IN THE UNITED STATES BANKRUPTCY COURT
FOR THE EASTERN DISTRICT OF VIRGINIA
ALEXANDRIA DIVISION

| | | |
|---|---|---|
| In re: | ) | Case No. 04-13819 |
| | ) | Jointly Administered |
| US AIRWAYS, INC., et al., | ) | Chapter 11 |
| | ) | Hon. Stephen S. Mitchell |
| Debtors-in-Possession. | ) | |

**DISCLOSURE STATEMENT WITH RESPECT TO**
**JOINT PLAN OF REORGANIZATION OF US AIRWAYS, INC.**
**AND ITS AFFILIATED DEBTORS AND DEBTORS-IN-POSSESSION**


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Dated: June 30, 2005

**THIS IS NOT A SOLICITATION OF ACCEPTANCE OR REJECTION OF THE PLAN. ACCEPTANCES OR REJECTIONS MAY NOT BE SOLICITED UNTIL THE BANKRUPTCY COURT HAS APPROVED THIS DISCLOSURE STATEMENT.**

**DISCLAIMER**

THE INFORMATION CONTAINED IN THIS DISCLOSURE STATEMENT AND THE APPENDICES HERETO RELATES TO THE DEBTORS' JOINT PLAN OF REORGANIZATION. THE INFORMATION IS INCLUDED HEREIN FOR PURPOSES OF SOLICITING ACCEPTANCES OF THE PLAN AND MAY NOT BE RELIED UPON FOR ANY PURPOSE OTHER THAN TO DETERMINE HOW TO VOTE ON THE PLAN. NO PERSON MAY GIVE ANY INFORMATION OR MAKE ANY REPRESENTATIONS, OTHER THAN THE INFORMATION AND REPRESENTATIONS CONTAINED IN THIS DISCLOSURE STATEMENT, REGARDING THE PLAN OR THE SOLICITATION OF ACCEPTANCES OR REJECTIONS OF THE PLAN.

ALL CREDITORS ARE ADVISED AND ENCOURAGED TO READ THIS DISCLOSURE STATEMENT AND THE PLAN IN THEIR ENTIRETY BEFORE VOTING TO ACCEPT OR REJECT THE PLAN. PLAN SUMMARIES AND STATEMENTS MADE IN THIS DISCLOSURE STATEMENT ARE QUALIFIED IN THEIR ENTIRETY BY REFERENCE TO THE PLAN, AND OTHER EXHIBITS ANNEXED OR REFERRED TO IN THE PLAN AND THIS DISCLOSURE STATEMENT. THE STATEMENTS CONTAINED IN THIS DISCLOSURE STATEMENT ARE MADE ONLY AS OF THE DATE HEREOF, AND THERE CAN BE NO ASSURANCE THAT THE STATEMENTS CONTAINED HEREIN WILL BE CORRECT AT ANY TIME AFTER THE DATE HEREOF.

THIS DISCLOSURE STATEMENT HAS BEEN PREPARED IN ACCORDANCE WITH SECTION 1125 OF THE BANKRUPTCY CODE AND RULE 3016(b) OF THE FEDERAL RULES OF BANKRUPTCY PROCEDURE AND NOT NECESSARILY IN ACCORDANCE WITH FEDERAL OR STATE SECURITIES LAWS OR OTHER LAWS GOVERNING DISCLOSURE OUTSIDE THE CONTEXT OF CHAPTER 11. THIS DISCLOSURE STATEMENT HAS NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION (THE "SEC"), NOR HAS THE SEC PASSED UPON THE ACCURACY OR ADEQUACY OF THE STATEMENTS CONTAINED HEREIN.

AS TO CONTESTED MATTERS, ADVERSARY PROCEEDINGS AND OTHER ACTIONS OR THREATENED ACTIONS, THIS DISCLOSURE STATEMENT AND APPENDICES HERETO WILL NOT CONSTITUTE OR BE CONSTRUED AS AN ADMISSION OF ANY FACT OR LIABILITY, STIPULATION OR WAIVER. THIS DISCLOSURE STATEMENT WILL NOT BE ADMISSIBLE IN ANY NONBANKRUPTCY PROCEEDING NOR WILL IT BE CONSTRUED TO BE LEGAL ADVICE ON THE TAX, SECURITIES OR OTHER EFFECTS OF THE REORGANIZATION AS TO HOLDERS OF CLAIMS AGAINST, OR EQUITY INTERESTS IN, US AIRWAYS GROUP, INC. OR ITS AFFILIATES.

