per available seat mile (CASM) among major airlines, further widening the gap that exists between our airline and its competitors.

Optimum Allocation of Resources America West is committed to allocating its resources to its strength markets, and to eliminating or redeploying consistently underperforming segments of its operation. During 2002, our airline expanded its popular low-fare service from Phoenix and Las Vegas into markets throughout North America. In May, we initiated mainline service at Raleigh-Durham from our hubs of Phoenix and Las Vegas. In October, America West added the cities of Pittsburgh and Calgary, Canada, to its mainline network, as well as service between Phoenix and the cities of Medford, Oregon, and Billings, Montana, under the America West Express banner. Additionally, in December 2002, our airline initiated mainline service to Toronto and Washington Dulles from both Phoenix and Las Vegas.

In August, America West and Hawaiian Airlines launched a codeshare and marketing partnership that gives America West customers an attractive option for non-stop service to the Hawaiian islands and provides Hawaiian customers expanded access to cities served by America West throughout the mainland U.S. Additionally, we renewed and expanded our existing codeshare agreement with British Airways. We are excited to renew this very successful alliance, and also to welcome Hawaiian as a new partner.

While America West continues to look for strategic opportunities to expand in markets where customers do not have access to low-fare service, we also must make every effort to eliminate consistently unprofitable flying. To that end, we announced in February 2003 that we will discontinue utilizing Columbus as a hub within the America West network, to concentrate our assets in our stronger hubs of Phoenix and Las Vegas. This was a difficult decision, because it impacts our loyal customers, the city of Columbus and, most importantly, our employees. However, this is a step we must take to enhance America West's financial position, which will benefit everyone associated with our airline in the long run.

Operational Performance America West continued its dramatic climb in operating performance throughout 2002. For the full year, 82.9 percent of America West flights arrived on time, compared with 74.8 percent in 2001.

The ratio of completed flights for the year increased to 99 percent, representing a 50-percent reduction in cancellations from the previous year. Mishandled bags decreased 16 percent. As a result of these improvements, customer complaints dropped by 56 percent and customer compliments about our service rose dramatically. Our outstanding employees deserve credit for this performance and for their continued dedication, perseverance and commitment to customer service.

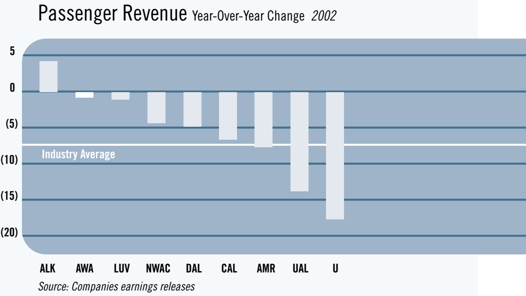
In November 2002, following an audit of our Technical Operations Division in early fall, the Federal Aviation Administration acknowledged America West's significant accomplishments over the past two years in our reliability, maintenance planning, deferred maintenance and airworthiness directive record keeping. Additionally, the FAA recognized our continuous analysis and surveillance system as an industry best practice. This good news is a reflection on the outstanding turnaround made by our maintenance and operations teams, and we are justifiably proud of this accomplishment.

Innovative Spirit Beginning with the restructuring of fares in March 2002, America West continues to lead the industry with innovations designed to better serve our customers, as well as to improve financial performance. Among these initiatives is "Buy on Board," in which restaurant-quality meals are offered for purchase on America West flights. Tested in select markets in January and February 2003, the concept received extensive national media coverage and earned America West public accolades for its innovativeness. Most importantly, customer feedback has been overwhelmingly positive, and we hope to be able to expand the product in 2003.

Additionally, in 2002 the company launched a highly successful, day-of-departure first-class upgrade program and was the first to introduce an incentive program for travel agents, called Agency AWArds, that offers agencies the opportunity to earn commissions in exchange for booking more of their business with America West. This initiative follows the remarkable success of Corporate AWArds, our fast-growing travel reward program for small businesses.

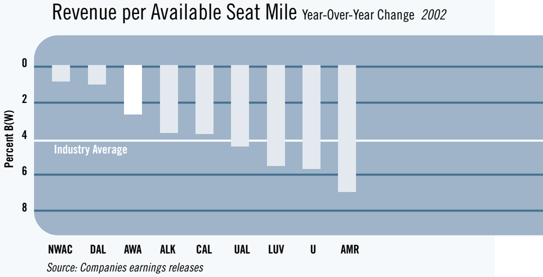
Looking Ahead America West made great strides in 2002 in the areas that we can control. Our operations remain solid, we remain diligent on costs and our revenue performance relative to other airlines is very encouraging.

Passenger Revenue Year-Over-Year Change *2002*



Source: Companies earnings releases

Revenue per Available Seat Mile Year-Over-Year Change *2002*



Source: Companies earnings releases

“ The need to make last-minute scheduling decisions is critical in my position. I’ve always preferred America West, but now that I can book coast-to-coast flights with little advance notice and still receive incredibly low fares, it allows me to be even more flexible to my clients’ needs.”

— Mia Sette, *Gold FlightFund Member*
Senior Manager, Cap Gemini – Ernst and Young

As a result, our profit margins improved more than any other major airline in the United States.

However, the one thing we cannot control – the overall economic environment – has overwhelmed and overshadowed our progress. The war with Iraq has presented additional challenges. As a result, despite the tremendous achievements of 2002, we are not yet out of the woods.

To ensure the long-term viability of America West, our priorities remain to maximize revenue and keep costs in line with our revenue-generating capabilities. In that regard, the progress we made in 2002 has helped to lay the groundwork and position our company for future success when airline industry economic conditions improve.

In the meantime, we will strive for continued innovations, and we will remain committed to meeting our customers' needs by providing value to them through our fare structure and through excellent customer service.

In closing, a milestone year is upon us as America West celebrates its 20th anniversary. Despite current industry challenges, America West remains the success story of deregulation – the only carrier formed since deregulation to achieve major airline status. This is a testament to the dedication and perseverance of our 13,000 outstanding employees.

We take great confidence in the accomplishments of our airline in 2002 and throughout its 20-year history. While we understand the challenges ahead of us, we are optimistic about the future of our airline.

Thank you for your continued support.

W. Douglas Parker
Chairman, President and Chief Executive Officer
America West Holdings Corporation

R. Barry Abbott Carynn J. Alberts Debra K. Allen Joanne Allen Patricia A. Allen Mark W. Anderson Sara P. Baister Janice Ellen Ballard Debra Bartholomew Steven L. Bauer Angela K. Baumler Phyllis Marie Beatty Ellyce A. Beyer Shea William H. Birkner Marshall D. Biser Jr. Chris Bogg Janette L. Bollinger Lee Borden Larry E. Bowdler Robert Breidenbach Tammy J. Briere Walter Edwin Broshears Randy M. Brown Diana L. Buller Keith F. Burns Thomas R. Butler Sherrie Wedge Cairns Cory R. Campbell Larry H. Campbell Sandra R. Carter Michael D. Chapman David W. Chatelain Boyd W. Christensen Randy F. Ciangi Susan M. Clark-Peters Eileen M. Cohen Tamijane M. Comer Robert N. Costello Mary M. Cote David J. Coulson Lisa J. Cox Brenda Larsen Cozzens Frances M. Csiszer Edward Cuervo Robin Dahlberg John M. Daley Edward Dehesse Michael Delano Karri Leann Diercksen Margaret Dobberstein Elaine D. Doto Carol J. Duffner Larus G. Durnell Laurie A. Emery Colleen M. Erickson Peggy A. Ewert Pamela S. Fanning Gregory H. Fernandez Ellis G. Ferris Marilyn G. Frost Leanna Fruin John S. Gallegos Kenneth W. Garrison Linda J. Gillinger Russell D. Gilmore

Charles Glascock Jack J. Glover John B. Goddard Edward F. Gonzales John A. Grantham Astrid H. Green

Daniel F. Green Herman B. Griego Julie A. Gulstad Walter Guthrie John Y. Gutierrez Donald R. Hackett Douglas B. Hallgren John H. Hardy David K. Harves Edward J. Hassett Beth M. Hawes Beth A. Hayes Randi J. Hayes Patrick C. Helfrich Patricia Hendrickx Allen M. Hicks Jr. Robert W. Hickson Patricia Ann Hitchcock John S. Hogberg James R. Holbrook Beth A. Holmes David Hone Loretta Hooper Paul R. Hotchkiss Charles Hughes Ronald D. Iddings Victor Isenberg Christin M. Jackson Valerie Jacobs Shelley L. Jamison Cara A. Jenkins Verna K. Jessen John W. Jessup Jr. Scott Johnson Andrea K. Jones Francis R. Keen Connie J. Kendrick Theresa A. Kerley Lynne J. Kinsley Tammie L. Kissman Terry R. Klein Sandra L. Knox Linda J. Kozelka Gene L. Labat Carrie A. Lamkin Mary E. Larkin Mary Lascala Kimber A. Leigh Wilfred M. Martin Lisa M. Martinez Russell A. Maxson Debra M. McCormick Terry L. McDonough Mary J. McKeon Randall McNerlin Suzanne B. Messer Frankie J. Michael Michelle M. Montpetit Travis T. "Butch" Morris Lisa K. Butler Morrison Bruce A. Muir Mark J. Mundy Judith K. Muntz John R. Murphy Anita L. Myers Marijka E. Nazarewycz Lori G. Neer John R. Nichols Steve W. Nimcheski Carlos R. Olivas Rebecca L. Olsen Jennifer L. Paul Kenneth B. Perron Kim R. Peters Karilyn K. Petersen Colleen M. Petty Cynthia A. Pierson Albert Pioquinto Dennis V. Pullaro Dierdre E. Quinn Sandra A. Ranger Kimberly Reynolds Gail M. Richardson Paula Rieger Jeanne I. Robbestad Dennis Robertson Lisa M. Rubino Dee R. Rush Phyllis J. Russell Stacy J. Santimaw Charles D. Saunders Michael Schaffer Jennifer L. Schmitt Rennie M. Shaffer Cynthia Sharp Paula G. Sharzer Jacqueline R. Sherman Dottie Sidabras Julie K. Simis Janelle L. Simmons Sharon Ashe Sloan Geraldine Snodgres Michael J. Soha Tami C. Soldevere Kesavan Sreeprakash Richard A. Stack Charles L. Stevens Kimberley L. Sullivan Mary A. Swanson Sheryl A. Swartz-Kasperski Frederick L. Swindal Jr. Karen Tackett Michelle Talalay Maria L. Teixeira Renee J. Thibault Kenneth P. Thomas Marie D. Thorne Donnah J. Tichacek Wayne D. Tobey Donald J. Trounce Brenda M. Umdenstock James Vallillo Mike V. Vance Cheryl L. Walters Keith E. Weiland Kathy Weishan Edward A. Wewel Cheryl A. Wick Ilka Lelia Williams Sharon D. Willis Randolph Wilson Marcus E. Wood Allene P. Wright Pamela K. Wyas-Marek Carol L. Zapalowski

20 Years of Pride

On August 1, 1983, as one of its three Boeing 737s prepared for takeoff, America West Airlines began what would become a historic journey. Supported by 280 spirited employees, the fledgling airline quickly spread its wings, finding success with every flight. Within weeks, it outgrew its inaugural schedule of 20 daily departures to five destinations. Soon, America West was the leading carrier at Phoenix Sky Harbor International Airport, its home still today.

In the years since, America West has overcome tremendous odds to become not only a survivor, but a success story in a highly competitive industry. While hundreds of start-up airlines have tried and failed, America West remains the only carrier formed since deregulation to have achieved major airline status.

Twenty years after its first flight, America West is the nation's second largest low-fare airline, and the eighth largest overall. It operates nearly 900 daily departures to approximately 90 destinations in the United States, Mexico and Canada. More than 13,000 employees are part of the America West family today.

With two decades of growth comes progress. Blackboards and index cards have given way to e-tickets, kiosks and Internet reservation systems. But throughout the years, in spite of the many changes, one thing has remained the same – America West's commitment to taking care of its customers.

It's this commitment that drives the innovations that separate America West from other airlines. Like being the first to fully restructure its fares. And with its full host of services, no other low-fare carrier provides greater value.

As we celebrate 20 years of service and pride, we salute our customers, shareholders and business partners who supported us along the way. Most especially, we salute our valued employees who made it happen, including 213 outstanding individuals who began their journey with America West in 1983 and who haven't completed it yet. Their names can be found on the opposite page.

Thank you for helping to build a winning airline.

Board of Directors

W. Douglas Parker
Chairman of the Board, President and Chief Executive Officer of America West Holdings Corporation and America West Airlines; Chairman of the Board, The Leisure Company.
Executive Committee (chair).

Herbert M. Baum
Chairman, President and Chief Executive Officer of The Dial Corporation, a global leader in the production and marketing of consumer goods.

John L. Goolsby
President and Chief Executive Officer (retired), The Howard Hughes Corporation, a real estate investment and development company.
Finance Committee (chair), Executive Committee and Audit Committee.

Walter T. Klenz
Managing Director, Beringer Blass Wine Estates, Inc., a producer of premium varietal wines.
Compensation and Human Resources Committee (chair) and Corporate Governance Committee.

Richard C. Kraemer
President, Chartwell Capital, Inc., a private investment company.
Corporate Governance Committee (chair), Executive Committee and Compensation and Human Resources Committee.

Robert J. Miller
Partner at Nevada law firm of Jones Vargas. Served as governor of the State of Nevada from 1989 until January 1999.
Compensation and Human Resources Committee.

Denise M. O'Leary
Private investor.
Audit Committee (chair) and Compensation and Human Resources Committee.

Richard P. Schifter
Managing Partner, Texas Pacific Group, a private equity investment fund.
Finance Committee and Executive Committee.

John F. Tierney
Managing Director, Castletown Financial Services, a private investment and consulting firm.
Audit Committee and Finance Committee.

J. Steven Whisler
Chairman, President and Chief Executive Officer, Phelps Dodge Corporation, a global leader in the mining and manufacturing industries.
Corporate Governance Committee and Compensation and Human Resources Committee.

America West Holdings Corporation Officers

W. Douglas Parker
Chairman, President and Chief Executive Officer

Derek J. Kerr
Senior Vice President and Chief Financial Officer

C.A. Howlett
Senior Vice President, Public Affairs

Patricia A. Penwell
Corporate Secretary

America West Airlines Officers

W. Douglas Parker
Chairman, President and
Chief Executive Officer

J. Scott Kirby
Executive Vice President,
Sales and Marketing

Jeffrey D. McClelland
Executive Vice President
and Chief Operating Officer

Lonnie D. Bane
Senior Vice President,
Human Resources

Joseph C. Beery
Senior Vice President and
Chief Information Officer

Hal M. Heule
Senior Vice President,
Technical Operations

C.A. Howlett
Senior Vice President, Public Affairs

Derek J. Kerr
Senior Vice President and
Chief Financial Officer

Anthony V. Mulé
Senior Vice President,
Customer Service

Scott L. Bowers
Vice President, Revenue Management

Michael R. Carreon
Vice President and Controller

Joseph A. Chronic
Vice President, Flight Operations

Ron L. Cole
Vice President, Sales

Kenneth I. Feldman
Vice President, Marketing

Dion J. Flannery
Vice President, Route Planning
and Scheduling

Gregory M. Garger
Vice President, Labor Relations

Larry K. LeSueur
Vice President, Phoenix Hub

Larry C. Massaro
Vice President, Airport Customer
Service and Field Stations

Linda M. Mitchell
Vice President and
General Counsel

Richard O. Oehme
Vice President, Base Maintenance
and Engineering

Randy L. Richards
Vice President,
Cargo Sales and Service

John L. Ryan
Vice President, Line Maintenance

James W. Sabourin
Vice President, Corporate
Communications

Patrick T. Sakole
Vice President, Safety

Joette B. Schmidt
Vice President, Customers
and Inflight Services

David G. Seymour
Vice President, Operations
Control and Planning

Thomas T. Weir
Vice President and Treasurer

Mark C. West
Vice President, Corporate Purchasing

John R. Wilson
Vice President,
Financial Planning and Analysis

Patricia A. Penwell
Corporate Secretary

The Leisure Company Officers

W. Douglas Parker
Chairman

Jack E. Richards
President and Chief
Executive Officer

Patricia A. Penwell
Corporate Secretary

FINANCIAL REVIEW

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NOTE CONCERNING FORWARD-LOOKING INFORMATION

This report contains various forward-looking statements and information that are based on management's beliefs as well as assumptions made by and information currently available to management. When used in this document, the words "anticipate," "estimate," "project," "expect" and similar expressions are intended to identify forward-looking statements. Such statements are subject to certain risks, uncertainties and assumptions. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those anticipated, estimated, projected or expected. Among the key factors that may have a direct bearing on the Company's or AWA's results are:

- the continuing impact of the terrorist attacks of September 11, 2001, the potential impact of any future terrorist attacks and government responses thereto, and the potential impact of the war against Iraq and other hostilities;
- the duration and extent of the current soft economic conditions;
- limitations on the Company's or AWA's ability to obtain additional financing due to high levels of debt and the financial and other covenants in its debt instruments;
- the cyclical nature of the airline industry;
- competitive practices in the airline industry;
- the impact of changes in fuel prices; and
- relations with unionized employees generally and the impact and outcome of labor negotiations.

For additional discussion of such risks see "*Business - Risk Factors Relating to America West and Industry Related Risks*" included in Item 1 of the Company's Annual Report on Form 10-K for the year ended December 31, 2002, filed with the Securities and Exchange Commission. Any forward-looking statements speak only as of the date of this report.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

America West Holdings Corporation's ("Holdings" or the "Company") primary business activity is ownership of all the capital stock of America West Airlines ("AWA") and The Leisure Company ("TLC"). Management's Discussion and Analysis of Financial Condition and Results of Operations presented below relates to the consolidated financial statements of Holdings.

RESTATEMENT OF PREVIOUSLY REPORTED AMOUNTS

Holdings and AWA have restated their financial statements for the fiscal year ended December 31, 2001 and their unaudited financial statements for the first, second and third quarters of fiscal year ended December 31, 2002. The changes include:

- a change in the timing from the first quarter of 2002 back to the fourth quarter of 2001 of the non-cash impairment charge of approximately $39.2 million recorded to adjust the carrying value of owned aircraft to market value and the related non-cash impairment charge of approximately $64.1 million recorded to write off reorganization value in excess of amounts allocable to identifiable assets ("ERV") that arose in connection with the Company's plan of reorganization from bankruptcy in 1994, both of which charges were previously recorded in the first quarter of 2002; and
- the recognition of full valuation allowances relating to Holdings' and AWA's net deferred tax assets.

See Note 2, "*Restatement of Previously Reported Amounts*" in Notes to Consolidated Financial Statements.

IMPAIRMENT CHARGES

Statement of Financial Accounting Standards ("SFAS") No. 121 "*Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of*" requires that an impairment analysis be performed whenever circumstances indicate that the carrying amount of an asset that an entity expects to hold and use may not be recoverable.

As a result of the adverse impacts on Holdings and AWA and the airline industry as a whole resulting from the terrorist events of September 11, 2001 and their aftermath, AWA performed an assessment of impairment of its owned aircraft during 2001 and again in connection with the preparation of the interim financial statements for the first quarter of 2002.

As a result of AWA's assessments, no impairment adjustment was recorded in the financial statements previously issued for 2001. The Company and AWA recorded an impairment charge of approximately $39.2 million in the first quarter of 2002 to adjust the carrying value of AWA's owned aircraft to reflect market values at that time. Such accounting treatment was considered appropriate at the time of the issuance of the applicable financial statements. In connection with the preparation of the financial statements and the related audit for the fiscal year ended December 31, 2002, the Company and AWA have determined that the more appropriate recognition of the impairment charge of approximately $39.2 million is in the fourth quarter of 2001 rather than in the first quarter of 2002.

In addition, SFAS No. 121 requires that goodwill that arose in a purchase business combination be allocated, and included as part of the asset base, in determining recoverability and measuring impairment. The Company and AWA did not have goodwill at December 31, 2001, but did have a significant amount of unamortized ERV. The Company

and AWA have determined that a portion of the unamortized ERV balance should have been allocated to AWA's owned aircraft in the impairment analysis performed for the year ended December 31, 2001.

As more fully described in Note 3, "*Adoption of New Accounting Standard*" in Notes to Consolidated Financial Statements, the remaining unamortized balance of ERV was written-off in the first quarter of 2002 as a cumulative effect of a change in accounting principle, upon adoption of SFAS No. 142, "*Goodwill and Other Intangible Assets.*"

The impact of the above described matters is to change the period of recognition for these non-cash costs between late 2001 and early 2002. See Note 19, "*Quarterly Financial Data (Unaudited)*" in Notes to Consolidated Financial Statements.

DEFERRED INCOME TAXES

SFAS No. 109 "*Accounting for Income Taxes*" requires that a valuation allowance be established when it is "more likely than not" that all or a portion of deferred tax assets will not be realized. A review of all available positive and negative evidence needs to be considered, including the company's performance, the market environment in which the company operates, forecasts of future profitability, the utilization of past tax credits, length of carryforward periods and similar factors. SFAS No. 109 further states that it is difficult to conclude that a valuation allowance is not needed when there is negative evidence such as cumulative losses in recent years. Therefore, cumulative losses weigh heavily in the overall assessment.

Holdings and AWA had originally reported net deferred tax liabilities at December 31, 2001. After consideration of the restatement discussed above, Holdings and AWA each had net deferred tax assets and were in a cumulative loss position for the three years ended December 31, 2001. Full valuation allowances have been established relating to Holdings' and AWA's net deferred tax assets at December 31, 2001, and relating to net deferred tax assets generated by losses in 2002. We expect to continue to record a full valuation allowance on future tax benefits until we return to profitability. See Note 9, "*Income Taxes*" and Note 19, "*Quarterly Financial Data (Unaudited)*" in Notes to Consolidated Financial Statements.