## SUMMARY OF PLAN

The following introduction and summary is a general overview only, which is qualified in its entirety by, and should be read in conjunction with, the more detailed discussions, information and financial statements and notes thereto appearing elsewhere in this Disclosure Statement and the Joint Plan of Reorganization of US Airways, Inc. and Its Affiliated Debtors and Debtors-in-Possession (the "Plan"). All capitalized terms not defined in this Disclosure Statement have the meanings ascribed to such terms in the Plan, a copy of which is annexed hereto as Appendix A.

### A. The Plan

The Plan provides for a reorganization of each of the five Debtors. In accordance with the Plan, the Debtors will effectuate a merger transaction with America West Holdings Corporation ("America West"), the holding company for America West Airlines, Inc., pursuant to which a new subsidiary of Group will merge with and into America West, and America West will become a wholly-owned subsidiary of Group and the existing shareholders of America West will receive approximately 39% of the New Common Stock of Reorganized Group. In addition, the Plan contemplates that certain new equity investors (the "Plan Investors") will invest not less than $500 million in New Common Stock of Reorganized Group representing, in the aggregate, approximately 49% of Reorganized Group. New Common Stock representing approximately 12% of Reorganized Group will be distributed to unsecured creditors of the Debtors. In each case, these percentages reflect the assumed stock ownership outstanding immediately following the effective date of the Plan and Merger and are subject to dilution as a result of any additional equity issuances, including as a result of the Rights Offering discussed below, and are subject to certain assumptions concerning the likely exchange of certain convertible debt for New Common Stock shortly after the Merger. For more detail, see the table on pages 25-26 detailing the pro forma security ownership of Reorganized Group upon the Effective Date of the Plan.

In connection with the transactions contemplated by the Plan, Reorganized Group intends to effectuate an offering of rights to purchase up to $150 million in shares of New Common Stock to certain creditors of the Debtors and to existing common stockholders of America West at a price of $16.50 per share (the "Rights Offering"). In the event that the Rights Offering were to be fully subscribed, the percentage ownership of Reorganized Group by the stakeholders described above would be diluted. The Debtors reserve the right, however, to determine not to proceed with the Rights Offering or to terminate it at any time.

The Plan permits the Debtors to continue their businesses as a going concern, under a new hybrid point-to-point/hub-and-spoke low cost carrier business model. The Debtors believe that through the Plan and Merger they will be able to compete more effectively in the current competitive environment, thereby maximizing the going concern value of their assets for the benefit of their stakeholders.

General Unsecured Claimholder recoveries under the Plan will depend on resolution of Disputed Claims, as well as the value of shares of New Common Stock in the marketplace. The Debtors project, however, based on the price at which the Plan Investors have agreed to purchase their shares of New Common Stock, that General Unsecured Claimholder recoveries are likely to range between _% and _% of the amount of their Allowed General Unsecured Claims.

### B. Competitive Strengths of Reorganized Group Resulting from the Merger

America West and Group will have a number of competitive strengths as a combined company, including:

***Largest U.S. Low-Cost Carrier with Nationwide Route Network.*** Reorganized Group will be the first national full-service low-cost carrier and the largest low-cost carrier by revenue passenger miles ("RPMs") (including international service), the fifth largest airline operating in the United States as measured by domestic RPMs and by available seat miles ("ASMs"), with a national hub-and-spoke route network that will provide customers with nationwide reach. Reorganized Group is expected to capture approximately 10% of all domestic RPMs. Reorganized Group plans to continue as a member of the Star Alliance, the world's largest airline alliance group.

With a simplified pricing structure and international scope, Reorganized Group will offer competitive fare service to approximately 229 cities in the United States, Canada, the Caribbean, Latin America and Europe, making it the only low-cost carrier with a significant international route presence. Starting in 2006, Reorganized Group expects to expand its route network to include Hawaii, and will be the only low-cost carrier with an established East Coast route network, including the US Airways Shuttle service, with substantial presence at capacity-constrained airports such as New York's LaGuardia International Airport and Washington, D.C.'s Ronald Reagan Washington National Airport.

***Offer Services Not Typical of Low-Cost Carriers.*** By delivering high-quality service, with greater frequency of flight departures and offering customers premium amenities not available on other low-cost carriers, Reorganized Group will provide the best value in its markets and create increased demand for its air travel services. Reorganized Group is expected to be the only national low-cost carrier offering a global frequent flyer program, assigned seating, a First Class cabin, the US Airways Shuttle, same-carrier service to approximately 44 international destinations, convenient access to over 700 global destinations through its membership in the Star Alliance, and the convenience of airport clubs. These amenities will differentiate Reorganized Group's service from other low-cost carriers and will allow it to strengthen customer loyalty and attract new air travelers.

***Competitive Low-Cost Structure.*** The cost saving initiatives of America West and the Debtors discussed in Section III.F.1, coupled with the significant cost synergies from the Merger, will allow Reorganized Group to have one of the most competitive cost structures in the airline industry. On a pro forma basis, once the anticipated Merger synergies are realized, the unit costs of Reorganized Group will be approximately the same as those of America West today.

***Improved Balance Sheet with Substantial New Liquidity.*** Reorganized Group is expected to realize approximately $10 billion in annual revenues and have, as of the completion of the Merger, a strong balance sheet that includes an estimated $2 billion in total cash, cash equivalents and short term investments. The combined balance sheet will benefit from a cash infusion of approximately $1.5 billion, which will include $500 million in equity investments from the Plan Investors, the proceeds raised through the proposed Rights Offering of approximately $150 million, the release of certain cash reserves and other initiatives that will provide Reorganized Group with substantial new liquidity.

***Experienced Management Team.*** Reorganized Group will benefit from an experienced, highly motivated combined management team. Reorganized Group's team will be led by W. Douglas Parker, who has been the chief executive officer of America West since 2001 and prior to that, served as America West's chief operating officer from 2000 to 2001 and chief financial officer from 1995 to 2000. As chief executive officer, Mr. Parker led America West's transformation into a low-cost carrier.

FOR A DESCRIPTION OF THE PLAN AND VARIOUS RISK AND OTHER FACTORS PERTAINING TO THE PLAN AS IT RELATES TO HOLDERS OF CLAIMS AGAINST AND INTERESTS IN THE DEBTORS, PLEASE SEE ARTICLE VIII – SUMMARY OF THE REORGANIZATION PLAN AND ARTICLE IX – CERTAIN RISK FACTORS TO BE CONSIDERED.

## C. Treatment of Claims and Interests Under the Plan

The following chart contains a brief, general summary of the treatment of each Class of Claims and Interests under the Plan other than Allowed Administrative Claims, the holders of which, except with respect to the Eastshore Administrative Claim, shall receive Cash equal to the unpaid portion of such Allowed Administrative Claim or such other treatment as to which the Debtors (or the Reorganized Debtors) and such Claimholder shall have agreed upon in writing. It is not a complete statement of the treatment of any Class of Claims or Interests. The Plan constitutes a plan of reorganization for each of the five Debtors. Unless otherwise indicated, this Chart summarizes the treatment of Classes of Claims and

Interests against each of the Debtors. For a more detailed discussion of the treatment of Claims and Interests against each of the Debtors, see Section VIII.B below and Article V of the Plan.

| Class Description | Treatment Under Plan |
| --- | --- |
| Class-1 (Miscellaneous Secured Claims) | At the Debtors' option, each holder of an Allowed Miscellaneous Secured Claim will receive one of the following: (i) Reinstatement of Claimholder's rights; (ii) Cash equal to the value of the Miscellaneous Secured Claimholder's interest in the property of the Estate that secures such Allowed Miscellaneous Secured Claim; (iii) the property of the Estate that constitutes collateral for such Allowed Miscellaneous Secured Claim; (iv) a note secured by such Claimholder's collateral (or, if approved by the Bankruptcy Court, a portion of such collateral and/or substitute collateral), which note shall satisfy the requirements set forth in Section 1129(b)(2)(A)(i) of the Bankruptcy Code; (v) such other treatment determined by the Debtors and held by the Bankruptcy Court as constituting the indubitable equivalent of the Claim, in accordance with Section 1129(b)(2)(A)(iii) of the Bankruptcy Code; or (vi) such other treatment as may be agreed to in writing by the Debtors and Claimholder. |
| Class-2A (GECC Claims) | GECC shall receive such treatment as described in the GE Master MOU discussed in greater detail in Section VII.D.6 below. |
| Class-2B (GEAE Claims) | GEAE shall receive such treatment as described in the GE Master MOU discussed in greater detail in Section VII.D.6 below. |
| Class-3 (ATSB Loan Claims) | ATSB Lenders shall receive such treatment as agreed by the parties or ordered by the Bankruptcy Court.<br><br>**Estimated Amount of Claims:**[1] $709,267,980<br>**Estimated Percentage Recovery:** 100% |
| Class-4 (Airbus Claim) | Airbus shall receive the treatment described in Exhibit A to the Plan. |