2002 IN REVIEW

OVERVIEW

Since September 11, 2001, the U.S. domestic airline industry has experienced an unprecedented financial crisis caused by the combination of the terrorist attacks of September 11, 2001 and soft economic conditions. In 2002, the nine largest U.S. airlines reported net losses of approximately $7.0 billion, of which approximately $1.8 billion was in the fourth quarter of 2002. Two airlines, United Airlines and U.S. Airways, have filed for bankruptcy and most other airlines have implemented cost reduction plans in order to preserve liquidity and weather the current economic conditions. Passenger revenues continue to be adversely affected by a decline in high-yield business traffic and a general decline in the demand for air travel after the terrorist attacks. The airline industry also incurred, and continues to face, an increase in costs resulting from enhanced security measures, aviation-related insurance and higher jet fuel prices.

In response to these difficult industry conditions, we completed a financial restructuring, introduced a business-friendly pricing structure and lowered our cost structure during 2002. Most significantly, during the first quarter of 2002, as part of our financial restructuring, we closed a $429 million loan supported by a $380 million government loan guarantee. This loan triggered expense reductions and additional financing (primarily aircraft rent reductions and future financing commitments), resulting in a restructuring of our indebtedness and

lease commitments. See Note 4, *"Government Guaranteed Loan"* in the Notes to the Consolidated Financial Statements. In 2002, we also eliminated base commissions on tickets issued by travel agencies in the United States effective March 21, 2002 and introduced a new pricing structure offering business travelers lower and more flexible fares on March 24, 2002. See *"Revised Pricing Structure"* below. As a result of these initiatives, we believe our cash balance as of December 31, 2002 remains relatively high as compared to the average for the major U.S. domestic hub-and-spoke airlines, our year-over-year domestic unit revenue and unit cost performance was better than the industry average and our year-over-year improvement in pre-tax margin was the highest of all major U.S. airlines.

COST CONTROL

We are committed to maintaining a low cost structure, which we believe offers a significant competitive advantage over other major hub-and-spoke airlines in the United States. In 2002, we continued to maintain our position as having the lowest operating cost per available seat mile, or CASM, of all the other major hub-and-spoke airlines in the United States and remained competitive with the major point-to-point airline, Southwest Airlines. Our CASM was 8.05 cents in 2002, which included approximately $19.0 million, or 0.07 cents per available seat mile, of charges associated with our financial restructuring. Excluding these restructuring charges, we believe our CASM of 7.98 cents was approximately 24% less than the average CASM (excluding similar restructuring charges) of the other major hub-and-spoke airlines in the United States.

In 2002, we reduced CASM, excluding restructuring charges, by 8.1%, which we believe represented the most improvement amongst the major U.S. airlines. This reduction was driven by a reduction in aircraft rents obtained in connection with our financial restructuring, which reduced rent payments by approximately $50 million per year for 2003 and each of the next six years, the elimination of base commissions on tickets issued by travel agencies in the United States and continued management focus on cost control.

In the current industry environment, our low cost focus has been extended to capital spending and cash conservation. We intend to minimize capital expenditures and defer discretionary expenditures.

REVISED PRICING STRUCTURE

In an effort to maximize revenue and increase business traffic, we eliminated our historic pricing structure in March 2002 and replaced it with a simplified structure, the primary components of which include reduced business fares (typically 40-75% below the walkup prices on other major network carriers), elimination of Saturday night stay requirements and more fares available on a one-way basis. At the same time, we significantly reduced the number and level of highly discounted fares available through off-tariff channels. Immediately following the introduction of the new fare structure, higher-cost competitors placed extremely low prices in our non-stop markets and Continental Airlines cancelled its long standing code share and frequent flyer agreements with us. Despite these actions, we believe our year-over-year domestic unit revenue performance has been better than the industry average each month since the new structure was introduced and the net effect of our revised pricing structure has been significantly positive to revenue.

CUSTOMER SERVICE

We believe that the emphasis on customer service is essential to rebuilding our business and leisure traffic. Therefore, we are committed to building a successful airline by taking care of our customers. During 2002, we continued to build on the customer service and reliability initiatives that we first implemented in 2000. Largely as a result of our continued focus on customer service, in 2002, AWA continued to make significant improvements in a number of key areas as reported to the Department of Transportation ("DOT"):

- On-time performance improved to 82.9% in 2002 compared to 74.8% in 2001. In January, February and May 2002, AWA ranked first in the industry in on-time performance;
- Completion factor for the year was 99.0%, higher than any other year in our history;
- AWA posted a 16% improvement in mishandled baggage in 2002 compared to 2001;
- Customer complaints to the DOT in 2002 decreased 56% compared to 2001 and are at the lowest levels since 1996.

2003 OUTLOOK

Despite the progress made in 2002, as a result of the continued economic environment for the airline industry, we expect to incur a significant loss in the first quarter and for the full year 2003. We believe near-term revenues will continue to be negatively impacted by the soft economic conditions and the decline in business traffic. In addition, fuel prices have remained and may continue to remain well above historical norms due to the threat of and the commencement of military action against Iraq and continued political tension in Venezuela. Although there can be no assurances, we believe that cash flow from operating activities coupled with existing cash balances and financing commitments will be adequate to fund our operating and capital needs as well as enable us to maintain compliance with our various debt agreements through at least December 31, 2003. See *"Business – Risk Factors Relating to America West and Industry Related Risks,"* included in Item 1 of the Company's Annual Report on Form 10-K and *"Liquidity and Capital Resources,"* below.

RESULTS OF OPERATIONS

SUMMARY OF HOLDINGS' FINANCIAL RESULTS

Holdings recorded a consolidated loss before the cumulative effect of a change in accounting principle of $179.7 million in 2002, a diluted loss per share of $5.33. This compares to a consolidated net loss of $249.9 million or $7.42 per diluted share, in 2001. Including the cumulative effect of a change in accounting principle related to the Company's adoption of SFAS No. 142, *"Goodwill and Other Intangible Assets,"* on January 1, 2002, Holdings' net loss for 2002 was $387.9 million, or $11.50 per diluted share. See Note 3, *"Adoption of New Accounting Standard"* in Notes to Consolidated Financial Statements. The 2002 results include special charges of $19.0 million primarily related to the restructuring completed on January 18, 2002, (see Note 14, *"Special Charges"* in Notes to Consolidated Financial Statement) and a gain of $4.9 million related to a change in the Company's vacation policy for certain administrative employees. The Company also recognized a nonoperating charge of $2.8 million related to the write-off of the Company's investment in an e-commerce entity and a nonoperating gain of $8.5 million related to the federal government assistance received under the Air Transportation Safety and System Stabilization Act. See Note 15, *"Nonoperating Income (Expense) - Other, Net"* in Notes to Consolidated Financial Statements. The 2001 results include a nonoperating gain of $108.2 million related to the federal government assistance, an $11.0 million gain resulting from the settlement in March 2001 of a lawsuit related to an air-to-ground telecommunication system that was previously written off and an $8.8 million gain from an insurance settlement in the fourth quarter of 2001. These gains were offset by $141.6 million of special charges resulting from the impairment of ERV and owned aircraft and engines, as well as the early termination of aircraft leases and severance expenses following the reduction-in-force in 2001. The Company also recognized a $2.1 million loss related to the write down to realizable value of the Company's investment in Book4golf.com in the third quarter of 2001. The Company recorded a

consolidated income tax benefit for financial reporting purposes of $35.1 million for the 2002 period on a loss before income tax benefit and cumulative effect of a change in accounting principle of $214.8 million. The benefit is primarily due to additional carryback losses made available in 2002 as a result of the enactment of new tax legislation allowing an extended carryback period under the Job Creation and Workers Assistance Act of 2002. This compares to an income tax benefit of $74.5 million in the 2001 period on a pretax loss of $324.4 million.

In 2000, the Company recognized net income of $7.7 million and income tax expense of $17.1 million. Diluted earnings per share for 2000 were $0.22

AWA

The following discussion provides an analysis of AWA's results of operations and reasons for material changes therein for the years ended December 31, 2002, 2001 and 2000.

STATEMENTS OF OPERATIONS

FOR THE YEARS ENDED DECEMBER 31, 2002, 2001 AND 2000 (IN THOUSANDS)

	2002	2001	2000
		(AS RESTATED)	
Operating revenues:			
Passenger	$ 1,929,444	$ 1,941,877	$ 2,179,811
Cargo	27,574	33,824	37,377
Other	54,272	45,262	73,683
Total operating revenues	2,011,290	2,020,963	2,290,871
Operating expenses:			
Salaries and related costs	594,858	601,986	556,906
Aircraft rents	295,016	355,517	331,005
Other rents and landing fees	158,290	140,372	130,679
Aircraft fuel	299,940	343,224	373,313
Agency commissions	38,896	75,085	86,469
Aircraft maintenance materials and repairs	252,691	257,939	258,432
Depreciation and amortization	73,898	63,178	54,313
Amortization of reorganization value in excess of amounts allocable to identifiable assets	—	19,896	19,896
Special charges	19,030	141,638	—
Other	442,821	445,525	492,596
Total operating expenses	2,175,440	2,444,360	2,303,609
Operating loss	(164,150)	(423,397)	(12,738)
Nonoperating income (expenses):			
Interest income	17,220	22,654	23,706
Interest expense, net	(79,475)	(33,789)	(22,939)
Federal government assistance	8,466	108,246	—
Loss on disposition of property and equipment	(1,835)	(3,000)	(2,332)
Other, net	215	3,063	29,444
Total nonoperating income (expenses), net	(55,409)	97,174	27,879
Income (loss) before income taxes (benefit) and cumulative effect of change in accounting principle	$ (219,559)	$ (326,223)	$ 15,141

The table below sets forth selected operating data for AWA.

	YEAR ENDED DECEMBER 31,			% CHANGE	
	2002	2001	2000	2002-2001	2001-2000
Aircraft (end of period)	143	146	138	(2.0)	5.8
Average daily aircraft utilization (hours) [a]	9.6	9.7	10.9	(1.0)	(11.0)
Available seat miles (in millions) [b]	27,008	26,539	27,112	1.8	(2.1)
Block hours (in thousands) [c]	505	508	517	(0.6)	(1.7)
Average stage length (miles) [d]	949	894	878	6.2	1.8
Average passenger journey (miles) [e]	1,434	1,325	1,269	8.2	4.4
Revenue passenger miles (in millions) [f]	19,878	19,074	19,113	4.2	(0.2)
Load factor (percent) [g]	73.6	71.9	70.5	1.7 pts	1.4 pts
Passenger enplanements (in thousands) [h]	19,454	19,576	19,954	(0.6)	(1.9)
Yield per revenue passenger mile (cents) [i]	9.71	10.18	11.40	(4.6)	(10.7)
Revenue per available seat mile:					
Passenger (cents) [j]	7.14	7.32	8.04	(2.5)	(9.0)
Total (cents) [k]	7.45	7.61	8.45	(2.1)	(9.9)
Fuel consumption (gallons in millions)	411	414	424	(0.7)	(2.4)
Average fuel price (cents per gallon)	73.1	83.0	88.1	(11.9)	(5.8)
Full-time equivalent employees (end of period)	11,908	11,316	12,850	5.2	(11.9)

(a) Average daily aircraft utilization – The average number of block hours per day for all aircraft in service.
(b) Available seat mile ("ASM") – A basic measure of production. It is one seat flown one statute mile.
(c) 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.
(d) Average stage length – The average of the distances flown on each segment of every route.
(e) Average passenger journey – The average one-way trip measured in statute miles for one passenger origination.
(f) Revenue passenger mile ("RPM") – A basic measure of sales volume. It is one passenger flown one mile.
(g) Load factor – The percentage of available seats that are filled with revenue passengers.
(h) Passenger enplanements – The number of passengers on board an aircraft including local, connecting and through passengers.
(i) Yield – A measure of airline revenue derived by dividing passenger revenue by revenue passenger miles and expressed in cents per mile.
(j) Passenger revenue per available seat mile ("RASM") – Total passenger revenues divided by total available seat miles.
(k) Total revenue per available seat mile – Total operating revenues divided by total available seat miles.

The table below sets forth the major components of CASM for AWA for the applicable years.

(IN CENTS)	YEAR ENDED DECEMBER 31,			% CHANGE	
	2002	2001 (AS RESTATED)	2000	2002-2001	2001-2000
Salaries and related costs	2.20	2.27	2.06	(2.9)	10.4
Aircraft rents	1.09	1.34	1.22	(18.5)	9.7
Other rents and landing fees	0.59	0.53	0.48	10.8	9.7
Aircraft fuel	1.11	1.29	1.38	(14.1)	(6.1)
Agency commissions	0.14	0.28	0.32	(49.1)	(11.3)
Aircraft maintenance materials and repairs	0.94	0.97	0.95	(3.7)	2.0
Depreciation and amortization	0.27	0.24	0.20	14.9	18.8
Amortization of reorganization value in excess of amounts allocable to identifiable assets	—	0.08	0.07	(100.0)	2.1
Special charges	0.07	0.53	—	(86.8)	100.0
Other	1.64	1.68	1.82	(2.3)	(7.6)
	8.05	9.21	8.50	(12.6)	8.4

2002 COMPARED WITH 2001

AWA recorded an operating loss of $164.2 million in 2002 compared to an operating loss of $423.4 million in 2001. Loss before income tax benefit and the cumulative effect of a change in accounting principle was $219.6 million in 2002 compared to a pretax loss of $326.2 million in 2001.

Total operating revenues for 2002 were $2.0 billion. Passenger revenues were $1.9 billion in 2002, which was relatively flat when compared to 2001. A 4.2% increase in RPMs exceeded a 1.8% increase in capacity, as measured by ASMs, resulting in a 1.7 point increase in load factor to 73.6%. The increase in load factor was offset by a 4.6% decrease in yield driven by a significant decline in business travel and the introduction of security fees paid by passengers. As a result, RASM decreased 2.5% to 7.14 cents in 2002 from 7.32 cents in 2001. Cargo revenues for 2002 decreased $6.3 million (18.5%) due to lower freight and mail volumes following the September 11, 2001 terrorist attacks. Other revenues, which consist primarily of alcoholic beverage sales, contract service sales, service charges and Mesa Airlines' net revenues, increased $9.0 million (19.9%) due primarily to higher ticket refund and reissue penalty fees for ticketing changes.

Excluding special charges of $19.0 million and $141.6 million recognized in 2002 and 2001, respectively, (see Note 14, "*Special Charges*" in Notes to Consolidated Financial Statements) operating expenses decreased $146.3 million or 6.3%, while ASMs increased 1.8% in 2002 as compared to 2001. As a result, CASM excluding special charges decreased 8.1% to 7.98 cents in 2002 from 8.68 cents in 2001. Significant changes in the components of operating expense per ASM are explained as follows:

- Salaries and related costs per ASM decreased 2.9% due primarily to lower average full-time equivalent headcount in 2002 as compared to 2001 despite a 1.8% increase in ASMs. A 3.9% decrease in the average number of full-time equivalent employees ("FTE") was offset in part by a 2.9% increase in average salaries and related costs per FTE as a result of higher medical, disability and workers' compensation insurance costs ($16.9 million).
- Aircraft rent expense per ASM decreased 18.5% due primarily to the reduction of rental rates negotiated with AWA's aircraft lessors as part of the financial restructuring that was completed in January 2002.
- Other rents and landing fees expense per ASM increased 10.8% due primarily to higher airport rents ($7.9 million), landing fees ($5.2 million) and costs for borrowed parts ($3.6 million). A $2.5 million increase in flight simulator rents, primarily as a result of the sale and leaseback of three previously owned flight simulators in the third quarter of 2001, also contributed to the increase. These increases were offset in part by a decrease in aircraft engine rents ($1.5 million).
- Aircraft fuel expense per ASM decreased 14.1% due primarily to an 11.9% decrease in the average price per gallon of fuel to 73.1 cents in 2002 from 83.0 cents in 2001.
- Agency commissions expense per ASM decreased 49.1% due primarily to the elimination of base commissions for travel agency tickets issued in the United States, effective March 21, 2002.
- Aircraft maintenance materials and repair expense per ASM decreased 3.7% due primarily to lower aircraft C-Check ($12.7 million), engine overhaul ($4.1 million), airframe maintenance ($3.0 million) and engineering order ($1.3 million) expenses. These decreases were offset in part by a $12.8 million increase in the accrual for the estimated costs of maintenance required to be performed upon the return of leased aircraft and a $3.4 million increase in capitalized maintenance amortization expense.
- Depreciation and amortization expense per ASM increased 14.9% due primarily to higher amortization expense related to computer hardware, software and facility improvements ($8.5 million) and aircraft leasehold improvements ($2.3 million). An increase in depreciation expense related to rotable aircraft parts ($1.7 million) also contributed to the increase. These increases were offset in part by a decrease in airframe depreciation expense ($2.3 million).

- Upon adoption of SFAS No. 142, "*Goodwill and Other Intangible Assets*," the Company wrote off its balance of reorganization value in excess of amounts allocable to identifiable assets, effective January 1, 2002, resulting in a $19.9 million decrease in amortization expense in 2002 when compared to 2001. The impairment loss of $187.9 million was recorded as the cumulative effect of a change in accounting principle. See Note 3, "*Adoption of New Accounting Standard*" in Notes to Consolidated Financial Statements.
- Other operating expenses per ASM decreased 2.3% to 1.64 cents from 1.68 cents primarily due to decreases in interrupted trip and baggage claim expenses ($12.0 million), professional, technical and legal fees ($10.7 million), catering ($13.3 million), advertising ($5.4 million), overnight and on-call maintenance expenses ($3.6 million), computer reservations system book fees ($3.0 million) and furnished accommodations ($2.4 million). These decreases were offset in part by higher traffic liability insurance expense ($31.2 million), the settlement in 2001 of a lawsuit related to an air-to-ground telecommunication system that was previously written off ($11.0 million) and an insurance claim ($8.8 million).
- Excluding the federal government assistance of $8.5 million and $108.2 million recognized in 2002 and 2001, respectively, net nonoperating expenses increased $52.8 million to $63.9 million in 2002 from $11.1 million in 2001. Net interest expense increased $45.7 million in 2002 due to higher average outstanding debt as a result of the government guaranteed loan, while interest income decreased $5.4 million. Higher average cash balances were offset by lower escrow balances from the 2001-1 Pass Through Trust Certificates and lower interest rates in 2002 compared to 2001.

2001 COMPARED WITH 2000

AWA recorded an operating loss of $423.4 million in 2001 compared to an operating loss of $12.7 million in 2000. Loss before income taxes for 2001 was $326.2 million compared to $15.1 million of pretax income in 2000.

Total operating revenues for 2001 were $2.0 billion. Passenger revenues were $1.9 billion in 2001, a decrease of $237.9 million or 10.9% from 2000. RASM in 2001 decreased 9.0% to 7.32 cents from 8.04 cents due to a reduction in demand for air travel following the September 11 terrorist attacks and a reduction in business travel driven by a slowing economy. Yield decreased 10.7% to 10.18 cents in 2001 from 11.40 cents in 2000. ASMs decreased 2.1% in 2001 as compared to 2000 while RPMs were relatively flat year-over-year, resulting in a 1.4 point increase in load factor. Cargo revenues for 2001 decreased $3.6 million (9.5%) due to lower freight and mail volumes following the September 11 terrorist attacks. Other revenues, which consist primarily of alcoholic beverage sales, contract service sales, service charges and Mesa Airlines net revenues, decreased $28.4 million (38.6%) due primarily to lower net revenues from AWA's code sharing agreement with Mesa Airlines, principally as a result of the decline in demand for air travel and the slowing economy.

Operating expenses excluding $141.6 million of special charges recognized in 2001 (see Note 14, "*Special Charges*" in Notes to Consolidated Financial Statements) were relatively flat year-over-year, while ASMs decreased 2.1% in 2001 as compared to 2000. As a result, CASM excluding special charges increased 2.1% to 8.68 cents in 2001 from 8.50 cents in 2000. A significant contributor to the increase in CASM was the post-September 11 suspension of air service and subsequent reduction of AWA's flight schedule as a result of reduced demand for air travel, which reduced ASMs without a commensurate reduction in expenses. Significant changes in the components of operating expense per ASM are explained as follows:

- Salaries and related costs per ASM increased 10.4% primarily due to an increase in salaries and related costs per employee, the reduction in ASMs and a higher number of employees in 2001 to support anticipated growth. Average salaries and related costs per FTE increased 6.5% primarily due to higher disability and medical insurance premiums ($13.5 million), a new collective bargaining agreement with the Company's fleet service

workers, which was entered into in June 2000 that included higher wage rates, and contractual wage increases required by the Company's agreement with its pilots. Payroll expense for fleet service personnel increased by $10.5 million and pilot salaries increased by $5.8 million in 2001. The average number of full-time equivalent employees increased 1.4% year-over-year while ASMs decreased 2.1%.

- Aircraft rent expense per ASM increased 9.7% due primarily to the net addition of five leased aircraft to the fleet during 2001 as compared to 2000.
- Other rents and landing fees expense per ASM increased 9.7% due primarily to higher airport rentals ($8.0 million) and landing fees ($3.8 million), which were offset in part by lower costs for borrowed parts ($2.6 million).
- Aircraft fuel expense per ASM decreased 6.1% due primarily to a 5.8% decrease in the average price per gallon of fuel to 83.0 cents in 2001 from 88.1 cents in 2000.
- Agency commissions expense per ASM decreased 11.3% due primarily to a 10.9% decrease in passenger revenues. An increase in the percentage of non-commissionable revenue in 2001 primarily as a result of increased usage of the Company's website and other lower cost distribution channels and a decrease in the travel agent commission cap from $50 to $20, effective August 28, 2001, also contributed to the decrease.
- Aircraft maintenance materials and repairs expense per ASM increased 2.0% due primarily to the deferral of certain aircraft C-Check expenses ($3.1 million) in the post-September 11 period and the reduction in ASMs.
- Depreciation and amortization expense per ASM increased 18.8% due primarily to an increase in amortization expense related to aircraft leasehold improvements ($2.8 million) and computer software and hardware additions and facility improvements to support growth ($1.6 million). Higher depreciation expense related to rotable aircraft parts ($2.3 million) and owned aircraft ($1.6 million) also contributed to the increase.
- Amortization of excess reorganization value expense per ASM increased due to the 2.1% decrease in ASMs.
- Other operating expenses per ASM decreased 7.6% to 1.68 cents from 1.82 cents primarily due to lower interrupted trip and baggage claim expenses as a result of AWA's improved operating performance ($19.9 million) and decreased discretionary spending which drove lower advertising ($9.2 million) and catering ($3.8 million) costs. The recovery of $11.0 million from the settlement in March 2001 of a lawsuit related to an air-to-ground telecommunication system that was previously written off, an $8.8 million insurance settlement in the fourth quarter of 2001 and a $9.0 million charge in the fourth quarter of 2000 related to the write-down to net realizable value of certain excess expendable aircraft parts also contributed to the decrease. These decreases were offset in part by higher costs related to traffic liability and other insurance ($9.4 million) and security services ($5.0 million).

Excluding the $108.2 million of federal government assistance, AWA had net nonoperating, pretax expenses of $11.1 million in 2001 as compared to $27.9 million of net nonoperating, pretax income in 2000. The year-over-year change was due primarily to a $15.5 million gain on sale of 500,000 warrants to purchase common stock of Priceline.com and an $8.6 million gain on sale of one million shares of GetThere.com common stock in 2000. Net interest expense increased $10.9 million in 2001 primarily due to higher average outstanding debt. Interest income decreased $1.1 million due to lower interest rates and cash and cash equivalent balances in 2001.

LIQUIDITY AND CAPITAL RESOURCES

GOVERNMENT GUARANTEED LOAN AND RELATED RESTRUCTURING

In January 2002, AWA closed a $429 million loan supported by a $380 million government loan guarantee. Completion of the government loan and related restructuring increased the Company's liquidity by approximately $390 million ($429 million loan, less 550 basis point first year guarantee fee to the U.S. Treasury Department and

other loan participants, and less other transaction fees). In addition, in connection with the completion of the government guaranteed loan, AWA restructured its senior secured credit facility, its aircraft purchase commitments and aircraft leases, issued $104.5 million of 7.5% convertible notes, issued warrants to purchase up to 18.8 million shares of its Class B common stock and received certain financing from the State of Arizona and City of Phoenix. Primarily related to this restructuring, the Company recorded a pre-tax special charge of $21.1 million in the first quarter of 2002. Components of the special charge are as follows:

(IN THOUSANDS)

	SPECIAL CHARGES
Fleet restructuring costs	$ 9,915
Losses on sale-leaseback transactions	6,328
Professional fees	4,745
Write-off of computer system and security equipment	3,411
Severance	656
Revision of estimate for second quarter 2001 special charge	(4,000)
Total	$ 21,055

Of the special charge amount, approximately $10.3 million, principally related to losses on sale-leaseback transactions, fleet restructuring costs, professional fees and severance, had not been paid and was therefore accrued as of March 31, 2002. In the third quarter of 2002, AWA recorded a $2.0 million reduction in special charges for fleet restructuring costs due to a revision of the estimated costs related to early termination of certain aircraft leases. As of December 31, 2002, approximately $5.8 million of the accrued special charges for 2002 and prior periods remained unpaid. Approximately $2.5 million related to estimated losses on sale-leaseback transactions is expected to be paid by the fourth quarter of 2003. Approximately $3.3 million of fleet restructuring costs, primarily related to rent payments for grounded aircraft, is expected to be paid through the fourth quarter of 2005.

We expect to fund accrued special charges from funds provided by operations, existing cash balances and future financings, if necessary. See "*Commitments*" below for a discussion of our future cash commitments and Note 4, "*Government Guaranteed Loan*" and Note 14, "*Special Charges*" in Notes to Consolidated Financial Statements for a further discussion of the government guaranteed loan, the related restructuring and special charges incurred in 2001 and 2002.

SOURCES AND USES OF CASH

At December 31, 2002, Holdings' and AWA's unrestricted cash and cash equivalents and short-term investments were $360.5 million and $351.4 million, respectively. Net cash used in operating activities for Holdings and AWA was $22.9 million and $24.3 million, respectively, in 2002. This compares to $152.4 million and $147.9 million of net cash provided by operating activities for Holdings and AWA, respectively, in 2001. The year-over-year decrease in net cash provided by operating activities of $175.2 million and $172.2 million for Holdings and AWA, respectively, was due primarily to a higher loss in the 2002 period and payment in the 2002 period of amounts due vendors and aircraft lessors that had been subject to the Company's cash conservation program prior to the closing of the government loan in January 2002. During 2002, the Company paid $58.1 million of transportation taxes to the IRS that had been deferred from 2001, as allowed under the Air Transportation Safety and System Stabilization Act. The Company also benefited from a $60.3 million federal income tax refund in 2002.

In 2002, net cash used in investing activities by Holdings and AWA was $6.3 million and $6.0 million, respectively. Principal investing activities during 2002 included the purchase of two new A320 aircraft, which were subsequently refinanced as part of a sale-leaseback transaction. The Company also received $175.5 million of

proceeds from the sale and leaseback of one new A319 aircraft and four new A320 aircraft and purchased short-term investments totaling $70.0 million. The 2001 period included the purchase of 11 new A319 aircraft and two new A320 aircraft. Ten of these aircraft were subsequently refinanced in 2001 as the result of sale-leaseback transactions, resulting in $332.8 million of proceeds to AWA. The remaining three aircraft were refinanced in 2002 as the result of the $175.5 million sale-leaseback transaction discussed above. The 2001 period also included $27.4 million of proceeds from the sale and leaseback of two owned aircraft engines and three flight simulators and sales of short-term investments totaling $50.7 million.

In 2002, net cash provided by financing activities by Holdings and AWA was $208.1 million and $208.4 million, respectively, primarily due to the government guaranteed loan discussed below. The Company also repaid $161.2 million of debt as a result of the sale and leaseback of the five aircraft discussed above and paid $37.0 million in loan-related fees during 2002. In addition, AWA made a mandatory repayment of approximately $16.7 million on its $89.9 million term loan. The payment was made as a result of a decrease in the fair market value of the assets securing the loan following the terrorist attacks of September 11, 2001. Collateral for the loan consists of aircraft, spare engines, rotable aircraft parts inventory and a maintenance facility. AWA and the lenders also amended certain provisions in the loan agreement related to the collateral appraisal procedures. See Note 7, *"Long-Term Debt"* in Notes to Consolidated Financial Statements. During 2001, AWA borrowed $378.4 million from its 2001-1 and 2000-1 Pass-Through Trusts to fund the acquisition of the 13 new aircraft above and borrowed $45.0 million under the Company's revolving credit facility. As a result of the sale-leaseback of the ten aircraft discussed above, AWA repaid, or assigned to a third party on a non-recourse basis, $281.4 million of the amounts borrowed. In addition, during 2001, AWA repaid $66.5 million of indebtedness under its revolving credit facility.

Capital expenditures for 2002 were approximately $157.2 million for Holdings and $156.9 million for AWA. Included in these amounts are capital expenditures for capitalized maintenance of approximately $118.7 million. Capital expenditures for 2003 are expected to increase to approximately $200 million due to increased capitalized maintenance for engines that were previously covered under warranty. Non-maintenance capital spending will be approximately $45 million as, under the Company's cash conservation program, spending continues to be limited to projects that are mandatory or have a payback period less than one year. The Company currently intends to fund such expenditures with cash from operations. See *"Commitments."*

As a result of the commencement of military action in Iraq, in March 2003, the Company announced a plan to reduce management, professional and administrative payroll costs which will result in fewer employees within these workgroups. In addition, the Company's business partners and vendors will be asked to reduce their fees in order to further reduce costs and maintain sufficient liquidity in this uncertain environment.

PASS THROUGH TRUSTS

Since AWA's restructuring in 1994, AWA has set up 19 pass through trusts, which have issued over $1.4 billion of pass through trust certificates (also known as "Enhanced Equipment Trust Certificates" or "EETC"). 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 allow the Company 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.

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 AWA's election, either by AWA 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 AWA. 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 guaranteed by, Holdings or AWA. However, in the case of mortgage financings, the equipment notes issued to the trusts are direct obligations of AWA and in the case of leveraged lease financings, the leases are direct obligations of AWA. All aircraft financed by these trusts are currently structured as leveraged lease financings, which are not reflected as debt on the balance sheets of either AWA or Holdings.

AWA's 2001-1 Pass Through Trusts provided for the financing of nine Airbus A319 aircraft and five Airbus A320 aircraft. Of the 14 aircraft, 11 were delivered in 2001 and three were delivered in 2002. Except for one aircraft delivered in the first quarter of 2002, which was financed as a leveraged lease upon delivery, the acquisition of each aircraft was initially structured as a mortgage financing and subsequently converted into a leveraged lease financing in sale-leaseback transactions. In connection with the purchase of two aircraft delivered in the second quarter of 2002, AWA issued $64.2 million of equipment notes. In June 2002, AWA converted the mortgage financing of three aircraft delivered in 2001 and the two aircraft delivered in the second quarter of 2002 into leveraged lease financings by entering into sale-leaseback transactions. As a result, approximately $161.2 million of the equipment notes were assumed, on a non-recourse basis, by the owner trustees that purchased the aircraft from AWA.

COMMITMENTS

As of December 31, 2002, we had $720.1 million of long-term debt (including current maturities). This amount consisted primarily of the $429 million government guaranteed loan, a $73.2 million secured term loan with a group of financial institutions, $91.7 million face value of convertible senior notes and notes payable secured by certain of AWA's aircraft.

The following table sets forth our cash obligations as of December 31, 2002.

(IN THOUSANDS)

	2003	2004	2005	2006	2007	Beyond 2007	TOTAL
Long-term debt:							
Equipment notes - Non EETC (1)	$ 9,673	$ 8,989	$ 8,305	$ 8,305	$ 7,771	$ 15,083	$ 58,126
Promissory Note (2)	2,443	—	—	—	—	—	2,443
Term loan (3)	—	1,588	30,000	30,000	13,170	—	74,758
7.5% Convertible Senior Notes due 2009 (4)	—	—	—	—	—	97,894	97,894
Government guaranteed loan (5)	—	85,800	85,800	85,800	85,800	85,800	429,000
State loan (6)	—	750	250	250	250	—	1,500
10 3/4% Senior Unsecured Notes due 2005	—	—	49,998	—	—	—	49,998
Industrial development bonds (7)	—	—	—	—	—	29,300	29,300
AVSA promissory notes (8)	7,000	—	—	—	—	—	7,000
	19,116	97,127	174,353	124,355	106,991	228,077	750,019
Cash aircraft rental payments (9)	328,255	304,065	286,220	262,325	248,501	1,965,540	3,394,906
Lease payments on equipment and facility operating leases (10)	19,499	17,682	17,251	15,485	14,125	74,218	158,260
Capital lease obligations	3,882	4,278	4,298	4,655	1,685	—	18,798
Special facility revenue bonds (11)	1,362	1,362	1,362	1,362	1,362	37,469	44,279
Aircraft purchase commitments (12)	87,859	82,748	84,970	224,009	264,746	—	744,332
Total	$ 459,973	$ 507,262	$ 568,454	$632,191	$ 637,410	$ 2,305,304	$ 5,110,594

(1) Includes approximately $58.1 million of equipment notes with variable interest rates of 2.75% to 3.0%, averaging 2.94%, installments due 2003 through 2008.

(2) Includes an unsecured promissory note maturing in June 2003 with a fixed rate of 10%. In June 2002, AWA restructured the leases for six of its Boeing 757-200 aircraft to improve lease rental rates and other terms. Prior to the restructuring, AWA subleased the six aircraft from The Boeing Company ("Boeing"), who in turn leased the aircraft from five different head lessors. Under the restructuring, AWA terminated the subleases with Boeing and assumed, amended and restated the existing head leases for each aircraft. Upon closing of the transactions, AWA paid approximately $11.8 million in security deposits and advance rental payments to the head lessors, net of a refund from Boeing for prorated prepaid rent under the subleases, prorated accrued rent under the head leases and cash deposits for the estimated cost of certain maintenance work required to be performed on the aircraft prior to their return to Boeing. As a result of these transactions, Boeing also relinquished its interest in approximately $11.2 million face value of 7.5% convertible notes it received as compensation for certain concessions granted under the restructuring completed on January 18, 2002. Furthermore, AWA issued a $4.9 million note payable to Boeing for the value of the concessions realized with respect to these six aircraft prior to the termination of the subleases, of which approximately $2.5 million was paid in 2002. The restructured leases have a remaining term of approximately six years.

(3) Includes a $73.2 million secured term loan maturing at year-end 2007 with a variable interest rate of 3.69% and $1.6 million of interest payable in kind through December 31, 2002 at a fixed rate of 2%. Excludes $3.1 million of interest payable in kind through December 2004.

(4) Includes $91.7 million face value of 7.5% convertible senior notes, due 2009, and $6.2 million of interest payable in kind through December 31, 2002. Excludes $15.5 million of interest payable in kind through December 2004. For financial reporting purposes, we recorded the convertible senior notes at their fair market value on the date of issuance. As of December 31, 2002, the balance of the convertible senior notes in the accompanying consolidated balance sheet is approximately $62.4 million.

(5) Government guaranteed loan includes $429.0 million with a variable interest rate of 2.2% and ratable principal payments due 2004 through 2008. Guarantee fees of approximately 8.0% of the outstanding guaranteed principal balance in 2003 through 2008 are payable to the U.S. Treasury Department and other loan participants.

(6) Includes Arizona State loan of $1.5 million due December 2007 with a variable interest rate of 5.29%.

(7) Includes $29.3 million of 6.3% industrial development bonds due April 2023.

(8) Includes AVSA promissory notes of $7.0 million due 2003 with a variable interest rate of 3.06%.

(9) Includes non-cancelable operating leases for 133 aircraft with remaining terms ranging from three months to approximately 22 years. Management estimates the debt equivalent value of these operating leases approximates $2 billion using an interest rate of 10%.

(10) Includes leases for terminal space, ground facilities, the flight training center and computer and other equipment under non-cancelable operating leases.

(11) Includes Series 1999 Terminal 4 Improvements Bonds, due 2019.

(12) Includes commitments to purchase a total of 21 Airbus aircraft and spare engines for delivery in 2003 through 2007.

We expect to fund these cash obligations from funds provided by operations, the proceeds of the government guaranteed loan, the financing commitments for Airbus aircraft obtained in connection with the government loan, 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, a further economic downturn or other events, including the commencement of hostilities against Iraq, could reduce the demand for air travel, which would reduce the amount of cash generated by operations. An increase in borrowing costs, either due to a reduction in our credit rating or due to a general increase in interest rates, or in the cost of fuel, maintenance, aircraft and aircraft engines and parts, could increase our costs, which could decrease the amount of cash available to cover the cash obligations. In addition, we may be required to prepay portions of the government guaranteed loan if our employee compensation costs exceed a certain threshold; we may be required to prepay portions of the term loan to the extent the value of the collateral securing the term loan decreases; and we may fail to meet the minimum liquidity threshold required to obtain the entire amount of financing commitment for two of the Airbus aircraft. In any of these cases, our liquidity may be adversely affected and we may not have sufficient cash to prepay the government loan and meet our other obligations. Moreover, certain of our long-term debt agreements contain a $100 million minimum cash balance requirement. As a result, we cannot use all of our available cash to fund operations, capital expenditures and cash obligations without violating this requirement.

Although there can be no assurances, we believe that cash flow from operating activities coupled with existing cash balances and financing commitments will be adequate to fund our operating and capital needs as well as enable us to maintain compliance with our various debt agreements through at least December 31, 2003.

FINANCIAL COVENANTS AND CREDIT RATING

In addition to the minimum cash balance requirements, our long-term debt agreements contain various negative covenants that restrict our actions, including our ability to pay dividends, together with any other restricted payments. Moreover, under the terms of the government guaranteed loan, we are prohibited from paying cash dividends prior to repayment of the loan in full. Finally, our long-term debt agreements contain cross-default provisions, which may be triggered by defaults by us under other agreements relating to indebtedness. As of December 31, 2001, we had suspended payment under certain aircraft leases and, as a result, had received notices of default from certain aircraft lessors. In January 2002, we paid in full approximately $81 million in deferred aircraft lease payments simultaneously

with the funding of the $429 million loan supported by a $380 million government loan guarantee, thereby curing the defaults. See *"Risk Factors Relating to America West and Industry Related Risks - Our high level of debt and fixed costs limits our ability to fund general corporate requirements, limits our flexibility in responding to competitive developments and increases our vulnerability to adverse economic and industry conditions,"* included in Item 1 of the Company's Annual Report on Form 10-K. As of December 31, 2002, Holdings and AWA were in compliance with the covenants in their long-term debt agreements.

In June 2002, Standard & Poor's raised its credit ratings on Holdings to B- from CCC- and AWA for its senior unsecured debt to CCC from C and removed them from Credit Watch, where they were placed on September 13, 2001. Ratings on the various pass-through certificates were also raised. However, the outlook on the industry and AWA continues to be negative. Moody's currently rates AWA's senior unsecured debt at Ca. Our relatively low credit ratings may impair our ability to incur additional indebtedness. The rating agencies base their ratings on our financial performance and operations, our cash flow and liquidity, the level of our debt and industry conditions in general. 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. See *"Risk Factors Relating to America West and Industry Related Risks - Because of our relatively low credit ratings, our borrowing costs may be high and our ability to incur additional debt may be impaired,"* included in Item 1 of the Company's Annual Report on Form 10-K.

OTHER INFORMATION

LABOR RELATIONS

On December 23, 2002, the Company announced that it had reached a tentative agreement with the Air Line Pilots Association ("ALPA") on a new contract for AWA's pilots. The tentative agreement was subject to a membership ratification vote in March 2003. On March 18, 2003, ALPA informed the Company that a majority of AWA's pilots voted against ratification of the tentative agreement. The Company will resume mediated discussions with ALPA at a date to be determined by the National Mediation Board ("NMB"). The Company cannot predict the outcome of those discussions.

In addition, the Company is in negotiations with the International Brotherhood of Teamsters ("IBT") on a first contract covering the Company's stock clerks, a work group of approximately 50 employees. The parties are currently in mediation under the auspices of the NMB. The Company cannot predict the form of this future collective bargaining agreement and therefore the effect, if any, on AWA's operations or financial performance.

On August 19, 2002, the IBT filed an Application for Investigation of Representation Dispute with the NMB, seeking to represent approximately 4,000 passenger service representatives and reservations agents. An election was conducted and on November 12, 2002, the NMB dismissed the case, finding that the majority of employees (2,051 of 3,619) chose not to be represented by a union. Thereafter, the IBT appealed the election results claiming the Company improperly interfered with the employees' voting rights. The Company vigorously denied any wrongdoing and the matter is currently being investigated by the NMB. The Company cannot predict the outcome of the investigation.

INCOME TAXES

At December 31, 2002, the Company had net operating loss carryforwards ("NOL"), business tax credit carryforwards and alternative minimum tax credit carryforwards for federal income tax purposes of approximately $399.6 million, $1.9 million and $1.2 million, respectively. The NOL expire during the years 2007 through 2009 while the business credit carryforwards expire during the years 2003 through 2006. However, such carryforwards are not available to offset federal (and in certain circumstances, state) alternative minimum taxable income. Further, as

a result of a statutory "ownership change" (as defined for purposes of Section 382 of the Internal Revenue Code) that occurred as a result of the Company's reorganization in 1994, the Company's ability to utilize its NOL and business tax credit carryforwards may be restricted. The alternative minimum tax credit may be carried forward without expiration and is available to offset future income tax payable to the extent regular income tax exceeds alternative minimum tax in any given year.

The Company's reorganization and the associated implementation of fresh start reporting in 1994 gave rise to significant items of expense for financial reporting purposes that are not deductible for income tax purposes. In large measure, it is these nondeductible expenses that result in an effective tax expense (benefit) rate for financial reporting purposes that differs from the current federal statutory income tax rate of 35% for the years ended December 31, 2001 and 2000.

GOVERNMENT REGULATIONS

On November 19, 2001, the President signed into law the Aviation and Transportation Security Act (the "ATSA"). This law enhances aviation security measures and federalizes many aspects of civil aviation security. ATSA established a new Transportation Security Administration within the Department of Transportation. Under the ATSA, all security screeners at airports will be federal employees and a significant number of other airport security functions will be overseen and performed by federal employees, including federal security managers, federal law enforcement officers and federal air marshals. The ATSA mandated that beginning on January 18, 2002, all checked baggage at United States airports be screened using explosive detection systems, or, where such systems are not yet available, using other screening techniques such as positively matching baggage to a passenger who has boarded an aircraft. The ATSA requires all checked baggage to be screened by explosive detection systems by December 31, 2003. Other requirements in the ATSA that directly affect airline operations include: the strengthening of cockpit doors; deploying federal air marshals on board certain flights; improving airline crew security training; and expanding use of criminal background checks of employees. Implementation of these and other requirements of the ATSA will result in increased costs for air carriers and may result in delays and disruptions to air travel. Under the ATSA, funding for the new federal security system is to be provided by a $2.50 per enplanement ticket tax, not to exceed $5.00 per one-way trip, and by imposing additional direct fees on air carriers. Pursuant to the ATSA, air carriers began collecting the new ticket tax from passengers on February 1, 2002 and have been required to make additional payments to the Transportation Security Administration. The total estimated cost to the Company of compliance with the security requirements of the ATSA for 2003 is approximately $16.6 million. As a result of competitive pressure, AWA 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.