[1] The "Estimated Amount of Claims" includes the aggregate amount of all Claims in each Class against all of the Debtors.

| Class Description | Treatment Under Plan |
|---|---|
| Class-5 (Other Priority Claims)[2] | Each holder of an Allowed Class-5 Other Priority Claim shall receive: (i) Cash equal to the amount of such Allowed Class-5 Other Priority Claim; or (ii) such other treatment as to which the Debtors (or Reorganized Debtor) and such Claimholder shall have agreed to in writing.<br><br>**Estimated Amount of Claims:**<br>**Estimated Percentage Recovery:** 100% |
| Class-6 (Aircraft Secured Claims) | For each Allowed Class-6 Aircraft Secured Claim, either: (i) the Allowed Class-6 Aircraft Secured Claim shall be Reinstated; or (ii) the Claimholder shall receive such other treatment as may be agreed to in writing by the Debtors and the Claimholder. |
| Class-7 (PBGC Claims) | PBGC shall receive one of the following treatments: (a) the same treatment that PBGC would receive if its claim were a single Class Group-9 General Unsecured Claim; (b) such other treatment as the Debtors or Reorganized Debtors and the PBGC shall have agreed upon in writing, provided that such other treatment shall be no less favorable to the Debtors and Reorganized Debtors than clause (a) above; or (c) as ordered by the Bankruptcy Court.<br><br>**Estimated Amount of Claims:**<br>**Estimated Percentage Recovery:** |
| Class-8 (General Unsecured Convenience Claims) | Each holder of an Allowed General Unsecured Convenience Claim shall receive Cash equal to: (i) ten percent (10 %) of the amount of such Allowed Claim if the amount of such Allowed Claim is less than or equal to $50,000; or (ii) $5,000 if the amount of such Allowed Claim is greater than $50,000.<br><br>Any Claimholder receiving General Unsecured Convenience Class treatment in any Debtor's Chapter 11 Case waives any right such Claimholder might otherwise have to receive a distribution on account of any other General Unsecured Claim or General Unsecured Convenience Claim.<br><br>**Estimated Amount of Claims:**<br>**Estimated Percentage Recovery:** 10% |

[2] "Other Priority Claims" refers to priority claims other than Priority Tax Claims under Bankruptcy Code §502(a)(8). Priority Tax Claims are not classified, but pursuant to Section 2.2 of the Plan the holders of such Claims will receive payment over six years from the date of assessment or other treatment as may be agreed by the Debtors and the Claimholder.

| Class Description | Treatment Under Plan |
| --- | --- |
| Class-9 (General Unsecured Claims) | Each holder of an Allowed General Unsecured Claim shall receive such Claimholder's Pro Rata share of the Unsecured Creditors Stock. If more than one of the Debtors is obligated for a General Unsecured Claim, the holder of such Claim shall be deemed to have a single Claim against all of the Debtors. In addition, holders of Allowed General Unsecured Claims shall receive the right to participate in the Rights Offering, as further described in Section III.E below. The Debtors reserve the right, however, to determine not to proceed with the Rights Offering or to terminate it at any time. Accordingly, for purposes of voting on the Plan, holders of Claims in Class-9 should assume that they will not receive the right to participate in the Rights Offering.<br><br>**Estimated Amount of Claims:**<br>**Estimated Percentage Recovery:** |
| Class-10 (Interests in the Debtors) | Holders of Interests in Group shall receive no distribution and their Interests shall be cancelled as of the Effective Date. Interests in the Debtors other than Group shall be Reinstated, in exchange for consideration provided by Group.<br><br>**Estimated Amount of Claims:**<br>**Estimated Percentage Recovery:** |