In 1997, new aviation taxes were imposed through September 30, 2007 to provide funding for the Federal Aviation Administration ("FAA"). Included in the new law is a phase-in of a modified federal air transportation excise tax structure with a system that includes: a domestic excise tax which started at 9% and declined to 7.5% in 1999; a domestic segment tax that started at $1.00 and increases to $3.00 by 2003; and an increase in taxes imposed on international travel from $6.00 per international departure to an arrival and departure tax of $12.00 (each way). Both the domestic segment tax and the international arrival and departure tax are indexed for inflation. The legislation also included a 7.5% excise tax on certain amounts paid to an air carrier for the right to provide mileage and similar awards (e.g., purchase of frequent flyer miles by a credit card company). As a result of competitive pressures, AWA and other airlines have been limited in their ability to pass on the cost of these taxes to passengers through fare increases.

Congress will be reviewing FAA funding in 2003 which may result in changes to the current funding mechanisms. AWA cannot currently estimate the effect any new combination of ticket and segment taxes, or any

change in those taxes will have on its operating results. There can be no assurance that any changes will not have a material adverse effect on AWA's financial condition and results of operations.

For additional information on government regulation and its effect on the Company see "*Business - Government Regulations*" included in Item 1 of the Company's Annual Report on Form 10-K.

RELATED PARTY TRANSACTIONS

As part of our reorganization in 1994, Continental Airlines and AWA entered into an alliance agreement which included code sharing arrangements, reciprocal frequent flyer programs and ground handling operations. In March 2002, AWA received notice from Continental of its intention to terminate the code sharing and frequent flyer agreements between the two airlines, effective April 26, 2002. Two of Continental's directors are managing partners of Texas Pacific Group, which, through TPG Advisors, Inc., effectively controls the voting power of Holdings. See "*Risk Factors Relating to America West and Industry Related Risks - The stockholders who effectively control the voting power of Holdings could take actions that would favor their own personal interests to the detriment of our interests*," included in Item 1 of the Company's Annual Report on Form 10-K. AWA paid Continental approximately $25.5 million, $30.1 million and $32.4 million and also received approximately $15.9 million, $22.0 million and $25.5 million in 2002, 2001 and 2000, respectively, from Continental pursuant to these agreements.

AWA provides air transportation and certain administrative services to The Leisure Company, a wholly owned subsidiary of Holdings that was formed on January 1, 1998. The cost of air transportation and administrative services are negotiated on an arms length basis. AWA had net air transportation sales to TLC of $44.5 million, $60.2 million and $55.3 million, respectively, in 2002, 2001 and 2000 and also received $1.3 million in each of those years under the services agreement.

CRITICAL ACCOUNTING POLICIES

The preparation of our consolidated financial statements in accordance with generally accepted accounting principles 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. We have identified the following critical accounting policies that require the use of significant judgments and estimates relating to matters that are inherently uncertain and may result in materially different results under different assumptions and conditions.

- **Passenger Revenue** – Passenger revenue is recognized when transportation is provided. Ticket sales for transportation that has not yet been provided are recorded as air traffic liability. 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. 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 statistical analysis of our historical data. 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.
- **Accounting For Long-Lived Assets** – Owned property and equipment are recorded at cost and depreciated to residual values over the estimated useful lives using the straight-line method. 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. Interest on advance payments for aircraft acquisitions and on expenditures for aircraft

improvements is capitalized and added to the cost of the asset. The estimated useful lives of our owned aircraft, jet engines, flight equipment and rotable parts range from five to 30 years. The estimated useful lives of our technical support facility and flight training center in Phoenix, Arizona are 22 years and 30 years, respectively. The estimated useful lives of our ground property and equipment range from three to 12 years. We test for 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."* An impairment loss is recognized if the carrying amount of the asset is not recoverable from its undiscounted cash flows and is measured as the difference between the carrying amount and fair value of the asset.

- **Frequent Flyer Accounting** – We maintain a frequent travel award program known as "FlightFund" that provides a variety of awards to program members based on accumulated mileage. The estimated cost of providing the free travel is recognized as a liability and charged to operations as program members accumulate mileage. Travel awards are valued at the incremental cost of carrying one passenger, based on expected redemptions. Incremental costs are based on expectations of expenses to be incurred on a per passenger basis and include fuel, liability insurance, food, beverages, supplies and ticketing costs. We also sell mileage credits to companies participating in our FlightFund program, such as hotels, car rental agencies and credit card companies. Transportation-related revenue from the sale of mileage credits is deferred and recognized when transportation is provided. A change to the estimated cost per mile, minimum award level, percentage of revenue to be deferred or deferred recognition period could have a significant impact on our revenues or mileage liability accrual in the year of the change as well as future years.
- **Long-Term Maintenance Reserve** – We record an accrual for the estimated cost of scheduled airframe and engine overhauls required to be performed on leased aircraft upon their return to the lessors. These estimates are based on historical costs and our assumptions regarding the renewal of aircraft leases. A significant change to the Airline's fleet plan could have a material impact on our reserve requirements.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In April 2002, the Financial Accounting Standards Board ("FASB") issued SFAS No. 145, *"Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections as of April 2002."* This standard rescinds SFAS No. 4, *"Reporting Gains and Losses from Extinguishment of Debt,"* and an amendment of that Statement, SFAS No. 64, *"Extinguishments of Debt Made to Satisfy Sinking-Fund Requirements"* and excludes extraordinary item treatment for gains and losses associated with the extinguishment of debt that do not meet the Accounting Principles Board ("APB") Opinion No. 30, *"Reporting the Results of Operations - Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions"* criteria. Any gain or loss on extinguishment of debt that was classified as an extraordinary item in prior periods presented that does not meet the criteria in APB No. 30 for classification as an extraordinary item shall be reclassified. SFAS No. 145 also amends SFAS No. 13, *"Accounting for Leases,"* as well as other existing authoritative pronouncements to make various technical corrections, clarify meanings, or describe their applicability under changed conditions. AWA adopted SFAS No. 145 effective January 1, 2002 with no material impact on its financial condition or results of operations.

In June 2002, the FASB issued SFAS No. 146, *"Accounting for Costs Associated with Exit or Disposal Activities."* This standard addresses financial accounting and reporting for costs associated with exit or disposal activities and replaces Emerging Issues Task Force ("EITF") Issue No. 94-3, *"Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring.)"* SFAS No. 146 requires that a liability for costs associated with an exit or disposal activity be recognized when the liability is incurred. Under EITF No. 94-3, a liability for exit costs, as defined in EITF No. 94-3, was recognized at the date

of an entity's commitment to an exit plan. The provisions of SFAS No. 146 are effective for exit or disposal activities that are initiated by AWA after December 31, 2002. In February 2003, AWA announced that it will eliminate hub operations in Columbus, Ohio. In accordance with SFAS No. 146, AWA expects to record pretax special charges of approximately $10 to $15 million. See Note 21, *"Subsequent Event - Elimination of Hub Operations in Columbus, Ohio"* in Notes to Consolidated Financial Statements.

In November 2002, the FASB issued Interpretation ("FIN") No. 45, *"Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others."* FIN No. 45 requires a guarantor to recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. FIN No. 45 also expands the disclosures required to be made by a guarantor about its obligations under certain guarantees that it has issued. Initial recognition and measurement provisions of FIN No. 45 are applicable on a prospective basis to guarantees issued or modified. The disclosure requirements are effective immediately. While the Company has various indemnity obligations included in contracts entered into in the normal course of business, these obligations are primarily in the form of indemnities that could result in immaterial increases of future costs, but do not represent significant commitments or contingent liabilities of the indebtedness of others. As a result, the Company does not expect FIN No. 45 to have a material effect on its financial condition or results of operations.

In December 2002, the FASB issued SFAS No. 148, *"Accounting for Stock-Based Compensation - Transition and Disclosure, an amendment of SFAS No. 123."* SFAS No. 148 amended SFAS No. 123, *"Accounting for Stock-Based Compensation,"* to provide alternative methods of transition for an entity that voluntarily changes to the fair value based method of accounting for stock-based employee compensation. It also amends the disclosure provisions of SFAS No. 123 to require prominent disclosure about the effects on reported net income of an entity's accounting policy decisions with respect to stock-based employee compensation. In addition, SFAS No. 148 amends APB Opinion No. 28, *"Interim Financial Reporting,"* to require disclosure about those effects in interim financial information. SFAS No. 148 is effective for financial statements for fiscal years ending after December 15, 2002, including certain amendments to required disclosures related to stock-based compensation included in condensed financial statements for interim periods beginning after December 15, 2002. The Company has complied with the required disclosure items in SFAS No. 148, and is still evaluating changing to the fair value based method of accounting for stock-based employee compensation.

In January 2003, the FASB issued FIN No. 46, *"Consolidation of Variable Interest Entities."* FIN No. 46 requires that companies that control another entity through interests other than voting interests should consolidate the controlled entity. FIN No. 46 applies to variable interest entities created after January 31, 2003, and to variable interest entities in which an enterprise obtains an interest after that date. The related disclosure requirements are effective immediately. The Company has evaluated the provisions of FIN 46 and does not believe it to be reasonably possible that adoption would have a material effect on its financial condition and results of operations.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

MARKET RISK SENSITIVE INSTRUMENTS

(a) Commodity Price Risk

Aircraft fuel costs accounted for approximately 14% of the Company's total operating expenses during 2002. At current consumption levels, a one-cent per gallon change in the price of jet fuel would affect the Company's annual operating results in 2003 by approximately $4.4 million. Accordingly, a substantial change in the price of jet fuel would have a significant impact on the Company's results of operations.

In 1996, AWA implemented a fuel hedging program to manage the risk from fluctuating jet fuel prices. The program's objectives are to provide some protection against extreme, upward movements in the price of jet fuel and to protect AWA's ability to meet its annual fuel expense budget. Under the program, AWA may enter into certain hedging transactions with approved counterparties for future periods generally not exceeding 12 months.

As of December 31, 2002, the Company had entered into costless collar transactions which establish an upper and lower limit on heating oil futures prices. These transactions are in place with respect to approximately 40% of projected 2003 fuel requirements, including 63% related to the first quarter of 2003. In order to execute additional hedging transactions, we anticipate that we will have to provide cash collateral or other credit support, which we may not be able to provide in a cost-effective manner. See "*Risk Factors Relating to America West and Industry Related Risks - Fluctuations in fuel costs could adversely affect our operating expenses and results,*" included in Item 1 of the Company's Annual Report on Form 10-K.

The use of such hedging transactions in the Company's fuel hedging program could result in the Company not fully benefiting from certain declines in heating oil futures prices. At December 31, 2002, the Company estimates that a 10% increase in heating oil futures prices would increase the fair value of the costless collar transactions by approximately $4.7 million. The Company estimates that a 10% decrease in heating oil futures prices would decrease the fair value of the costless collar transactions by approximately $1.7 million.

As of March 31, 2003, approximately 40% of AWA's 2003 projected fuel requirements are hedged.

(b) Interest Rate Risk

The Company's exposure to interest rate risk relates primarily to its variable rate long-term debt obligations. At December 31, 2002, the Company's variable-rate long-term debt obligations of approximately $554 million represented approximately 78% of its total long-term debt. If interest rates increased 10% in 2003, the impact on the Company's results of operations would not be material.

MARKET FOR REGISTRANTS' COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

The Class A common stock of Holdings, par value $.01 per share is not publicly traded. The Class B common stock, par value $.01 per share, has been traded on the New York Stock Exchange under the symbol "AWA" since August 26, 1994.

The following table sets forth, for the periods indicated, the high and low sales prices of the Class B common stock as reported on the New York Stock Exchange.

	CLASS B COMMON STOCK	
	HIGH	LOW
YEAR ENDED DECEMBER 31, 2002		
First Quarter	$ 6.4500	$ 3.1500
Second Quarter	5.5100	2.4600
Third Quarter	2.8200	1.2000
Fourth Quarter	2.6500	0.9000
YEAR ENDED DECEMBER 31, 2001		
First Quarter	$ 14.1875	$ 9.2500
Second Quarter	10.8100	8.5800
Third Quarter	10.7100	1.4500
Fourth Quarter	3.5000	1.5200

As of December 31, 2002, there were three record holders of Class A common stock and approximately 2,892 record holders of Class B common stock.

Holdings has not paid cash dividends in any of the last three fiscal years and does not anticipate paying cash dividends in the foreseeable future. Under the terms of the government guaranteed loan, the Company is prohibited from paying cash dividends prior to repayment of the loan in full.

In September 1995, the Company adopted a stock repurchase program. The program was amended in December 1995, August 1997, August 1998, May 1999 and February 2000. During 1995 through 2000, the Company repurchased approximately 16.5 million shares of Class B common stock and 7.4 million warrants to purchase Class B common stock. The Company did not repurchase any Class B common stock in 2001 or 2002. The Company's stock repurchase program expired on December 31, 2002. Under the terms of the government guaranteed loan, the Company is prohibited from purchasing any additional shares of its stock prior to repayment of the loan in full.

AWA has 1,000 shares of common stock outstanding, all of which are owned by Holdings. There is no established public trading market for AWA's common stock. Except for limited ability to fund operating expenses of Holdings, AWA's ability to pay cash dividends on its common stock is restricted by the debt instruments and in the manner described above.

TLC has 1,000 shares of preferred stock outstanding, which are owned by AWA, and 1,000 shares of common stock outstanding, which are owned by Holdings. There is no established public trading market for TLC's preferred or common stock.

CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA – AMERICA WEST HOLDINGS CORPORATION

Consolidated balance sheets of Holdings as of December 31, 2002 and 2001, and the related consolidated statements of operations, of cash flows and of stockholders' equity and comprehensive income (loss) for each of the years in the three-year period ended December 31, 2002, together with the related notes and the reports of PricewaterhouseCoopers LLP, independent accountants, and KPMG LLP, independent auditors, are set forth on the following pages.

REPORT OF INDEPENDENT ACCOUNTANTS

The Board of Directors and Stockholders of America West Holdings Corporation:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, of cash flows and of stockholders' equity and comprehensive income (loss) present fairly, in all material respects, the financial position of America West Holdings Corporation at December 31, 2002 and 2001, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which 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, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As more fully described in Note 2, the Company has restated its financial statements for the year ended December 31, 2001 to reflect impairment charges on long-lived assets.

As discussed in Note 3 to the consolidated financial statements, the Company changed its method of accounting for reorganization value in excess of amounts allocable to identifiable assets in connection with the adoption of Statement of Financial Accounting Standards No. 142, "*Goodwill and Other Intangible Assets,*" effective January 1, 2002.

PricewaterhouseCoopers LLP
Phoenix, Arizona
March 24, 2003

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Stockholders of America West Holdings Corporation:

We have audited the accompanying consolidated statements of operations, cash flows and stockholders' equity and comprehensive income (loss) for the year ended December 31, 2000. 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 audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the results of operations and cash flows of America West Holdings Corporation and subsidiaries for the year ended December 31, 2000, in conformity with accounting principles generally accepted in the United States of America.

KPMG LLP

KPMG LLP
Phoenix, Arizona
March 28, 2001

AMERICA WEST HOLDINGS CORPORATION – CONSOLIDATED BALANCE SHEETS

DECEMBER 31, 2002, 2001 (IN THOUSANDS EXCEPT SHARE DATA)

	2002	2001
		(AS RESTATED)
Assets		
Current assets:		
Cash and cash equivalents	$ 335,750	$ 156,865
Short-term investments	24,738	—
Accounts receivable, less allowance for doubtful accounts of $6,767 in 2002 and $3,216 in 2001	82,197	109,012
Expendable spare parts and supplies, less allowance for obsolescence of $9,261 in 2002 and $7,249 in 2001	55,894	51,833
Prepaid expenses	108,819	43,688
Total current assets	607,398	361,398
Property and equipment:		
Flight equipment	880,446	1,043,424
Other property and equipment	274,329	258,400
Equipment purchase deposits	46,050	49,650
	1,200,825	1,351,474
Less accumulated depreciation and amortization	551,065	564,796
	649,760	786,678
Other assets:		
Restricted cash	45,968	54,546
Reorganization value in excess of amounts allocable to identifiable assets, net	—	208,223
Other assets, net	135,827	58,373
	181,795	321,142
	$ 1,438,953	$ 1,469,218
Liabilities and Stockholders' Equity		
Current liabilities:		
Current maturities of long-term debt	$ 19,116	$ 119,141
Current obligations under capital leases	3,122	—
Accounts payable	183,304	253,318
Air traffic liability	192,450	187,714
Accrued compensation and vacation benefits	39,076	41,470
Accrued taxes	35,159	59,240
Other accrued liabilities	38,607	29,643
Total current liabilities	510,834	690,526
Long-term debt, less current maturities	700,983	224,550
Capital leases, less current obligations	11,999	—
Deferred credits and other liabilities	146,959	133,779
Commitments and contingencies (see Note 8)		
Stockholders' equity:		
Preferred stock, $.01 par value. Authorized 48,800,000 shares; no shares issued	—	—
Class A common stock, $.01 par value. Authorized 1,200,000 shares; issued and outstanding 941,431 shares at December 31, 2002 and December 31, 2001	9	9
Class B common stock, $.01 par value. Authorized 100,000,000 shares; issued and outstanding 49,055,180 shares in 2002 and 49,070,346 shares in 2001	491	491
Additional paid-in capital	628,868	593,784
Retained earnings (deficit)	(257,014)	130,895
Accumulated other comprehensive income	2,030	1,390
	374,384	726,569
Less: Cost of Class B common stock in treasury, 16,283,895 shares in 2002 and 2001	(306,206)	(306,206)
Total stockholders' equity	68,178	420,363
	$ 1,438,953	$ 1,469,218

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF OPERATIONS

FOR THE YEARS ENDED DECEMBER 31, 2002, 2001 AND 2000 (IN THOUSANDS EXCEPT PER SHARE DATA)

	2002	2001	2000
		(AS RESTATED)	
Operating Revenue			
Passenger	$ 1,929,444	$ 1,941,877	$ 2,179,811
Cargo	27,574	33,824	37,377
Other	90,098	90,212	127,166
Total operating revenues	2,047,116	2,065,913	2,344,354
Operating expenses:			
Salaries and related costs	596,645	603,819	559,578
Aircraft rents	295,016	355,517	331,005
Other rents and landing fees	158,290	140,372	130,680
Aircraft fuel	299,940	343,224	373,313
Agency commissions	38,896	75,085	86,469
Aircraft maintenance materials and repairs	252,691	257,939	258,432
Depreciation and amortization	73,898	63,178	54,313
Amortization of reorganization value in excess of amounts allocable to identifiable assets	—	19,896	19,896
Special charges	19,030	141,638	—
Other	472,790	483,116	543,305
Total operating expenses	2,207,196	2,483,784	2,356,991
Operating loss	(160,080)	(417,871)	(12,637)
Nonoperating income (expenses):			
Interest income	10,549	14,785	15,980
Interest expense, net	(72,442)	(26,349)	(15,449)
Federal government assistance	8,466	108,246	—
Loss on disposition of property and equipment	(1,852)	(3,000)	(2,332)
Gain on sale of investments	—	—	36,417
Other, net	602	(198)	2,764
Total nonoperating income (expenses), net	(54,677)	93,484	37,380
Income (loss) before income taxes (benefit) and cumulative effect of change in accounting principle	(214,757)	(324,387)	24,743
Income taxes (benefit)	(35,071)	(74,536)	17,064
Income (loss) before cumulative effect of change in accounting principle	(179,686)	(249,851)	7,679
Cumulative effect of change in accounting principle	(208,223)	—	—
Net income (loss)	$ (387,909)	$ (249,851)	$ 7,679
Basic earnings (loss) per share:			
Earnings (loss) before cumulative effect of change in accounting principle	$ (5.33)	$ (7.42)	$ 0.22
Cumulative effect of change in accounting principle	(6.17)	—	—
Basic earnings (loss) per share	$ (11.50)	$ (7.42)	$ 0.22
Diluted earnings (loss) per share:			
Earnings (loss) before cumulative effect of change in accounting principle	$ (5.33)	$ (7.42)	$ 0.22
Cumulative effect of change in accounting principle	(6.17)	—	—
Diluted earnings (loss) per share	$ (11.50)	$ (7.42)	$ 0.22
Shares used for computation:			
Basic	33,723	33,670	35,139
Diluted	33,723	33,670	35,688

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2002, 2001 AND 2000 (IN THOUSANDS)

	2002	2001	2000
		(AS RESTATED)	
Cash flows from operating activities:			
Net income (loss)	$ (387,909)	$ (249,851)	$ 7,679
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Cumulative effect of change in accounting principle	208,223	—	—
Depreciation and amortization	75,894	64,573	56,881
Amortization of capitalized maintenance	111,576	116,809	121,031
Amortization of excess reorganization value	—	21,497	21,496
Amortization of deferred credits	(10,077)	(6,928)	(9,272)
Amortization of deferred rent	11,452	—	—
Amortization of warrants	7,708	—	—
Amortization of debt issue costs	24,978	1,631	934
Amortization of bond discount	2,894	—	—
Loss (gain) on sale of subsidiaries	—	2,257	(11,125)
Special charges	19,055	77,604	—
Other	16,746	5,218	4,779
Changes in operating assets and liabilities:			
Decrease (increase) in accounts receivable, net	21,445	43,516	(36,622)
Decrease (increase) in expendable spare parts and supplies, net	(4,061)	(9,990)	7,484
Increase in prepaid expenses	(64,726)	(5,279)	(2,596)
Decrease (increase) in other assets, net	5,634	42,744	8,879
Increase (decrease) in accounts payable	(71,488)	73,178	9,926
Increase (decrease) in air traffic liability	4,734	(21,154)	16,216
Increase (decrease) in accrued compensation and vacation benefits	(3,050)	5,373	(13,795)
Increase (decrease) in accrued taxes	(24,647)	23	4,974
Increase (decrease) in other accrued liabilities	16,720	(6,345)	(152)
Increase (decrease) in other liabilities	16,022	(2,512)	3,425
Net cash provided by (used in) operating activities	(22,877)	152,364	190,142
Cash flows from investing activities:			
Purchases of property and equipment	(157,202)	(633,246)	(255,417)
Purchases of short-term investments	(69,987)	(45,863)	(70,020)
Sales of short-term investments	45,249	96,549	34,951
Proceeds from sales of aircraft	175,478	332,800	—
Proceeds from sales of other property and equipment	122	28,900	38,611
Net proceeds from sale of subsidiaries	—	—	44,530
Equipment purchase deposits and other	—	14,900	3,182
Net cash used in investing activities	(6,340)	(205,960)	(204,163)
Cash flows from financing activities:			
Proceeds from issuance of debt	435,386	423,422	143,310
Repayment of debt	(192,596)	(357,723)	(42,159)
Payment of debt issue cost	(36,987)	—	—
Acquisition of treasury stock	—	—	(60,653)
Other	2,299	624	5,487
Net cash provided by financing activities	208,102	66,323	45,985
Net increase in cash and cash equivalents	178,885	12,727	31,964
Cash and cash equivalents at beginning of year	156,865	144,138	112,174
Cash and cash equivalents at end of year	$ 335,750	$ 156,865	$ 144,138
Cash, cash equivalents and short-term investments at end of year	$ 360,488	$ 156,865	$ 194,824

See accompanying notes to consolidated financial statements.