## D. Claims Estimates

On September 15, 2004, the Bankruptcy Court entered the Bar Date Order (Docket No. 128) approving the form and manner of the bar date notice, which was attached as Exhibit 1 to the Bar Date Order (the "Bar Date Notice"). Pursuant to the Bar Date Order and the Bar Date Notice, the general Bar Date for filing proofs of claim in these bankruptcy cases was February 3, 2005 and the Bar Date for governmental units was March 11, 2005. In addition to serving copies of the Bar Date Notice on all scheduled creditors, employees and other potential creditors, the Debtors published the Bar Date Notice in The New York Times (Docket No. 1188), The Wall Street Journal (Global) (Docket Nos. 1189) and USA Today (Domestic and International editions) (Docket No. 1190).

The Debtors' Claims Agent received approximately 5,000 timely filed proofs of claim as of the Bar Date totaling approximately $39.4 billion. The Debtors believe that many of these proofs of claim are invalid, duplicative or otherwise substantially overstated in amount. The Debtors are in the process of evaluating the proofs of claim and anticipate that they will file objections to many of them. Pursuant to the Bar Date Notice and the Bar Date Order, and consistent with Section 502(b)(9) of the Bankruptcy Code, any proofs of claim filed after the Bar Date are disallowed as untimely unless and until such proofs of claim are deemed timely filed by the Bankruptcy Court after notice and hearing.

The Debtors currently estimate that at the conclusion of the claims resolution process the aggregate amount of estimated and allowed General Unsecured Claims (inclusive of General Unsecured Convenience Claims) against the Debtors will be between $__ and $___. This is in addition to Secured Claims, such as the ATSB Loan Claims, Aircraft Secured Claims, and Miscellaneous Secured Claims. The Debtors believe that certain claims that have been asserted are without merit and intend to object to such claims. There can be no assurance, however, that the Debtors will be successful in contesting any such claims, or that total Allowed General Unsecured Claims will be within this range.

There can be no assurance that these estimates are accurate. Moreover, Claims may be filed or identified during the Claims resolution process that may materially affect the foregoing Claims estimates.

## E. Recommendation

The Debtors believe that the Plan, including the Merger, provides the best recoveries possible for the Debtors' Claimholders and strongly recommend that, if you are entitled to vote, you vote to accept the Plan. The Debtors believe any alternative to confirmation of the Plan, such as liquidation, partial sale of assets, or attempts by another party-in-interest to file a plan, would result in lower recoveries for stakeholders, as well as significant delays, litigation and costs, and the loss of jobs by employees.

THE DEBTORS BELIEVE THAT THE PLAN PROVIDES THE BEST RECOVERIES POSSIBLE FOR THE HOLDERS OF CLAIMS AGAINST EACH OF THE DEBTORS AND THUS RECOMMEND THAT YOU VOTE TO <u>ACCEPT</u> THE PLAN.

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APPENDICES

# DISCLOSURE STATEMENT WITH RESPECT TO JOINT PLAN OF REORGANIZATION OF US AIRWAYS, INC. AND ITS AFFILIATED DEBTORS AND DEBTORS-IN-POSSESSION

## I. INTRODUCTION

US Airways, Inc., US Airways Group, Inc., PSA Airlines, Inc., Piedmont Airlines, Inc., and Material Services Company, Inc. submit this disclosure statement (the "Disclosure Statement") pursuant to Section 1125 of the United States Bankruptcy Code (the "Bankruptcy Code"), for use in the solicitation of votes on the Joint Plan of Reorganization of US Airways, Inc. and Its Affiliated Debtors and Debtors-in-Possession (the "Plan") dated June 30, 2005, which was filed with the United States Bankruptcy Court for the Eastern District of Virginia (Alexandria Division) (the "Court" and/or the "Bankruptcy Court"), a copy of which is attached as Appendix A hereto.