AMERICA WEST HOLDINGS CORPORATION – CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY AND COMPREHENSIVE INCOME (LOSS)

FOR THE YEARS ENDED DECEMBER 31, 2002, 2001 AND 2000 (IN THOUSANDS EXCEPT SHARE DATA)

	Class A common stock	Class B common stock	Additional paid-in capital	Retained earnings/ (deficit)	Accumulated other comprehensive income (loss)	Class B treasury stock	TOTAL
Balance at Dec. 31, 1999	$ 11	$ 486	$ 599,078	$ 373,067	$ —	$ (258,473)	$714,169
Net income	—	—	—	7,679	—	—	7,679
Other comprehensive income (loss):							
Adjustment to unrealized gain (loss) on available-for-sale securities, net of tax	—	—	—	—	(1,108)	—	(1,108)
Total comprehensive income (loss)	—	—	—	7,679	(1,108)	—	6,571
Cancellation of 1,930 shares and issuance of 442,010 shares of Class B common stock pursuant to the exercise of stock warrants and stock options including tax benefit from the exercise of stock options of $593	—	4	6,281	—	—	—	6,285
Cancellation of 10,740 shares of Class B common stock issued as restricted stock	—	—	(331)	—	—	—	(331)
Acquisition of 2,999,100 shares of Class B treasury stock	—	—	—	—	—	(49,825)	(49,825)
Issuance of 50,000 shares of Class B treasury stock	—	—	(26)	—	—	1,057	1,031
Acquisition and retirement of 158,569 shares of Class A common stock	(2)	—	(10,825)	—	—	—	(10,827)
Balance at Dec. 31, 2000	9	490	594,177	380,746	(1,108)	(307,241)	667,073
Net loss (a)	—	—	—	(249,851)	—	—	(249,851)
Other comprehensive income (loss):							
Changes in the fair value of derivative financial instruments, net of tax	—	—	—	—	1,390	—	1,390
Adjustment to unrealized gain (loss) on available-for-sale securities, net of tax	—	—	—	—	1,108	—	1,108
Total comprehensive income (loss) (a)	—	—	—	(249,851)	2,498	—	(247,353)
Issuance of 93,334 shares of Class B common stock pursuant to the exercise of stock options including tax benefit from the exercise of stock options of $8	—	1	948	—	—	—	949
Cancellation of 14,244 shares of Class B common stock issued as restricted stock	—	—	(410)	—	—	—	(410)
Issuance of 50,000 shares of Class B treasury stock	—	—	(606)	—	—	1,035	429
Other	—	—	(325)	—	—	—	(325)
Balance at Dec. 31, 2001 (a)	9	491	593,784	130,895	1,390	(306,206)	420,363
Net loss	—	—	—	(387,909)	—	—	(387,909)
Other comprehensive income (loss):							
Changes in the fair value of derivative financial instruments, net of tax	—	—	—	—	640	—	640
Total comprehensive income (loss)	—	—	—	(387,909)	640	—	(387,269)
Issuance of warrants to purchase Class B common stock	—	—	35,384	—	—	—	35,384
Cancellation of 15,166 shares of Class B common stock issued as restricted stock	—	—	(300)	—	—	—	(300)
Balance at Dec. 31, 2002	$ 9	$ 491	$ 628,868	$(257,014)	$2,030	$ (306,206)	$ (68,178)

(a) As restated – See Note 2

See accompanying notes to consolidated financial statements.

America West Holdings Corporation ("Holdings" or the "Company") is a holding company that owns all of the stock of America West Airlines, Inc. ("AWA" or the "Airline"). AWA accounted for most of the Company's revenues and expenses in 2002. Based on 2002 revenues and operations, AWA is the eighth largest passenger airline in the United States with the lowest cost structure of the eight major hub-and-spoke airlines. At the end of 2002, AWA operated a fleet of 143 aircraft with an average fleet age of 10.1 years and served 65 destinations in North America, including seven in Mexico and three in Canada. Through regional alliance and code share arrangements with other airlines, AWA served an additional 49 destinations in North America as of December 31, 2002. In 2002, AWA flew approximately 19.5 million passengers and generated revenues of approximately $2 billion. In addition, Holdings owns all of the outstanding stock of The Leisure Company ("TLC"), which sells individual and group travel packages, including air transportation of AWA and Hawaiian Airlines, hotel accommodations, car rentals, cruise packages and other travel products, directly to consumers as well as through retail travel agencies in the United States, Canada and Mexico.

Since September 11, 2001, the U.S. domestic airline industry has experienced an unprecedented financial crisis caused by the combination of the terrorist attacks of September 11, 2001 and soft economic conditions. In response to these difficult industry conditions, the Company completed a financial restructuring, introduced a business-friendly pricing structure and lowered its cost structure in 2002. Despite these measures, the Company expects to continue to post significant losses in 2003. The Company believes near-term revenues will continue to be negatively impacted by the soft economic conditions and the decline in business traffic. In addition, fuel prices have remained and may continue to remain well above historical norms due to the threat of and the commencement of military action against Iraq and continued political tension in Venezuela.

The Company expects to fund its obligations from funds provided by operations, the proceeds of the government guaranteed loan, the financing commitments for Airbus aircraft obtained in connection with the government loan, and future financings, if necessary. The cash available to the Company from these sources, however, may not be sufficient to cover these cash obligations because economic factors outside the Company's control may reduce the amount of cash generated by operations or increase its costs. As noted above, if the Company fails to generate sufficient cash from operations and other sources, it may need to obtain additional financings to achieve its longer term business objectives. There can be no assurance that such financings will be available or, if available, will be at rates or prices acceptable to the Company.

Although there can be no assurances, management believes that cash flow from operating activities coupled with existing cash balances and financing commitments will be adequate to fund the Company's operating and capital needs as well as enable it to maintain compliance with its various debt agreements at least through December 31, 2003.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Presentation

The consolidated financial statements include the accounts of Holdings and its wholly owned subsidiaries AWA and TLC. All significant intercompany balances and transactions have been eliminated in consolidation. Certain reclassifications have been made to the prior years' consolidated financial statements to conform to the current year's presentation.

(b) Cash, Cash Equivalents and Short-term Investments

Cash equivalents consist of all highly liquid debt instruments purchased with original maturities of three months or less. Short-term investments consist of cash invested in certain debt securities with original maturities greater than 90 days and less than one year. The debt securities are classified as held to maturity and are carried at amortized cost which approximates fair value.

(c) Expendable Spare Parts and Supplies

Flight equipment expendable spare parts and supplies are valued at average cost. An allowance for obsolescence is provided, over the estimated useful life of the related aircraft and engines, for spare parts expected to be on hand at the date the aircraft are retired from service. In the fourth quarter of 2000, the Company committed to the disposal of certain excess expendable spare parts inventory with a net book value of approximately $11.0 million. As a result, the Company recorded an operating expense of $9.0 million to write down excess inventory to net realizable value.

(d) Property and Equipment

Property and equipment are recorded at cost. Interest capitalized on advance payments for aircraft acquisitions and on expenditures for aircraft improvements are part of these costs. Interest capitalized for the years ended December 31, 2002, 2001, and 2000 was $3.0 million, $12.5 million and $9.0 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.

The estimated useful lives for the Company's ground property and equipment range from three to 12 years for owned property and equipment and up to 22 years for the technical support facility. The estimated useful lives of the Company's owned aircraft, jet engines, flight equipment and rotable 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.

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 Statement of Financial Accounting Standards ("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.

(e) Restricted Cash

Restricted cash includes cash deposits securing certain letters of credit and surety bonds and cash held by institutions that process credit card sales transactions.

(f) Aircraft Maintenance and Repairs

Routine maintenance and repairs are charged to expense as incurred. The cost of major scheduled airframe, engine and certain component overhauls are capitalized and amortized over the periods benefited and are included in aircraft maintenance materials and repairs expense. Additionally, an accrual for the estimated cost of scheduled airframe and engine overhauls required to be performed on leased aircraft prior to their return to the lessors has been recorded.

(g) Reorganization Value in Excess of Amounts Allocable to Identifiable Assets ("ERV")

In June 2001, the Financial Accounting Standards Board ("FASB") issued SFAS No. 142, "*Goodwill and Other Intangible Assets.*" SFAS No. 142 primarily addresses the accounting for goodwill and intangible assets subsequent to their acquisition. SFAS No. 142 does not permit the amortization of goodwill as required by Accounting Principles Board ("APB") Opinion No. 17, "*Intangible Assets.*" Rather, goodwill is subject to a periodic impairment test, using a two-step process. The first step is to identify a potential impairment. The second step of the goodwill impairment test measures the amount of the impairment loss, using a fair value-based approach. Under SFAS No. 142, ERV is

reported as goodwill and accounted for in the same manner as goodwill. SFAS No. 142 was effective for fiscal years beginning after December 15, 2001. Upon adoption of this statement on January 1, 2002, the Company recorded an impairment loss of $208.2 million, which was supported by an independent valuation of the Company. The impairment loss was recorded as the cumulative effect of a change in accounting principle. See Note 3, "*Adoption of New Accounting Standard.*"

Prior to adoption of SFAS No. 142, ERV was amortized on a straight line basis over 20 years. Accumulated amortization at December 31, 2001 and 2000 was $178.1 million and $156.6 million, respectively.

(h) Derivative Instruments

AWA's fuel hedging contracts qualify as cash flow hedges under SFAS No. 133, "*Accounting for Derivative Instruments and Hedging Activities*," as they hedge exposure to variable cash flows of forecasted transactions. Accordingly, the derivative hedging instrument is recorded as an asset or liability on the balance sheet at fair value and the effective portion of changes in the fair value are initially recorded in "*Accumulated Other Comprehensive Income (Loss)*" until the underlying fuel being hedged is used. The ineffective portion of changes in fair value are recorded in earnings.

(i) Frequent Flyer Awards

The Company maintains a frequent travel award program known as "FlightFund" that provides a variety of awards to program members based on accumulated mileage. The estimated cost of providing the free travel, 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.

The Company also sells mileage credits to companies participating in its FlightFund program, such as hotels, car rental agencies and credit card companies. Revenue from the sale of mileage credits is deferred and recognized when transportation is provided.

(j) Deferred Credits-Operating Leases

Rents for operating leases were adjusted to fair market value when the Company emerged from bankruptcy in 1994. The net present value of the difference between the stated lease rates and the fair market rates has been recorded as a deferred credit in the accompanying consolidated balance sheets. The deferred credit will be increased through charges to interest expense and decreased on a straight-line basis as a reduction in rent expense over the applicable lease periods. At December 31, 2002 and 2001, the unamortized balance of the deferred credit was $52.4 million and $58.7 million, respectively.

In January 2002, AWA closed a $429 million loan supported by a $380 million government loan guarantee. See Note 4, "*Government Guaranteed Loan.*" This loan triggered aircraft rent concessions negotiated with approximately 20 aircraft lessors. Approximately $18.1 million of aircraft rent, which was accrued as of December 31, 2001, was waived by the aircraft lessors. This amount has been recorded as a deferred credit in the accompanying consolidated balance sheet at December 31, 2002 and will be amortized over the remaining lives of the applicable leases as a reduction in rent expense. At December 31, 2002, the unamortized balance of the deferred credit was approximately $10.9 million.

(k) Passenger Revenue

Passenger revenue is recognized when transportation is provided. Ticket sales for transportation which has not yet been provided are recorded as air traffic liability. 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. 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 statistical analysis of the Company's historical data. 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.

(l) Advertising Costs

The Company expenses the costs of advertising as incurred. Advertising expense for the years ended December 31, 2002, 2001 and 2000 was $10.6 million, $13.8 million and $26.3 million, respectively.

(m) 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.

(n) Stock Options

At December 31, 2002, the Company has two stock-based employee compensation plans, which are described more fully in Note 11, "*Stock Options and Awards.*" The Company accounts for its stock option plans in accordance with the provisions of APB Opinion No. 25, "*Accounting for Stock Issued to Employees*," and related interpretations. As such, compensation expense would be recorded on the date of grant only if the current market price of the underlying stock exceeded the exercise price. Accordingly, no compensation cost has been recognized for stock options in the consolidated financial statements. Had the Company determined compensation cost based on the fair value at the grant date for its stock options under SFAS No. 123, "*Accounting for Stock-Based Compensation*," the Company's net income (loss) and earnings (loss) per share would have been reduced to the pro forma amounts indicated below:

(IN THOUSANDS EXCEPT PER SHARE DATA)

	2002	2001	2000
		(AS RESTATED)	
Net income (loss), as reported	$ (387,909)	$ (249,851)	$ 7,679
Stock-based compensation expense, net of income taxes	(3,709)	(4,173)	(5,970)
Pro forma net income (loss)	$ (391,618)	$ (254,024)	$ 1,709
Earnings (loss) per share:			
Basic - as reported	$ (11.50)	$ (7.42)	$ 0.22
Basic - pro forma	$ (11.61)	$ (7.54)	$ 0.05
Diluted - as reported	$ (11.50)	$ (7.42)	$ 0.22
Diluted - pro forma	$ (11.61)	$ (7.54)	$ 0.05

Pro forma net income (loss) reflects only options granted during the years 1995 through 2002. Therefore, the full impact of calculating compensation cost for stock options under SFAS No. 123 is not reflected in the pro forma net income (loss) amounts presented above because compensation cost is reflected over the options' vesting period and compensation cost for options granted prior to January 1, 1995 is not considered.

(o) New Accounting Standards

In April 2002, the FASB issued SFAS No. 145, *"Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections as of April 2002."* This standard rescinds SFAS No. 4, *"Reporting Gains and Losses from Extinguishment of Debt,"* and an amendment of that Statement, SFAS No. 64, *"Extinguishments of Debt Made to Satisfy Sinking-Fund Requirements"* and excludes extraordinary item treatment for gains and losses associated with the extinguishment of debt that do not meet the APB Opinion No. 30, *"Reporting the Results of Operation - Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions"* criteria. Any gain or loss on extinguishment of debt that was classified as an extraordinary item in prior periods presented that does not meet the criteria in APB 30 for classification as an extraordinary item shall be reclassified. SFAS No. 145 also amends SFAS No. 13, *"Accounting for Leases,"* as well as other existing authoritative pronouncements to make various technical corrections, clarify meanings, or describe their applicability under changed conditions. The Company adopted SFAS No. 145 effective January 1, 2002 with no material impact on its financial condition or results of operations.

In June 2002, the FASB issued SFAS No. 146, *"Accounting for Costs Associated with Exit or Disposal Activities."* This standard addresses financial accounting and reporting for costs associated with exit or disposal activities and replaces EITF Issue No. 94-3, *"Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring.)"* SFAS No. 146 requires that a liability for costs associated with an exit or disposal activity be recognized when the liability is incurred. Under EITF No. 94-3, a liability for exit costs, as defined in EITF No. 94-3, was recognized at the date of an entity's commitment to an exit plan. The provisions of SFAS No. 146 are effective for exit or disposal activities that are initiated by the Company after December 31, 2002. In February 2003, AWA announced that it will eliminate hub operations in Columbus, Ohio. In accordance with SFAS No. 146, AWA expects to record pretax special charges of approximately $10 to $15 million. See Note 21, *"Subsequent Event - Elimination of Hub Operations in Columbus, Ohio."*

In November 2002, the FASB issued Interpretation ("FIN") No. 45, *"Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others."* FIN 45 requires a guarantor to recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. FIN 45 also expands the disclosures required to be made by a guarantor about its obligations under certain guarantees that it has issued. Initial recognition and measurement provisions of FIN 45 are applicable on a prospective basis to guarantees issued or modified. The disclosure requirements are effective immediately. While the Company has various indemnity obligations included in contracts entered into in the normal course of business, these obligations are primarily in the form of indemnities that could result in immaterial increases of future costs, but do not represent significant commitments or contingent liabilities of the indebtedness of others. As a result, the Company does not expect FIN 45 to have a material effect on its financial condition or results of operations.

In December 2002, the FASB issued SFAS No. 148, *"Accounting for Stock-Based Compensation - Transition and Disclosure, an amendment of SFAS No. 123."* SFAS No. 148 amended SFAS No. 123, *"Accounting for Stock-Based Compensation,"* to provide alternative methods of transition for an entity that voluntarily changes to the fair value based method of accounting for stock-based employee compensation. It also amends the disclosure provisions of SFAS No. 123 to require prominent disclosure about the effects on reported net income of an entity's accounting policy decisions with respect to stock-based employee compensation. In addition, SFAS No. 148 amends APB Opinion No. 28, *"Interim Financial Reporting,"* to require disclosure about those effects in interim financial information. SFAS No. 148 is effective for financial statements for fiscal years ending after December 15, 2002, including certain amendments to required disclosures related to stock-based compensation included in condensed financial statements for interim periods

beginning after December 15, 2002. The Company has complied with the required disclosure items in SFAS No. 148, and is still evaluating changing to the fair value based method of accounting for stock-based employee compensation.

In January 2003, the FASB issued FIN No. 46, "*Consolidation of Variable Interest Entities.*" FIN 46 requires that companies that control another entity through interests other than voting interests should consolidate the controlled entity. FIN 46 applies to variable interest entities created after January 31, 2003, and to variable interest entities in which an enterprise obtains an interest after that date. The related disclosure requirements are effective immediately. The Company has evaluated the provisions of FIN 46 and does not believe it to be reasonably possible that adoption would have a material effect on its financial condition and results of operations.

(p) Use of Estimates

Management of the Company has made certain estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these consolidated financial statements in conformity with accounting principles generally accepted in the United States. Actual results could differ from those estimates.

2. RESTATEMENT OF PREVIOUSLY REPORTED AMOUNTS

The Company has restated its financial statements for the fiscal year ended December 31, 2001 and its unaudited financial statements for the first, second and third quarters of fiscal year ended December 31, 2002. The changes include:

- a change in the timing from the first quarter of 2002 back to the fourth quarter of 2001 of the non-cash impairment charge of approximately $39.2 million recorded to adjust the carrying value of owned aircraft to market value and the related non-cash impairment charge of approximately $64.1 million recorded to write off ERV that arose in connection with the Company's plan of reorganization from bankruptcy in 1994, both of which charges were previously recorded in the first quarter of 2002; and
- the recognition of a full valuation allowance relating to the Company's net deferred tax assets.

Impairment Charges

SFAS No. 121 "*Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of*" requires that an impairment analysis be performed whenever circumstances indicate that the carrying amount of an asset that an entity expects to hold and use may not be recoverable.

As a result of the adverse impacts on Holdings and AWA and the airline industry as a whole resulting from the terrorist events of September 11, 2001 and their aftermath, AWA performed an assessment of impairment of its owned aircraft during 2001 and again in connection with the preparation of the interim financial statements for the first quarter of 2002.

As a result of AWA's assessments, no impairment adjustment was recorded in the financial statements previously issued for 2001. The Company recorded an impairment charge of approximately $39.2 million in the first quarter of 2002 to adjust the carrying value of AWA's owned aircraft to reflect market values at that time. Such accounting treatment was considered appropriate at the time of the issuance of the applicable financial statements. In connection with the preparation of the financial statements and the related audit for the fiscal year ended December 31, 2002, the Company determined that the more appropriate recognition of the impairment charge of approximately $39.2 million is in the fourth quarter of 2001 rather than in the first quarter of 2002.