This Disclosure Statement sets forth certain information regarding the Debtors' prepetition history, significant events that have occurred during the Chapter 11 Cases and the anticipated organization, operations and financing of the Reorganized Debtors upon emergence of the Debtors from the Chapter 11 Cases. This Disclosure Statement also includes a description of America West's business, the Merger, and the synergies that the Debtors believe will result from the Merger. This Disclosure Statement also describes the terms and provisions of the Plan, including certain alternatives to the Plan, certain effects of confirmation of the Plan, certain risk factors associated with the results and operations of the Debtors following emergence from bankruptcy and with the securities to be issued under the Plan and the manner in which distributions will be made under the Plan. In addition, this Disclosure Statement discusses the confirmation process and the voting procedures that holders of Claims must follow for their votes to be counted.

THIS DISCLOSURE STATEMENT CONTAINS SUMMARIES OF CERTAIN PROVISIONS OF THE PLAN, CERTAIN STATUTORY PROVISIONS, CERTAIN DOCUMENTS RELATED TO THE PLAN, CERTAIN EVENTS IN THE CHAPTER 11 CASES AND CERTAIN FINANCIAL INFORMATION. ALTHOUGH THE DEBTORS BELIEVE THAT SUCH SUMMARIES ARE FAIR AND ACCURATE, SUCH SUMMARIES ARE QUALIFIED TO THE EXTENT THAT THEY DO NOT SET FORTH THE ENTIRE TEXT OF SUCH DOCUMENTS OR STATUTORY PROVISIONS. FACTUAL INFORMATION CONTAINED IN THIS DISCLOSURE STATEMENT HAS BEEN PROVIDED BY THE DEBTORS' MANAGEMENT EXCEPT WHERE OTHERWISE SPECIFICALLY NOTED. THE DEBTORS DO NOT WARRANT THAT THE INFORMATION CONTAINED HEREIN, INCLUDING THE FINANCIAL INFORMATION, IS WITHOUT ANY INACCURACY OR OMISSION.

THIS DISCLOSURE STATEMENT CONTAINS A SUMMARY OF THE STRUCTURE OF, CLASSIFICATION AND TREATMENT OF CLAIMS AND INTERESTS IN, AND IMPLEMENTATION OF THE PLAN. IT IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO THE PLAN WHICH ACCOMPANIES THIS DISCLOSURE STATEMENT AND TO THE EXHIBITS ATTACHED THERETO OR REFERRED TO THEREIN.

## II. THE BANKRUPTCY PLAN VOTING INSTRUCTIONS AND PROCEDURES

### A. Definitions

Except as otherwise provided herein, capitalized terms not otherwise defined in this Disclosure Statement have the meanings ascribed to them in the Plan. In addition, all references in this Disclosure Statement to monetary figures refer to United States currency, unless otherwise expressly provided.

## B. Notice to Holders of Claims

This Disclosure Statement is being transmitted to certain Claimholders for the purpose of soliciting votes on the Plan and to others for informational purposes. The purpose of this Disclosure Statement is to provide adequate information to enable the holder of a Claim against the Debtors to make a reasonably informed decision with respect to the Plan prior to exercising the right to vote to accept or reject the Plan.

By order entered on ___________, 2005, the Bankruptcy Court approved this Disclosure Statement as containing information of a kind and in sufficient and adequate detail to enable Claimholders that are entitled to vote on the Plan to make an informed judgment with respect to acceptance or rejection of the Plan. THE BANKRUPTCY COURT'S APPROVAL OF THIS DISCLOSURE STATEMENT DOES NOT CONSTITUTE EITHER A GUARANTY OF THE ACCURACY OR COMPLETENESS OF THE INFORMATION CONTAINED HEREIN OR AN ENDORSEMENT OF THE PLAN BY THE BANKRUPTCY COURT.

ALL CLAIMHOLDERS ARE ENCOURAGED TO READ THIS DISCLOSURE STATEMENT AND ITS APPENDICES CAREFULLY AND IN THEIR ENTIRETY BEFORE DECIDING TO VOTE EITHER TO ACCEPT OR TO REJECT THE PLAN. This Disclosure Statement contains important information about the Plan, considerations pertinent to acceptance or rejection of the Plan, and developments concerning the Chapter 11 Cases.