In addition, SFAS No. 121 requires that goodwill that arose in a purchase business combination be allocated, and included as part of the asset base, in determining recoverability and measuring impairment. The Company did not

have goodwill at December 31, 2001, but did have a significant amount of unamortized ERV. The Company has determined that a portion of the unamortized ERV balance should have been allocated to AWA's owned aircraft in the impairment analysis performed for the year ended December 31, 2001.

As more fully described in Note 3, "*Adoption of New Accounting Standard*," the remaining unamortized balance of ERV was written-off in the first quarter of 2002 as a cumulative effect of a change in accounting principle, upon adoption of SFAS No. 142, "*Goodwill and Other Intangible Assets.*"

The impact of the above described matters is to change the period of recognition for these non-cash costs between late 2001 and early 2002. See Note 19, "*Quarterly Financial Data (Unaudited).*"

Deferred Income Taxes

SFAS No. 109 "*Accounting for Income Taxes*" requires that a valuation allowance be established when it is "more likely than not" that all or a portion of deferred tax assets will not be realized. A review of all available positive and negative evidence needs to be considered, including the company's performance, the market environment in which the company operates, forecasts of future profitability, the utilization of past tax credits, length of carryforward periods and similar factors. SFAS No. 109 further states that it is difficult to conclude that a valuation allowance is not needed when there is negative evidence such as cumulative losses in recent years. Therefore, cumulative losses weigh heavily in the overall assessment.

The Company had originally reported a net deferred tax liability at December 31, 2001. After consideration of the restatement discussed above, the Company had a net deferred tax asset and was in a cumulative loss position for the three years ended December 31, 2001. A full valuation allowance has been established relating to the Company's net deferred tax assets at December 31, 2001, and relating to net deferred tax assets generated by losses in 2002. We expect to continue to record a full valuation allowance on future tax benefits until we return to profitability. See Note 9, "*Income Taxes*" and Note 19, "*Quarterly Financial Data (Unaudited).*"

As a result of the adjustments discussed above, the Company's financial statements for the first three quarters of 2002 and for the year ended 2001 have been restated from amounts previously reported. See Note 19, "*Quarterly Financial Data (Unaudited)*" for a summary of the adjustments for these periods on a quarterly basis. The principal effects of these adjustments on the accompanying financial statements are set forth below:

FOR THE YEAR ENDED DECEMBER 31, 2001 (IN THOUSANDS EXCEPT PER SHARE DATA)

	As Previously Reported	Restatement Adjustments	As Restated
Operating loss	$ (314,585)	(103,286)	$ (417,871)
Loss before income tax benefit	(221,101)	(103,286)	(324,387)
Income tax benefit	(73,230)	(1,306)	(74,536)
Net loss	$ (147,871)	(101,980)	$ (249,851)
Basic and diluted loss per share	$ (4.39)	(3.03)	$ (7.42)

3. ADOPTION OF NEW ACCOUNTING STANDARD

In June 2001, the FASB issued SFAS No. 142, "*Goodwill and Other Intangible Assets.*" SFAS No. 142 primarily addresses the accounting for goodwill and intangible assets subsequent to their acquisition. SFAS No. 142 does not permit the amortization of goodwill as required by APB Opinion No. 17, "*Intangible Assets.*" Rather, goodwill is subject to a periodic impairment test, using a two-step process. The first step is to identify a potential impairment.

The second step of the goodwill impairment test measures the amount of the impairment loss, using a fair value-based approach. Under SFAS No. 142, ERV is reported as goodwill and accounted for in the same manner as goodwill. SFAS No. 142 was effective for fiscal years beginning after December 15, 2001. Upon adoption of this statement on January 1, 2002, the Company recorded an impairment loss of $208.2 million, which was supported by an independent valuation of the Company. The impairment loss was recorded as the cumulative effect of a change in accounting principle.

The following table presents reported net income (loss) and earnings (loss) per share exclusive of ERV amortization expense for the years ended December 31, 2002, 2001 and 2000.

FOR THE YEAR ENDED DECEMBER 31, (IN THOUSANDS EXCEPT PER SHARE DATA)	2002	2001	2000
		(AS RESTATED)	
Reported net income (loss)	$ (387,909)	$ (249,851)	$ 7,679
ERV amortization, net of tax [1]	—	21,497	21,496
Adjusted net income (loss)	$ (387,909)	$ (228,354)	$ 29,175
Basic earnings (loss) per share:			
Reported net income (loss)	$ (11.50)	$ (7.42)	$ 0.22
ERV amortization, net of tax [1]	—	0.64	0.61
Adjusted net income (loss)	$ (11.50)	$ (6.78)	$ 0.83
Diluted earnings (loss) per share:			
Reported net income (loss)	$ (11.50)	$ (7.42)	$ 0.22
ERV amortization, net of tax [1]	—	0.64	0.60
Adjusted net income (loss)	$ (11.50)	$ (6.78)	$ 0.82

(1) Amortization of ERV is not a tax-deductible expense.

4. GOVERNMENT GUARANTEED LOAN

In January 2002, AWA closed a $429 million loan supported by a $380 million government loan guarantee. This loan triggered concessions and additional financing (primarily aircraft rent reductions and future financing commitments), resulting in a restructuring of AWA's indebtedness and lease commitments. The major components of the restructuring are:

- **Government Guaranteed Loan** – The catalyst for AWA's restructuring plan was a $429 million loan backed by a $380 million federal loan guarantee. The loan has a seven-year term with ratable amortization in years three through seven, an interest rate of three month LIBOR plus 40 basis points paid quarterly and annual guarantee fees payable to the U.S. Treasury Department and other loan participants of 550 basis points in year one and approximately 800 basis points thereafter.
- **Aircraft Deferrals/Financing** – AWA restructured its aircraft purchase commitment with AVSA S.A.R.L., an affiliate of Airbus Industrie ("AVSA"), to defer 17 new Airbus aircraft previously scheduled for delivery in 2003 and 2004 by a total of 505 aircraft-months to 2004 through 2007. New financing commitments were obtained for 11 aircraft which were either already delivered in 2001 or scheduled to be delivered in 2002 and 2003. Delivery of two of these aircraft was subsequently deferred until 2005. In order to obtain the entire amount of the financing commitment for two of the aircraft, AWA must achieve a minimum liquidity threshold. As a result, AWA has financing commitments for all scheduled aircraft deliveries through the fourth quarter of 2003.

- **Aircraft Returns/Rent Reductions** – Through negotiations with approximately 20 aircraft lessors, AWA has retired 11 aircraft in 2001 and 2002 to better size its fleet to the current industry demand environment. For the aircraft that remain, annual rent payments have been reduced for each of the next six years.
- **Term-out of Line of Credit** – AWA's $89.9 million secured credit facility was converted into an $89.9 million secured term loan maturing at year-end 2007. The loan has a six-year term with ratable amortization in years four through six and an interest rate of one month LIBOR plus 225 basis points from the closing date through December 31, 2004 and one month LIBOR plus 475 basis points from January 1, 2005 and thereafter. In addition, AWA will pay interest in kind on the aggregate outstanding principal amount of the loan at a rate of two percent per annum from the closing date through December 31, 2004. In July 2002, AWA made a mandatory repayment of approximately $16.7 million on the term loan as a result of a decrease in the fair market value of the assets securing the loan following the terrorist attacks of September 11, 2001.
- **State/City Financing** – From the State of Arizona and the City of Phoenix, AWA received $0.7 million in job training grants and $1.5 million in other financing. In March 2003, AWA received $6.9 million through the sale and leaseback of jetways at Phoenix Sky Harbor International Airport.
- **TPG Undertaking** – At the request of the Air Transportation Stabilization Board ("ATSB"), TPG Partners, L.P., and its affiliates, owners of all 941,431 shares of America West Holdings Class A common stock, have undertaken not to dispose of their Class A stock other than in connection with an offer to acquire all the shares of the Company's Class B common stock accepted or approved by the holders of a majority of the Class B stock. This undertaking is subject to certain exceptions, including transfers to TPG affiliates, repurchase of the Class A stock by Holdings and exercise of TPG's rights to convert the Class A stock into Class B stock, and will terminate when the warrants issued in connection with the term loan transactions discussed below expire or are exercised and the underlying shares of Class B stock are sold, or TPG and its affiliates no longer hold the Class A stock.
- **Warrants/Convertible Senior Notes** – As compensation for various elements of the restructuring plan, Holdings issued a warrant to purchase up to 18.8 million shares of its Class B common stock to the federal government and additional warrants to purchase up to 3.8 million shares of its Class B common stock to other loan participants, in each case at an exercise price of $3 per share and a term of ten years. For accounting purposes, the warrants were valued at $35.4 million, or $1.57 per share, using the Black-Scholes pricing model with the following assumptions: expected dividend yield of 0.0%, risk-free interest rate of 4.8%, volatility of 44.9% and an expected life of ten years. Holdings also issued approximately $104.5 million in convertible senior notes as partial compensation to aircraft lessors. The notes have a seven-year term and a coupon rate of 7.5% with interest paid in kind for years one through three. The notes are convertible after three years into Class B common stock at $12 per share. During 2002, one aircraft lessor relinquished its interest in approximately $11.8 million face value of the 7.5% convertible notes upon the restructuring of leases for six Boeing 757-200 aircraft. One aircraft lessor also relinquished its interest in approximately $1.6 million face value of the 7.5% convertible notes upon the exercise of its put rights to extend the leases for two Boeing 737-300 aircraft.

In connection with the restructuring, Holdings and AWA granted to the recipients of the notes and warrants certain registration rights. In May 2002, Holdings and AWA filed a registration statement with the Securities and Exchange Commission to satisfy their obligations to the recipients of the notes and warrants. The registration statement covers:

- The resale by the noteholders of $129,082,514 of 7.5% convertible notes (including $24,617,954 of interest payable on the first six interest payment dates, which are expected to be paid in the form of a deemed loan added to the principal amount of the notes);

- The resale by the noteholders of up to 10,756,876 shares of Class B common stock issuable upon conversion of the notes;
- The resale by the ATSB of the ATSB warrant;
- The resale by the ATSB of up to 18,754,000 shares of Class B common stock issuable upon its exercise of the ATSB warrant;
- The issuance by the Company of shares of Class B common stock upon the exercise of the ATSB warrant by holders other than the ATSB; and
- The resale by the holders of the other warrants of up to 3,783,000 shares of Class B common stock issuable upon exercise of the other warrants.

5. INVESTMENTS IN DEBT SECURITIES

Cash equivalents and short-term investments as of December 31 are classified as follows:

(IN THOUSANDS)

	2002	2001
Corporate notes	$ 208,750	$ —
Money market funds	151,738	156,865
Total cash equivalents and short-term investments	$ 360,488	$ 156,865

6. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

(a) Fair Value of Financial Instruments

Cash Equivalents, Short-term Investments and Receivables

The carrying amount approximates fair value because of the short-term nature of these instruments.

Investments in Equity Securities

In May 2000, Holdings completed the sale of a majority interest in TLC's retail operations, National Leisure Group and The Vacation Store, to Softbank Capital Partners and General Catalyst LLC. TLC received $52 million in cash and retained a 12% passive ownership interest in the restructured venture. In response to additional capital calls, TLC invested an additional $1.2 million in National Leisure Group during 2001. The investment is carried on the Company's consolidated balance sheet at cost, which approximates $7.7 million at December 31, 2002 and 2001.

The Company owned approximately 28,300 shares of Class A common stock of Aeroxchange Ltd., an airline industry business-to-business e-commerce exchange, at December 31, 2002 and 2001. The common stock of Aeroxchange is not publicly traded on a securities exchange, therefore the fair value of the Company's investment in Aeroxchange is not readily determinable. Accordingly, the investment was carried at cost, which approximated $2.8 million at December 31, 2001. In March 2002, the Company wrote down its investment in Aeroxchange to net realizable value, recognizing a pretax loss of $2.8 million. See Note 15, "*Nonoperating Income (Expenses) - Other, Net.*"

Warrants

The Company is the holder of warrants in a number of on-line ventures that are not public. The fair value of these warrants is not readily determinable. Accordingly, the investments are carried at cost, which was not material at December 31, 2002 or 2001.

Long-term Debt

At December 31, 2002 and 2001, the fair value of long-term debt was approximately $657.9 million and $324.4 million, respectively. The Company's long-term debt with a carrying value of $570.4 million and $179.7 million at December 31, 2002 and 2001, respectively, approximates fair value because these borrowings have variable interest

rate terms that approximate market interest rates for similar debt instruments. The fair values of the Company's other long-term debt are determined based on quoted market prices if available or market prices for comparable debt instruments.

(b) Fuel Price Risk Management

Under its fuel hedging program, the Company may enter into certain hedging transactions with approved counterparties for a period generally not exceeding 12 months. As of December 31, 2002, the Company had entered into costless collar transactions hedging approximately 40% of its projected 2003 fuel requirements. The fair value of the Company's financial derivative instruments was a net asset of approximately $3.6 million and $2.2 million at December 31, 2002 and 2001, respectively.

The Company is exposed to credit risks in the event any counterparty fails to meet its obligations. The Company does not anticipate such non-performance as counterparties are selected based on credit ratings, exposure to any one counterparty is limited based on formal guidelines and the relative market positions with such counterparties are closely monitored.

(c) Concentration of Credit Risk

The Company does not believe it is subject to any significant concentration of credit risk. Most of the Company's receivables result from tickets sold to individual passengers through the use of major credit cards or from tickets sold by other airlines and used by passengers on AWA. These receivables are short-term, generally being settled shortly after the sale.

7. LONG-TERM DEBT

Long-term debt at December 31, 2002 and 2001 consists of the following:

(IN THOUSANDS)

	2002	2001
Secured		
Equipment notes payable, variable interest rates of 2.75% to 3.00%, averaging 2.94%, installments due 2003 through 2008	$ 58,126	$ 79,360
Term loan, variable interest rate of 3.69%, installments due 2005 through 2007 (a)	74,758	89,855
Equipment notes payable, fixed interest rates of 7.10% to 8.37%, averaging 7.29%	—	85,440
	132,884	254,655
Unsecured		
10 3/4% Senior Unsecured Notes, interest only payments until due in 2005 (b)	49,998	49,998
7.5% Convertible Senior Notes, interest only payments until due in 2009 (c)	97,894	—
Equipment notes payable, interest rates of 90-day LIBOR +1.25%, averaging 3.06%, installments due through 2003	7,000	10,500
Industrial development bonds, fixed interest rate of 6.3% due 2023 (d)	29,300	29,300
Government guaranteed loan, variable interest rate of 2.20% installments due 2004 through 2008 (e)	429,000	—
State loan, variable interest rate of 5.29%, installments due 2004 through 2007	1,500	—
Promissory note, fixed interest rate of 10%, due in 2003	2,443	—
	617,135	89,798
Total long-term debt	750,019	344,453
Less: Unamortized discount on debt	(29,920)	(762)
Current maturities	(22,238)	(119,141)
	$ 697,861	$ 224,550

(a) In December 1999, AWA entered into a $125 million senior secured revolving credit facility with a group of financial institutions that had a three-year term. Borrowings under this credit facility accrued interest at either the “base rate” (prime rate or the rate which is 1/2 of 1% in excess of the Federal Funds Effective Rate) or the “adjusted eurodollar rate” (LIBOR rate adjusted for certain reserve requirements in respect to “Eurodollar liabilities”) plus the applicable margin based on Moody’s rating of AWA’s senior unsecured notes. The credit agreement was secured by certain assets of AWA. As of December 31, 2001, AWA had drawn $89.9 million against its available line of credit which was classified in current maturities of long-term debt in the Company’s consolidated balance sheet. In January 2002, upon closing of the $429 million loan supported by a $380 million government loan guarantee (see Note 4, “Government Guaranteed Loan”), AWA’s secured credit facility was converted into an $89.9 million secured term loan maturing at year-end 2007. The loan has a six-year term with ratable amortization in years four through six and an interest rate of one month LIBOR plus 225 basis points from the closing date through December 31, 2004 and one month LIBOR plus 475 basis points from January 1, 2005 and thereafter. In addition, AWA will pay interest in kind on the aggregate outstanding principle amount of the loan at a rate of two percent per annum from the closing date through December 31, 2004. In July 2002, AWA made a mandatory repayment of approximately $16.7 million on its $89.9 million term loan as a result of a decrease in the fair market value of the assets securing the loan following the terrorist attacks of September 11, 2001. Collateral for the loan consists of aircraft, spare engines, rotable aircraft parts inventory and a maintenance facility. AWA and the lenders also amended certain provisions in the loan agreement related to the collateral appraisal procedures. The balance at December 31, 2002 includes $1.6 million of interest payable in kind through December 31, 2002.

(b) The 10 3/4% Senior Unsecured Notes mature on September 1, 2005 and interest is payable in arrears semi-annually. The 10 3/4% Senior Unsecured Notes may be redeemed at the option of the Company at any time in whole or from time to time in part, at a redemption price equal to the following percentage of principal redeemed, plus accrued and unpaid interest to the date of redemption, if redeemed during the 12-month period beginning:

SEPTEMBER 1,	PERCENTAGE
2002	101.792%
2003 and thereafter	100.000%

(c) In January 2002, Holdings issued approximately $104.5 million in convertible senior notes, which are guaranteed by AWA, to certain aircraft lessors as compensation for various elements of the restructuring plan. The notes have a seven-year term, a coupon rate of 7.5% with interest paid in kind for years one through three. The notes are convertible after three years into Class B common stock at $12 per share. The notes may be redeemed at the election of the Company, as a whole or in part, at any time before January 18, 2005, at a redemption price equal to $1,000 per $1,000 principal amount of the notes redeemed plus accrued and unpaid interest, if any, to but excluding the date of redemption if (1) the trading price of the common stock has exceeded 120% of the conversion price then in effect for at least 20 trading days within a period of 30 consecutive trading days ending on the trading day before the date of mailing of the notice of provisional redemption, and (2) a shelf registration statement covering resales of the notes and the common stock issuable upon conversion thereof is effective and available for use and is expected to remain effective and available for use for the 30 days following the provisional redemption date, unless registration is no longer required. At any time on or after January 18, 2005, the Company may, at its option, redeem the notes in whole at any time or in part from time to time, on any date prior to the stated maturity of the notes, at the redemption price (expressed in percentages of the principal

amount) set forth below if, but only if, redeemed on a redemption date occurring during the 12-month period beginning on the dates indicated:

DURING THE TWELVE MONTHS COMMENCING	REDEMPTION PRICE
January 18, 2005	103.75%
January 18, 2006	102.50%
January 18, 2007	101.25%
January 18, 2008	100.00%

For financial reporting purposes, the Company recorded the convertible senior notes at their fair market value on the date of issuance. The balance at December 31, 2002 is net of an unamortized discount of $29.4 million and includes $6.2 million of interest payable in kind through December 31, 2002. See Note 4, "*Government Guaranteed Loan.*"

(d) The industrial development revenue bonds are due April 2023. Interest at 6.3% is payable semiannually (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 percent on April 1 or October 1, 2008; 101 percent on April 1 or October 1, 2009; and 100 percent on April 1, 2010 and thereafter.

(e) In January 2002, AWA closed a $429 million loan backed by a $380 million federal loan guarantee. The loan has a seven-year term with ratable amortization in years three through seven, an interest rate of three month LIBOR plus 40 basis points paid quarterly and guarantee fees payable to the U.S. Treasury Department and other loan participants of 550 basis points in year one and approximately 800 basis points thereafter. See Note 4, "*Government Guaranteed Loan.*"

Secured financings totaling $132.9 million are collateralized by assets, primarily aircraft, engines, simulators, rotable aircraft parts and AWA's hangar facility, with a net book value of $316.6 million at December 31, 2002.

At December 31, 2002, the estimated maturities of long-term debt are as follows:

	(IN THOUSANDS)
2003	$ 19,116
2004	97,127
2005	174,353
2006	124,355
2007	106,991
Thereafter	228,077
	$ 750,019

Certain of the Company's long-term debt agreements contain minimum cash balance requirements and other covenants with which Holdings and AWA are in compliance. Certain of these covenants restrict the Company's ability to pay cash dividends on its common stock and make certain other restricted payments (as specified therein). Finally, AWA's long-term debt agreements contain cross-default provisions, which may be triggered by defaults by AWA under other agreements relating to indebtedness. As of December 31, 2001, AWA had suspended payment under certain aircraft leases and, as a result, had received notices of default from certain aircraft lessors. In January

2002, AWA paid in full approximately $81 million in deferred aircraft lease payments simultaneously with the funding of the $429 million loan supported by a $380 million government loan guarantee, thereby curing the defaults. See *"Risk Factors Relating to America West and Industry Related Risks - Our high level of debt and fixed costs limits our ability to fund general corporate requirements, limits our flexibility in responding to competitive developments and increases our vulnerability to adverse economic and industry conditions,"* included in Item 1 of the Company's Annual Report on Form 10-K.

8. COMMITMENTS AND CONTINGENCIES

(a) Leases

As of December 31, 2002, the Company had 133 aircraft under operating leases with remaining terms ranging from three months to approximately 22 years. In January 2002, AWA closed a $429 million loan supported by a $380 million government loan guarantee that resulted in a restructuring of its aircraft lease commitments. As a result, AWA has retired 11 aircraft in 2001 and 2002 to better size its fleet to the current industry demand environment. In addition, under the restructured lease agreements, annual rent payments have been reduced for each of the next six years (see Note 4, *"Government Guaranteed Loan"*). Certain of these leases contain put options pursuant to which the lessors could require AWA to renew the leases for periods ranging from eight months to 8.7 years or call options pursuant to which the lessors could require AWA to return the aircraft to the lessors upon receipt of four to nine months written notice. The Company also has options to purchase certain of the aircraft at fair market values at the end of the lease terms. Certain of the agreements require security deposits, minimum return provisions and maintenance reserve payments.

As a result of the rent restructuring associated with the government guaranteed loan, one aircraft lease was amended to include a bargain purchase option. As a result, this lease has been classified as a capital lease in accordance with SFAS No. 13, *"Accounting for Leases,"* as amended, with an asset value of $16.9 million and corresponding lease obligation of $14.5 million at December 31, 2002.

In June 2002, one aircraft lessor exercised its put right under its aircraft lease agreement to extend the lease for one Boeing 737-300 aircraft for an additional 13 months. Upon exercising this right, the lessor agreed to relinquish its interest in approximately $0.7 million face value of 7.5% convertible senior notes it received as compensation for certain concessions granted under the restructuring completed on January 18, 2002. In October 2002, the same aircraft lessor exercised its put right to extend the lease for another Boeing 737-300 aircraft for an additional 18 months. Upon exercising the right, the lessor agreed to relinquish its interest in approximately $0.9 million face value of 7.5% convertible senior notes.

In June 2002, AWA restructured the leases for six of its Boeing 757-200 aircraft to improve lease rental rates and other terms. Prior to the restructuring, AWA subleased the six aircraft from The Boeing Company ("Boeing"), who in turn leased the aircraft from five different head lessors. Under the restructuring, AWA terminated the subleases with Boeing and assumed, amended and restated the existing head leases for each aircraft. Upon closing of the transactions, AWA paid approximately $11.8 million in security deposits and advance rental payments to the head lessors, net of a refund from Boeing for prorated prepaid rent under the subleases, prorated accrued rent under the head leases and cash deposits for the estimated cost of certain maintenance work required to be performed on the aircraft prior to their return to Boeing. As a result of these transactions, Boeing also relinquished its interest in approximately $11.2 million face value of 7.5% convertible notes it received as compensation for certain concessions granted under the restructuring completed on January 18, 2002. Furthermore, AWA issued a $4.9 million promissory note to Boeing for the value of the concessions realized with respect to these six aircraft prior to the termination of the subleases, of which approximately $2.5 million was paid in 2002. The promissory note has a fixed interest rate of 10% and matures in June 2003. The restructured leases have a remaining term of approximately six years and are being accounted for as operating leases.

In September 2002, one aircraft lessor exercised its put rights under its aircraft lease agreements to extend the leases for two Airbus A320 aircraft for an additional 12 months each.

In November 2002, one aircraft lessor exercised its put rights under its aircraft lease agreements to extend the leases for four Boeing 737-300 aircraft for an additional 18 months each.

The Company also leases certain terminal space, ground facilities and computer and other equipment under noncancelable operating leases.

At December 31, 2002, the scheduled future minimum cash rental payments under capital leases and noncancelable operating leases with initial terms of more than one year are as follows:

YEARS ENDING DECEMBER 31,	(IN THOUSANDS)	
	CAPITAL LEASES	OPERATING LEASES
2003	$ 4,458	$ 347,217
2004	5,199	321,202
2005	5,041	302,921
2006	5,115	277,257
2007	1,797	262,067
Thereafter	—	2,038,315
Total minimum lease payments	21,610	$ 3,548,979
Less: Amounts of lease payments that represent interest	(6,489)	
Present value of future minimum capital lease payments	15,121	
Less: Current obligations under capital leases	(3,122)	
Long-term capital lease obligations	$ 11,999	

Rent expense (excluding landing fees) was approximately $409 million, $457 million and $427 million for the years ended December 31, 2002, 2001 and 2000, respectively.

Collectively, the operating lease agreements require security deposits with lessors of $20.9 million and bank letters of credit of $13.8 million. The letters of credit are collateralized by $13.8 million of restricted cash.

(b) Revenue Bonds

In June 1999, Series 1999 special facility revenue bonds ("new bonds") were issued by a municipality to fund the retirement of the Series 1994A bonds ("old bonds") and the construction of a new concourse with 14 gates at Terminal 4 in Phoenix Sky Harbor International Airport in support of AWA's strategic growth plan. The new bonds are due June 2019 with interest accruing at 6.25% per annum payable semiannually on June 1 and December 1, commencing on December 1, 1999. The new bonds are subject to optional redemption prior to the maturity date on or after June 1, 2009 in whole or in part, on any interest payment date at the following redemption prices: 101% on June 1 or December 1, 2009; 100.5% on June 1 or December 1, 2010; and 100% on June 1, 2011 and thereafter. In accordance with EITF Issue No. 97-10, "*The Effect of Lessee Involvement in Asset Construction*," the Company accounts for this as an operating lease.

In connection with these bonds, AWA entered into an Amended and Restated Airport Use Agreement, pursuant to which AWA agreed to make sufficient payments to the Industrial Development Authority ("IDA") to cover the principal and interest of the bonds and to indemnify the IDA for any claims arising out of the issuance and sale of the bonds and the use and occupancy of the concourses financed by these bonds and the old bonds. At December 31, 2002, the outstanding principal amount of the bonds was $21.8 million. The Company estimates its remaining payments to cover the principal and interest of these bonds will be approximately $44.3 million.

(c) Aircraft Acquisitions

In January 2002, upon closing of the $429 million loan supported by a $380 million government loan guarantee, AWA restructured its aircraft purchase commitment to AVSA. As a result, 17 new Airbus aircraft previously scheduled for delivery in 2003 and 2004 were deferred by a total of 505 aircraft-months to 2004 through 2007. At December 31, 2002, AWA had firm commitments to AVSA for a total of 15 Airbus A318-100, one Airbus A319-100 and five Airbus A320-200 aircraft with delivery through 2007 at a cost of approximately $800 million. The agreement with AVSA also includes options to purchase an additional 17 A320 family aircraft during 2006 through 2008 and purchase rights for an additional 25 aircraft in the A320 family of aircraft for delivery in 2005 to 2008.

The Company has an agreement with International Aero Engines ("IAE") which provides for the purchase by the Company of four new V2500-A5 spare engines scheduled for delivery through 2004 for use on certain of the A320 fleet. At December 31, 2002, the four engines have an estimated aggregate cost of $19 million.

The following table reflects estimated cash payments under the restructured aircraft purchase agreement with AVSA and the IAE engine contract. Actual payments may vary due to inflation factor adjustments and changes in the delivery schedule of the equipment. The estimated cash payments include progress payments that will be made in cash, as opposed to being financed under an existing progress payment financing facility.

	(IN THOUSANDS)
2003	$ 87,859
2004	82,748
2005	84,970
2006	224,009
2007	264,746
	$ 744,332

In May 2001, America West Airlines 2001-1 Pass Through Trusts issued $427.2 million of Pass Through Trust Certificates in connection with the financing of nine Airbus A319 aircraft and five Airbus A320 aircraft. The combined effective interest rate on this financing is 7.66% on a fixed rate equivalent basis at the time of closing.

The Pass Through Trust Certificates were issued by separate trusts that hold equipment notes issued upon delivery of each financed aircraft. Proceeds from the certificates were deposited in an escrow account pending their application to purchase the equipment notes. The equipment notes were issued, at AWA's election, either by AWA 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 AWA. 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 guaranteed by, Holdings or AWA. However, in the case of mortgage financings, the equipment notes issued to the trusts are direct obligations of AWA and in the case of leveraged lease financing, the leases are direct obligations of AWA.

Of the 14 aircraft financed under the 2001-1 Pass Through Trusts, 11 were delivered in 2001, including three in the fourth quarter of 2001. One aircraft was delivered in the first quarter of 2002 and two were delivered in the second quarter of 2002. Except for the aircraft delivered in the first quarter of 2002, which was already financed as a leveraged lease upon delivery, the acquisition of each aircraft was initially structured as a mortgage financing and subsequently converted into a leveraged lease financing in sale-leaseback transactions. In connection with the purchase of the two aircraft delivered in the second quarter of 2002, AWA issued $64.2 million of equipment notes. In June 2002, AWA converted the mortgage financing of the three aircraft delivered in the fourth quarter of 2001 and the two aircraft delivered in the second quarter of 2002 into a leveraged lease financing by entering into sale-leaseback transactions. As a result, approximately $161.2 million of the equipment notes were assumed, on a non-recourse basis, by the owner trustees that purchased the aircraft from AWA.

In January 2002, in conjunction with the $429 million loan supported by a $380 million government loan guarantee, AWA obtained new financing commitments for 11 aircraft which were either already delivered in 2001 or scheduled to be delivered in 2002 and 2003. Delivery of two of these aircraft was subsequently deferred until 2005. In order to obtain the entire amount of the financing commitment for two of the aircraft, AWA must achieve an established minimum liquidity threshold. As a result, AWA has financing commitments for all scheduled aircraft deliveries through the fourth quarter of 2003. See Note 4, *"Government Guaranteed Loan."*

(d) Sale-Leaseback Transactions

As part of the restructuring completed on January 18, 2002, AWA committed to the sale and leaseback of eight aircraft. The sale and leaseback of five of these aircraft was completed in June 2002 and resulted in pretax losses of approximately $2.4 million. The sale and leaseback of one aircraft was completed in November 2002 and resulted in a pretax loss of approximately $1.4 million. The losses on the sale-leaseback transactions, which were subject to a firm commitment in January 2002, were accrued in the accompanying consolidated statements of operations classified in *"Special Charges"* in the first quarter of 2002. See Note 14, *"Special Charges."*

In January 2001, AWA borrowed $49.4 million from the America West Airlines 2000-1 Pass Through Trusts to fund the acquisition of two new A319 Airbus aircraft. In March 2001, AWA entered into a sale-leaseback transaction whereby the Company sold these aircraft resulting in a $9.6 million gain. This gain was deferred and is being amortized over the term of the operating leases, which approximates 22 years, as a reduction in rent expense.

In the second and third quarters of 2001, AWA borrowed $232.0 million from the America West Airlines 2001-1 Pass Through Trusts to fund the acquisition of eight new A319 Airbus aircraft. In October 2001, AWA completed the sale of these eight aircraft as part of a sale-leaseback transaction. The $34.1 million gain resulting from this transaction was deferred and is being amortized over the term of the operating leases, which approximates 20 years, as a reduction in rent expense.

In September 2001, AWA completed the sale of two owned aircraft engines, with a combined net book value of $10.9 million, for approximately $10.0 million as part of a sale-leaseback transaction. The resulting $0.9 million pretax loss on this transaction was recognized in the accompanying consolidated statements of operations for the year ended December 31, 2001, classified in *"Nonoperating Income (Expense) - Other, Net."*

In October 2001, AWA completed the sale of two owned A320 flight simulators as part of a sale-leaseback transaction. The flight simulators, with a combined net book value of $14.6 million, were sold for approximately $17.4 million. The gain resulting from this transaction was deferred and is being amortized over the term of the operating lease, which approximates nine years, as a reduction in rent expense.

(e) Contingent Legal Obligations

Holdings and its subsidiaries are parties to various legal proceedings, including some purporting to be class action suits, and some which demand large monetary damages or other relief, which, if granted, would require significant expenditures. In certain cases where it is probable that the outcome will result in monetary damages, the Company has reviewed available information and determined that the best estimate of losses to be incurred related to these cases is $2 million, which has been accrued. For those cases where a loss is possible, or cases where a range of loss is probable but no amount within the range is a better estimate than any other amount, the estimated amount of exposure ranges from $0 to $25 million. In these instances, no accrual has been recorded.

(f) General Guarantees and Indemnifications

The Company is the lessee under many aircraft financing agreements (including leveraged lease financings of aircraft under the pass through trusts) and real estate leases. 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. Additionally, in the case of real estate leases, the Company typically indemnifies such parties for any environmental liability that arises out of or relates to the Company's use of the leased premises. The Company expects that it would be covered by insurance (subject to deductibles) for most tort liabilities and related indemnities described above with respect to leased real estate and operated aircraft.

9. INCOME TAXES

The Company recorded income tax expense (benefit) as follows:

YEAR ENDED DECEMBER 31,			(IN THOUSANDS)
	2002	2001	2000
		(AS RESTATED)	
Federal	$ (35,071)	$ (33,991)	$ 6,352
State	—	—	786
Total current taxes	(35,071)	(33,991)	7,138
Deferred taxes	—	(40,545)	9,926
Total income tax expense (benefit)	$ (35,071)	$ (74,536)	$ 17,064

The Company's emergence from bankruptcy reorganization in 1994 and the associated implementation of fresh start reporting gave rise to significant items of expense for financial reporting purposes that are not deductible for income tax purposes. In large measure, it is these nondeductible (for income tax purposes) expenses that result in an effective tax expense (benefit) rate for financial reporting purposes that differs from the current federal statutory income tax rate of 35% for the years ended December 31, 2001 and 2000.

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

YEAR ENDED DECEMBER 31,			(IN THOUSANDS)
	2002	2001	2000
		(AS RESTATED)	
Income tax expense (benefit) at the federal statutory income tax rate	$ (75,165)	$ (113,535)	$ 8,660
State income tax expense (benefit), net of federal income tax expense (benefit)	(8,024)	(8,925)	1,329
Nondeductible write-off of ERV in connection with asset impairment charges	—	22,421	—
Nondeductible amortization of ERV	—	7,523	7,524
Change in valuation allowance	38,137	13,522	(1,420)
Expired tax credits	7,987	409	1,420
Other, net	1,994	4,049	(449)
Total	$ (35,071)	$ (74,536)	$ 17,064

As of December 31, 2002, the Company has available net operating loss carryforwards ("NOL"), business tax credit carryforwards and alternative minimum tax credit carryforwards for federal income tax purposes of approximately $399.6 million, $1.9 million, $1.2 million, respectively. The NOL expire during the years 2007 through 2009 while the business credit carryforwards expire during the years 2003 through 2006. However, such

carryforwards are not available to offset federal (and in certain circumstances, state) alternative minimum taxable income. Further, as a result of a statutory "ownership change" (as defined for purposes of Section 382 of the Internal Revenue Code) that occurred as a result of the Company's reorganization in 1994, the Company's ability to utilize its NOL and business tax credit carryforwards may be restricted. The alternative minimum tax credit may be carried forward without expiration and is available to offset future income tax payable to the extent regular income tax exceeds alternative minimum tax in any given year.

In February 2002, Holdings filed its 2001 consolidated income tax return with the IRS, which included a claim to carryback losses incurred in 2001 to the tax years 1999 and 2000. This resulted in a refund of approximately $33.9 million, of which substantially all was received in the first quarter of 2002. In March 2002, Holdings filed a revised claim for carryback losses under the Job Creation and Workers Assistance Act of 2002, resulting in an additional refund of approximately $26.4 million which was received in the second quarter of 2002. Holdings will be able to carryback a portion of its 2002 loss to prior years and obtain a refund of $3.2 million.

Composition of Deferred Tax Items:

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. As of December 31, the significant components of the Company's deferred tax assets and liabilities are a result of the temporary differences related to the items described as follows:

(IN THOUSANDS)

	2002	2001 (AS RESTATED)
Deferred income tax liabilities		
Property and equipment, principally depreciation and "fresh start" differences	$ (112,213)	$ (95,664)
Total deferred tax liability	(112,213)	(95,664)
Deferred tax assets		
Aircraft leases	18,634	16,240
Frequent flyer accrual	6,240	5,685
Net operating loss carryforwards	160,248	88,088
Tax credit carryforwards	1,874	9,862
Other	4,004	16,439
Total deferred tax assets	191,000	136,314
Valuation allowance	(78,787)	(40,650)
	112,213	95,664
Net deferred tax asset (liability)	$ —	$ —

SFAS No. 109, "*Accounting for Income Taxes,*" requires that a valuation allowance be established when it is "more likely than not" that all or a portion of deferred tax assets will not be realized. A review of all available positive and negative evidence needs to be considered, including the company's performance, the market environment in which the company operates, forecasts of future profitability, the utilization of past tax credits, length of carryforward periods and similar factors. SFAS No. 109 further states that it is difficult to conclude that a valuation allowance is not needed when there is negative evidence such as cumulative losses in recent years. Therefore, cumulative losses weigh heavily in the overall assessment.

The Company was in a cumulative loss position for the three years ended December 31, 2001. Accordingly, a full valuation allowance has been established relating to the Company's net deferred tax assets at December 31, 2001, and to tax benefits generated in 2002. We expect to continue to record a full valuation allowance on future tax benefits until we can sustain an appropriate level of profitability.

10. CAPITAL STOCK

Preferred Stock

The Company's Board of Directors by resolution may authorize the issuance of the preferred stock as a class, in one or more series, having the number of shares, designations, relative voting rights, dividend rights, liquidation and other preferences and limitations that the Board of Directors fixes, without any stockholder approval. No shares of preferred stock have been issued.

Common Stock

The holders of Class A common stock are entitled to fifty votes per share, and the holders of Class B common stock are entitled to one vote per share, on all matters submitted to a vote of common stockholders except that voting rights of non-U.S. citizens are limited. The Class A common stock is convertible into an equal number of Class B shares at any time at the election of the holders of the Class A common stock. Holdings' Class B common stock is listed on the New York Stock Exchange.

Holders of common stock of all classes participate equally as to any dividends or distributions on the common stock, except that dividends payable in shares of common stock, or securities to acquire common stock, will be made in the same class of common stock as that held by the recipient of the dividend. Holders of common stock have no right to cumulate their votes in the election of directors. The common stock votes together as a single class, subject to the right to a separate class vote in certain instances required by law.

Treasury Stock

In September 1995, the Company adopted a stock repurchase program. The program was amended in December 1995, August 1997, August 1998, May 1999 and February 2000. During 1995 through 2000, the Company repurchased approximately 16.5 million shares of Class B common stock and 7.4 million warrants. The Company did not repurchase any Class B common stock in 2001 or 2002 and the stock repurchase program expired on December 31, 2002. Under the terms of the government guaranteed loan (see Note 4, "*Government Guaranteed Loan*"), the Company is prohibited from purchasing any additional shares of its stock prior to repayment of the loan in full.

Warrants

As compensation for various elements of the Company's financial restructuring completed in January 2002, Holdings issued a warrant to purchase 18.8 million shares of its Class B common stock to the federal government and additional warrants to purchase 3.8 million shares of its Class B common stock to other loan participants, in each case at an exercise price of $3 per share and a term of ten years. For accounting purposes, the warrants were valued at $35.4 million, or $1.57 per share, using the Black-Scholes pricing model with the following assumptions: expected dividend yield of 0.0%, risk-free interest rate of 4.8%, volatility of 44.9% and an expected life of ten years.

11. STOCK OPTIONS AND AWARDS

Under the 1994 Incentive Equity Plan, as amended (the "1994 Incentive Plan"), the Company's Board of Directors (the "Board") was authorized to grant stock options to officers and key employees. The maximum number of shares of Class B common stock authorized for issuance under the Plan was 9.0 million shares.

As of March 27, 2002, only 205,831 shares of the Company's Class B common stock remained available for future grants under the 1994 Incentive Plan. As of that date, although awards covering an aggregate of 6,799,570 shares of Class B common stock remained outstanding under the 1994 Incentive Plan, all options granted prior to December 31, 2001 were significantly out-of-the-money (based on the $5.55 per share closing price of the Company's Class B common stock as reported on the New York Stock Exchange on March 27, 2002) due to the

significant drop in the price of the Company's stock during 2001 (largely as a result of the events of September 11, 2001 and its aftermath). Consequently, these options had lost substantially all value as retention and incentive tools. The Board is strongly opposed to repricing outstanding stock options and, in connection with the government guaranteed loan, the Company agreed not to reprice any outstanding stock options so long as the loan remains outstanding.

For these reasons, on March 27, 2002, the Board adopted the Company's 2002 Incentive Equity Plan (the "2002 Incentive Plan"), subject to stockholder approval. A total of 8,000,000 shares of Class B common stock, which the Company believes will be adequate to fund the requirements under its long-term compensation arrangements through 2005, have been reserved for issuance under the 2002 Incentive Plan. At the same time, the Board determined that, regardless of share availability, no new awards will be granted under the 1994 Incentive Plan following stockholder approval of the 2002 Incentive Plan. In May 2002, the Company's stockholders approved the adoption of the 2002 Incentive Plan.

Stock options are granted with an exercise price equal to the stock's fair market value at the date of grant, generally become exercisable over a three-year period and expire if unexercised at the end of 10 years. At December 31, 2002, approximately 6.0 million shares are available for grant under the 2002 Incentive Plan.