THIS DISCLOSURE STATEMENT AND THE OTHER MATERIALS INCLUDED IN THE SOLICITATION PACKAGE ARE THE ONLY DOCUMENTS AUTHORIZED BY THE COURT TO BE USED IN CONNECTION WITH THE SOLICITATION OF VOTES ON THE PLAN. No solicitation of votes may be made except after distribution of this Disclosure Statement, and no person has been authorized to distribute any information concerning the Debtors or the Plan other than the information contained herein.

CERTAIN OF THE INFORMATION CONTAINED IN THIS DISCLOSURE STATEMENT IS BY ITS NATURE FORWARD-LOOKING AND CONTAINS ESTIMATES, ASSUMPTIONS AND PROJECTIONS THAT MAY BE MATERIALLY DIFFERENT FROM ACTUAL, FUTURE RESULTS. This Disclosure Statement contains projections of future performance as set forth in Appendix C attached hereto (the "Projections"). Other events may occur subsequent to the date hereof that may have a material impact on the information contained in this Disclosure Statement. Neither the Debtors nor the Reorganized Debtors intend to update the Projections for the purposes hereof. Thus, the Projections will not reflect the impact of any subsequent events not already accounted for in the assumptions underlying the Projections. Further, the Debtors do not anticipate that any amendments or supplements to this Disclosure Statement will be distributed to reflect such occurrences. Accordingly, the delivery of this Disclosure Statement does not imply that the information herein is correct or complete as of any time subsequent to the date hereof.

EXCEPT WHERE SPECIFICALLY NOTED, THE FINANCIAL INFORMATION CONTAINED HEREIN HAS NOT BEEN AUDITED BY A CERTIFIED PUBLIC ACCOUNTANT AND HAS NOT BEEN PREPARED IN ACCORDANCE WITH GENERALLY ACCEPTED ACCOUNTING PRINCIPLES.

## C. Solicitation Package

Accompanying this Disclosure Statement are, among other things, copies of (1) the Plan (Appendix A hereto); (2) the notice of, among other things, the time for submitting Ballots to accept or reject the Plan, the date, time and place of the hearing to consider the confirmation of the Plan and related matters, and the time for filing objections to the confirmation of the Plan (the "Confirmation Hearing Notice"); (3) if you are entitled to vote, one or more Ballots (and return envelopes) to be used by you in voting to accept or to reject the Plan; and (4) if you are a holder of a General Unsecured Claim of any of the Debtors, a copy of the prospectus comprising a part of the registration statement on Form S-1 filed by Group with the SEC to register shares of New Common Stock to be issued pursuant to the Rights Offering for shares of New Common Stock as described below in Sections III.E and VIII and one or more Subscription Rights Forms to be used by you for purposes of any election to participate in the Rights Offering.

## D. General Voting Procedures, Ballots, and Voting Deadline

On ___________, 2005, the Bankruptcy Court issued an order (the "Solicitation Procedures Order"), among other things, approving this Disclosure Statement, setting voting procedures and scheduling the hearing on confirmation of the Plan. A copy of the Confirmation Hearing Notice is enclosed with this Disclosure Statement. The Confirmation Hearing Notice sets forth in detail, among other things, the voting deadlines and objection deadlines with respect to the Plan. The Confirmation Hearing Notice and the instructions attached to the Ballot should be read in connection with this Section of this Disclosure Statement.

If you are entitled to vote, after carefully reviewing the Plan, this Disclosure Statement, and the detailed instructions accompanying your Ballot(s), please indicate your acceptance or rejection of the Plan by checking the appropriate box on the enclosed Ballot(s). Please complete and sign your original Ballot(s) (copies will not be accepted) and return it in the envelope provided. You must provide all of the information requested by the appropriate Ballot(s). Failure to do so may result in the disqualification of your vote on such Ballot(s).

Each Ballot has been coded to reflect the Class of Claims it represents. Accordingly, in voting to accept or reject the Plan, you must use only the coded Ballot or Ballots sent to you with this Disclosure Statement.