Stock option activity during the years indicated is as follows:

1994 PLAN	Number of Shares	Weighted Average Exercise Price
Balance at December 31, 1999:	5,242,569	$ 16.90
Granted	1,782,300	$ 13.49
Exercised	(442,010)	$ 12.93
Canceled	(680,388)	$ 19.26
Balance at December 31, 2000:	5,902,471	$ 15.90
Granted	257,000	$ 11.30
Exercised	(93,334)	$ 10.17
Canceled	(777,251)	$ 16.16
Balance at December 31, 2001:	5,288,886	$ 15.74
Granted	986,987	$ 3.79
Exercised	—	—
Canceled	(362,267)	$ 11.38
Balance at December 31, 2002:	5,913,606	$ 14.01

2002 PLAN	Number of Shares	Weighted Average Exercise Price
Balance at December 31, 2001:	—	$ —
Granted	2,092,963	$ 5.01
Exercised	—	—
Canceled	(71,000)	$ 5.36
Balance at December 31, 2002:	2,021,963	$ 5.00

At December 31, 2002, options outstanding and exercisable by price range are as follows:

Range of Exercise Prices	Options Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Options Currently Exercisable	Weighted Average Exercise Price
$2.17 to $3.80	1,253,987	9.17	$ 3.44	90,000	$ 3.20
$5.55 to $8.00	1,646,963	9.19	$ 5.57	12,000	$ 8.00
$8.75 to $12.00	1,927,334	5.60	$ 10.50	1,605,311	$ 10.45
$12.88 to $18.75	1,671,500	5.66	$ 16.16	1,544,838	$ 16.11
$19.63 to $29.19	1,435,785	5.65	$ 22.44	1,417,452	$ 22.47
	7,935,569	6.93	$ 11.71	4,669,601	$ 15.83

There were 4,027,196 and 3,205,576 stock options exercisable as of December 31, 2001 and December 31, 2000, respectively. The per share weighted-average fair value of stock options granted during 2002, 2001 and 2000 was $2.87, $3.92 and $5.38, respectively, on the date of grant using the Black-Scholes option pricing model with the following weighted-average assumptions: 2002 – expected dividend yield of 0.0%, risk-free interest rate of 3.9%, volatility of 87.9% and an expected life of four years; 2001 – expected dividend yield of 0.0%, risk-free interest rate of 4.8%, volatility of 44.9% and an expected life of four years; 2000 – expected dividend yield of 0.0%, risk-free interest rate of 6.1%, volatility of 52.2% and an expected life of four years.

Under the 1994 Plan, the Company granted 20,000 shares of Class B common stock as restricted stock to certain officers and key employees in 2000. There were no restricted stock grants in 2001 or 2002. The Company recognized compensation expense of $0.7 million, $0.8 million and $1.6 million related to restricted stock in 2002, 2001 and 2000, respectively. At December 31, 2002, 78,462 shares of restricted stock were vested.

The stock option plans also provide for the issuance of stock and grant of stock options to non-employee directors. The Company has granted options to purchase 363,000 shares of Class B common stock to members of the Board of Directors who are not employees of the Company. The options have a ten-year term and are exercisable six months after the date of grant. As of December 31, 2002, 249,000 options were outstanding and exercisable at prices ranging from $3.20 to $29.19 per share. On December 31, 2001 and 2000, non-employee directors were also granted Class B common stock pursuant to the 1994 Plan totaling 9,750 shares and 9,000 shares, respectively. There were no grants of Class B common stock to non-employee directors in 2002.

12. OTHER COMPREHENSIVE INCOME (LOSS)

Other comprehensive income (loss) includes unrealized gains and losses on available-for-sale securities and changes in the fair value of derivative financial instruments that qualify for hedge accounting. For the years ended December 31, 2002 and 2001, the Company recorded a total comprehensive loss of $387.3 million and $247.4 million, respectively. For the year ended December 31, 2000, the Company recorded total comprehensive income of $6.6 million. The difference between net income (loss) and comprehensive income (loss) for the years ended December 31, 2002, 2001 and 2000 is detailed in the following table:

YEAR ENDED DECEMBER 31,			(IN THOUSANDS)
	2002	2001 (AS RESTATED)	2000
Net income (loss)	$ (387,909)	$ (249,851)	$ 7,679
Unrealized gains (losses) on derivative instruments, net of deferred taxes of $458 in 2002 and $1,190 in 2001	1,178	(3,146)	—
Reclassification adjustment to net loss of previously reported unrealized losses (gains) on derivative instruments, net of taxes of $209 in 2002 and $1,715 in 2001	(538)	4,536	—
Unrealized losses on marketable equity securities, net of deferred taxes of $121 and $674 in 2000	—	(199)	(1,108)
Realized losses on marketable equity securities, net of taxes of $795 in 2001	—	1,307	—
Total other comprehensive income	640	2,498	(1,108)
Comprehensive loss	$ (387,269)	$ (247,353)	$ 6,571

In July 2000, Holdings completed the sale of America West Golf Vacations, a division of TLC, to Book4golf.com, a provider of Internet-based, real-time, golf tee time reservation systems. TLC received 900,000 common shares, with a

fair market value of $2.1 million. The Company recorded a nonoperating pretax gain on sale of $2.0 million in the third quarter of 2000. In accordance with SFAS No. 115, "*Accounting for Certain Investments in Debt and Equity Securities*," the Company had classified TLC's investment in Book4golf.com as available-for-sale securities in the Company's consolidated balance sheet. SFAS No. 130, "*Reporting Comprehensive Income*" requires unrealized gains or losses on the Company's available-for-sale securities to be included in accumulated other comprehensive income, a component of stockholders' equity. In the third quarter of 2001, management determined the decline in market value of the Company's investment in Book4golf.com, approximately $2.1 million since July 2000, was other than temporary. In accordance with SFAS No. 12, "*Accounting for Certain Marketable Securities*," the investment was written down to realizable value, recognizing a nonoperating pretax loss of $2.1 million. The tax benefit associated with the loss was $0.8 million.

13. EMPLOYEE BENEFIT PLAN

The Company has a 401(k) defined contribution plan, covering essentially all employees of the Company. Participants may contribute from 1 to 15% of their pretax earnings to a maximum of $11,000 in 2002. The Company's matching contribution is determined annually by the Board of Directors. The Company's contribution expense to the plan totaled $8.7 million, $8.1 million and $9.0 million in 2002, 2001 and 2000, respectively.

14. SPECIAL CHARGES

In the first quarter of 2002, the Company recorded a pretax special charge of $21.1 million, primarily related to the restructuring completed on January 18, 2002, resulting from the events of September 11, 2001. Components of the special charge are as follows:

(IN THOUSANDS)

SPECIAL CHARGES	(as restated)	(as reported)
Impairment of owned aircraft and engines (based on appraised value)	$ —	$ 39,225
Fleet restructuring costs	9,915	9,915
Losses on sale-leaseback transactions	6,328	6,328
Professional fees	4,745	4,745
Write-off of computer system and security equipment	3,411	3,411
Severance	656	656
Revision of estimate for second quarter 2001 special charge	(4,000)	(4,000)
Total	$ 21,055	$ 60,280

Of this amount, approximately $10.3 million, principally related to losses on sale-leaseback transactions, fleet restructuring costs, professional fees and severance was accrued.

In the third quarter of 2002, the Company recorded a $2.0 million reduction in special charges due to a revision of the estimated costs related to the early termination of certain aircraft leases.

In April 2001, Holdings implemented a cost reduction plan to respond to a softening economy. The plan included a slowing of the airline's growth through the return of seven older 737-300 leased aircraft to the lessors in the second half of 2001 and January 2002 and significant reductions in overhead due in part to select reductions-in-force of management, administrative and clerical personnel. The Company recorded a pretax charge of $35.7 million in the second quarter of 2001 related to the earlier-than-planned aircraft returns and reductions-in-force.

In the fourth quarter of 2001, the Company recorded a pretax special charge of $106.0 million related to the impairment of owned aircraft and engines as a result of declines in market value resulting from the terrorist attacks of September 11, 2001 and their aftermath. Fair value for purposes of determining impairment was determined by independent appraisal and the impairment charge included an allocation of unamortized ERV at December 31, 2001 of approximately $64.1 million. Special charges for the year ended December 31, 2001 also include charges for the early termination of leases for one A320 and one 737-300 aircraft.

The following table presents the payments and other settlements made during 2002 and the remaining special charge accruals as of December 31, 2002.

(IN THOUSANDS)

	Sale Leaseback	Fleet Restructuring	Professional Fees	Reductions in-force	Impairment	TOTAL
Balance at December 31, 2000	$ —	$ —	$ —	$ —	$ —	$ —
Special charges	—	25,226	—	1,149	115,290	141,665
Payments	—	(8,440)	—	(1,066)	—	(9,506)
Impairment loss	—	—	—	—	(115,290)	(115,290)
Balance at December 31, 2001 (a)	—	16,786	—	83	—	16,869
Special charges	6,328	10,582	1,489	631	—	19,030
Reclassification of aircraft rent due to restructuring	—	4,696	—	—	—	4,696
Payments	—	(14,516)	(1,489)	(714)	—	(16,719)
Issuance of convertible notes	—	(5,000)	—	—	—	(5,000)
Forfeiture of security deposits	—	(2,289)	—	—	—	(2,289)
Loss on sale-leasebacks	(3,852)	—	—	—	—	(3,852)
Reclassification of capitalized maintenance for parked aircraft	—	(902)	—	—	—	(902)
Revision of estimate	—	(6,000)	—	—	—	(6,000)
Balance at December 31, 2002	$ 2,476	$ 3,357	$ —	$ —	$ —	$ 5,833

(a) As restated – See Note 2

The Company expects to make payments related to these special charges through the fourth quarter of 2005.

15. NONOPERATING INCOME (EXPENSE) - OTHER, NET

Under the airline compensation provisions of the Air Transportation Safety and System Stabilization Act (the "Act"), each air carrier was entitled to receive the lesser of: (i) its direct and incremental losses for the period September 11, 2001 to December 31, 2001 or (ii) its proportional available seat mile allocation (based on available seat miles for August 2001) of the $4.5 billion compensation available under the Act. In 2001, AWA received $98.2 million under the Act from the United States government and expected to receive, based on its losses and its share of available seat miles, at least an additional $10.0 million. In accordance with EITF Issue No. 01-10, "*Accounting for the Impact of the Terrorist Attacks of September 11, 2001*," AWA recognized $108.2 million of federal government assistance in 2001 as nonoperating income because direct and incremental losses incurred during 2001 exceeded that amount. In July 2002, AWA received an additional $12.3 million under the Act. Accordingly, $10.0 million was credited against the receivable established in 2001 and $2.3 million was recognized as nonoperating income in the second quarter of 2002. In August 2002, AWA received an additional payment of $6.2 million under the Act, which was recognized as nonoperating income in the third quarter of 2002.

In March 2002, the Company wrote down its investment in Aeroxchange, an e-commerce entity, which was carried at cost, to net realizable value recognizing a pretax loss of $2.8 million. See Note 6, "*Financial Instruments and Risk Management - (a) Fair Value of Financial Instruments - Investments in Equity Securities.*"

In September 2001, AWA completed the sale of two owned aircraft engines, with a combined net book value of $10.9 million, for approximately $10.0 million as part of a sale leaseback transaction, resulting in a $0.9 million pretax loss.

In July 2001, AWA recognized a pretax gain of approximately $1.1 million from the sale of 62,240 warrants to purchase common stock of Expedia.com.

In September 2000, AWA recorded an $8.8 million pretax unrealized gain on the Company's investment in one million shares of GetThere.com common stock. AWA sold all one million shares of GetThere.com for approximately $17.8 million in October 2000.

In July 2000, Holdings completed the sale of America West Golf Vacations, a division of TLC, to Book4golf.com, a provider of Internet-based, real-time, golf tee time reservation systems. TLC received 900,000 common shares, with a fair market value of $2.1 million. The Company recorded a nonoperating pretax gain on sale of $2.0 million in the third quarter of 2000. In the third quarter of 2001, management determined the decline in market value of the Company's investment in Book4golf.com, approximately $2.1 million since July 2000, was other than temporary. In accordance with SFAS No. 12, *"Accounting for Certain Marketable Securities,"* the investment was written down to realizable value, recognizing a pretax loss of $2.1 million. See Note 12, *"Other Comprehensive Income (Loss)."*

In May 2000, Holdings completed the sale of a majority interest in TLC's retail operations, National Leisure Group and The Vacation Store, to Softbank Capital Partners and General Catalyst LLC. TLC received $52 million in cash and retained a 12% passive ownership interest in the restructured venture. The Company recorded a $9.2 million pretax gain on this sale transaction.

In March 2000, AWA sold 500,000 warrants to purchase common stock of Priceline.com, Inc. for approximately $18.0 million, resulting in a pretax gain of approximately $15.5 million.

16. EARNINGS (LOSS) PER SHARE

YEAR ENDED DECEMBER 31, (IN THOUSANDS OF DOLLARS EXCEPT PER SHARE DATA)	2002	2001 (AS RESTATED)	2000
Basic Earnings (loss) Per Share			
Income (loss) before cumulative effect of change in accounting principle	$ (179,686)	$ (249,851)	$ 7,679
Cumulative effect of change in accounting principle	(208,223)	—	—
Net income (loss)	$ (387,909)	$ (249,851)	$ 7,679
Weighted average common shares outstanding	33,723,252	33,669,858	35,139,084
Basic earnings (loss) per share:			
Earnings (loss) before cumulative effect of change in accounting principle	$ (5.33)	$ (7.42)	$ 0.22
Cumulative effect of change in accounting principle	(6.17)	—	—
Net earnings (loss)	$ (11.50)	$ (7.42)	$ 0.22
Diluted Earnings (loss) Per Share			
Income (loss) before cumulative effect of change in accounting principle	$ (179,686)	$ (249,851)	$ 7,679
Cumulative effect of change in accounting principle	(208,223)	—	—
Net income (loss)	$ (387,909)	$ (249,851)	$ 7,679
Share computation:			
Weighted average common shares outstanding	33,723,252	33,669,858	35,139,084
Assumed exercise of stock options and warrants	—	—	549,093
Weighted average common shares outstanding as adjusted	33,723,252	33,669,858	35,688,177
Diluted earnings (loss) per share:			
Earnings (loss) before cumulative effect of change in accounting principle	$ (5.33)	$ (7.42)	$ 0.22
Cumulative effect of change in accounting principle	(6.17)	—	—
Net earnings (loss)	$ (11.50)	$ (7.42)	$ 0.22

For the years ended December 31, 2002, 2001 and 2000, options of 7,292,706, 5,062,194 and 3,592,311 respectively, are not included in the computation of diluted EPS because the option exercise prices were greater than the average market price of common stock for the period. In addition, for the year ended December 31, 2002, 22,074 incremental shares from assumed exercise of stock options and 2,794,399 incremental shares from assumed exercise of warrants issued in conjunction with the government guaranteed loan are not included in the computation of diluted EPS because of the antidilutive effect on EPS. For the year ended December 31, 2001, 68,677 incremental shares from assumed exercise of stock options are not included in the computation of diluted EPS because of the antidilutive effect on EPS.

17. SUPPLEMENTAL INFORMATION TO CONSOLIDATED STATEMENTS OF CASH FLOWS

Supplemental disclosure of cash flow information and non-cash investing and financing activities were as follows:

YEAR ENDED DECEMBER 31, (IN THOUSANDS)	2002	2001	2000
Non-cash transactions:			
Issuance of convertible notes, net of cancellations	$ 59,621	$ —	$ —
Issuance of warrants	35,383	—	—
Equipment acquired through capital leases	17,753	—	—
Equipment acquired with issuance of notes payable	64,163	—	—
Notes payable issued for equipment purchase deposits	10,500	10,500	42,000
Notes payable canceled under the aircraft purchase agreement	(10,500)	(38,500)	(38,500)
Payment in kind notes issued, net of returns	7,756	—	—
Cash transactions:			
Interest paid, net of amounts capitalized	25,942	24,242	11,536
Income taxes paid (refunded)	(63,353)	(8,588)	9,859

18. RELATED PARTY TRANSACTIONS

As part of our reorganization in 1994, Continental Airlines and AWA entered into an alliance agreement which included code sharing arrangements, reciprocal frequent flyer programs and ground handling operations. In March 2002, AWA received notice from Continental of its intention to terminate the code sharing and frequent flyer agreements between the two airlines, effective April 26, 2002. Two of Continental's directors are managing partners of Texas Pacific Group, which, through TPG Advisors, Inc., effectively controls the voting power of Holdings. See "*Risk Factors Relating to America West and Industry Related Risks - The stockholders who effectively control the voting power of Holdings could take actions that would favor their own personal interests to the detriment of our interests,*" included in Item 1 of the Company's Annual Report on Form 10-K. AWA paid Continental approximately $25.5 million, $30.1 million and $32.4 million and also received approximately $15.9 million, $22.0 million and $25.5 million in 2002, 2001 and 2000, respectively, from Continental pursuant to these agreements.

19. QUARTERLY FINANCIAL DATA (UNAUDITED)

Summarized quarterly financial data for 2002 and 2001 follows (in thousands of dollars except per share amounts):

	1ST QUARTER		2ND QUARTER	
	(as restated)	(as reported)	(as restated)	(as reported)
2002				
Operating revenues	$ 460,291	$ 460,291	$ 544,146	$ 544,146
Operating income (loss)	(83,466)	(122,691)	1,421	1,421
Nonoperating income (expenses), net	(16,842)	(16,842)	(14,276)	(14,276)
Income tax benefit	35,071	53,512	—	4,401
Loss before cumulative effect of change in accounting principle	(65,237) [1]	(86,021) [1]	(12,855) [2]	(8,454) [2]
Net loss	(273,460)	(358,305)	(12,855)	(8,454)
Loss per share before cumulative effect of change in accounting principle:				
Basic	(1.93)	(2.55)	(0.38)	(0.25)
Diluted	(1.93)	(2.55)	(0.38)	(0.25)
Net loss per share:				
Basic	(8.10)	(10.62)	(0.38)	(0.25)
Diluted	(8.10)	(10.62)	(0.38)	(0.25)

	3RD QUARTER		4TH QUARTER
	(as restated)	(as reported)	
2002			
Operating revenues	$ 520,351	$ 520,351	$ 522,328
Operating loss	(40,167)	(40,167)	(37,868)
Nonoperating income (expenses), net	(9,415)	(9,415)	(14,144)
Income tax benefit	—	18,592	—
Loss before cumulative effect of change in accounting principle	(49,582) [3]	(30,990) [3]	(52,012) [4]
Net loss	(49,582)	(30,990)	(52,012)
Loss per share before cumulative effect of change in accounting principle:			
Basic	(1.47)	(0.92)	(1.54)
Diluted	(1.47)	(0.92)	(1.54)
Net loss per share:			
Basic	(1.47)	(0.92)	(1.54)
Diluted	(1.47)	(0.92)	(1.54)

	1ST QUARTER	2ND QUARTER
2001		
Operating revenues	$ 587,473	$ 587,199
Operating loss	(24,506)	(53,513)
Nonoperating income (expenses), net	(2,404)	(370)
Income tax benefit	14,074	11,399
Net loss	(12,836) (5)	(42,484) (6)
Loss per share:		
Basic	(0.38)	(1.26)
Diluted	(0.38)	(1.26)

	3RD QUARTER	4TH QUARTER	
		(as restated)	(as reported)
2001			
Operating revenues	$ 491,355	$ 399,886	$ 399,886
Operating loss	(98,917)	(240,935)	(137,649)
Nonoperating income (expenses), net	52,156	44,102	44,102
Income tax benefit	15,082	33,981	32,675
Net loss	(31,679) (7)	(162,852) (8)	(60,872) (8)
Loss per share:			
Basic	(0.94)	(4.83)	(1.81)
Diluted	(0.94)	(4.83)	(1.81)

(1) Includes a $21.1 million pretax charge primarily related to the restructuring completed on January 18, 2002, resulting from the events of September 11, 2001, and a pretax charge of $2.8 million related to the write down to net realizable value of an investment in an e-commerce entity that was carried at cost.

(2) Includes a $2.3 million pretax gain related to additional federal grant proceeds received under the Air Transportation Safety and System Stabilization Act to offset losses resulting from the September 11, 2001 terrorist attacks.

(3) Includes a $6.2 million pretax gain related to additional federal grant proceeds received under the Air Transportation Safety and System Stabilization Act and a $2.0 million pretax reduction in special charges due to a revision of the estimated costs related to the early termination of certain aircraft leases.

(4) Includes a $4.9 million pretax credit related to a change in the Company's vacation policy for certain administrative employees.

(5) Includes an $11.0 million pretax gain resulting from the settlement in March 2001 of a lawsuit related to an air-to-ground telecommunication system that was previously written off.

(6) Includes a $35.7 million pretax charge related to the earlier-than-planned return of aircraft and reductions-in-force resulting from the Company's cost reduction initiatives.

(7) Includes a $60.3 million pretax gain related to a federal grant received under the Air Transportation Safety and System Stabilization Act to offset losses resulting from the September 11, 2001 terrorist attacks and a $2.1 million pretax loss related to the write-down to realizable value of the Company's investment in Book4golf.com.

(8) Includes a $47.9 million pretax gain related to a federal grant received under the Air Transportation Safety and System Stabilization Act to offset losses resulting from the September 11, 2001 terrorist attacks and an $8.8 million pretax gain from an insurance settlement. Also includes $106.0 million of pretax special charges related to the impairment of ERV and owned aircraft and engines and the early termination of aircraft leases.

Earnings per share are computed independently for each of the quarters presented. Therefore, the sum of the quarterly earnings per share in 2002 and 2001 does not equal the total computed for the year.

20. SEGMENT DISCLOSURES

Holdings is one reportable operating segment. Accordingly, the segment reporting financial data required by SFAS No. 131 is included in the accompanying consolidated balance sheets and statements of operations.

21. SUBSEQUENT EVENT

Elimination of Hub Operations in Columbus, Ohio

In February 2003, AWA announced that it is eliminating hub operations in Columbus, Ohio and, as a result, will be phasing 12 regional jets out of the America West Express fleet. Between early April and mid-June of 2003, AWA will gradually downsize the hub from 49 daily departures to 15 destinations to a planned four mainline flights per day to Phoenix and Las Vegas. With the downsizing of Columbus, AWA must eliminate service to New York City LaGuardia Airport because perimeter rules at the airport prohibit flights beyond 1,500 miles. This precludes service from AWA's hubs in Phoenix and Las Vegas. In the first, second and thirds quarters of 2003, the Company expects to record a pre-tax special charge of approximately $10 to $15 million resulting from the elimination of its Columbus hub operations. The charge is related to the costs to terminate certain contracts, the write-off of leasehold improvements and employee transfer and severance expenses.