If you have any questions about (i) the procedure for voting your Claim or with respect to the packet of materials that you have received, (ii) the amount of your Claim, or (iii) if you wish to obtain, at your own expense, unless otherwise specifically required by Federal Rule of Bankruptcy Procedure 3017(d), an additional copy of the Plan, this Disclosure Statement or any appendices or exhibits to such documents, please contact:

Donlin, Recano & Company, Inc.
(Attn.: Voting and Distributions Dept.)
419 Park Avenue South, Suite 1206
New York, New York 10016
(212) 481-1411

IN ORDER FOR YOUR VOTE TO BE COUNTED, YOUR BALLOT MUST BE PROPERLY COMPLETED AS SET FORTH ABOVE AND IN ACCORDANCE WITH THE VOTING INSTRUCTIONS ON THE BALLOT AND ACTUALLY RECEIVED NO LATER THAN ____, 2005 AT ____ P.M. (PREVAILING EASTERN TIME) (THE "VOTING DEADLINE") BY DONLIN, RECANO & COMPANY, INC. (US AIRWAYS BALLOT DEPARTMENT), AS FOLLOWS:

**If by regular mail:**

**Donlin, Recano & Company, Inc.**
**Re: US Airways, Inc., *et al*.**
**P.O. Box 2034, Murray Hill Station**
**New York, NY 10156-0701**
**Attn.: Voting Department**

**If by hand delivery or overnight courier:**

**Donlin, Recano & Company, Inc.**
**Re: US Airways, Inc., *et al*.**
**419 Park Avenue South, Suite 1206**
**New York, NY 10016**
**Attn.: Voting Department**

**BALLOTS RECEIVED AFTER SUCH TIME WILL NOT BE COUNTED. BALLOTS SHOULD NOT BE DELIVERED DIRECTLY TO THE DEBTORS, THE COURT, THE CREDITORS' COMMITTEE OR COUNSEL TO THE DEBTORS OR THE CREDITORS' COMMITTEE.**

FOR INFORMATION ABOUT WHICH CLASSES OF CLAIMHOLDERS AND INTERESTHOLDERS ARE IMPAIRED AND UNIMPAIRED UNDER THE PLAN, AND WHICH CLASSES ARE ENTITLED TO VOTE ON THE PLAN, PLEASE SEE SECTION XIV OF THIS DISCLOSURE STATEMENT.

**UNSECURED CREDITORS ELECTING TO PARTICIPATE IN THE RIGHTS OFFERING SHOULD DELIVER THEIR SUBSCRIPTION RIGHTS FORMS TO THE FOLLOWING ADDRESS NO LATER THAN ________, 2005 AT ___ __.M. (PREVAILING EASTERN TIME) AND SHOULD FOLLOW THE DETAILED INSTRUCTIONS CONTAINED IN THE SUBSCRIPTION RIGHTS FORM REGARDING ELECTIONS AND PAYMENT FOR SHARES OF NEW COMMON STOCK SUBSCRIBED FOR THEREIN. THE SUBSCRIPTION RIGHTS FORM SHOULD NOT BE DELIVERED WITH YOUR BALLOT.**

__________________________
__________________________
__________________________

## E. Confirmation Hearing and Deadline for Objections to Confirmation

Pursuant to Section 1128 of the Bankruptcy Code and Federal Rule of Bankruptcy Procedure 3017(c), the Court has scheduled the Confirmation Hearing for ________________, 2005, at ____ a.m. (prevailing Eastern time) before the Honorable Stephen S. Mitchell, United States Bankruptcy Judge, at the United States Bankruptcy Court for the Eastern District of Virginia (Alexandria Division), 200 South Washington Street, Courtroom I, Alexandria, Virginia 22314. The hearing may be adjourned from time to time by the Bankruptcy Court without further notice except for the announcement of the adjournment date made at the hearing or at any subsequently adjourned hearing. The Bankruptcy Court has directed that objections, if any, to confirmation of the Plan be filed with the Clerk of the Bankruptcy Court and served so that they are RECEIVED on or before _________, 2005, at _:__ p.m. (prevailing Eastern time) by:

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## III. THE US AIRWAYS – AMERICA WEST MERGER

### A. Overview of the Merger Agreement.

On May 19, 2005, Group entered into an Agreement and Plan of Merger with America West, as amended, which is attached as Exhibit M to the Plan. The Merger Agreement provides, subject to Plan approval, for a merger transaction pursuant to which America West will merge with Barbell Acquisition Corp. ("Barbell"), a wholly-owned subsidiary of Group, and New Common Stock will be distributed to America West's shareholders, with the result of the Merger being that America West will become a wholly-owned subsidiary of Reorganized Group.

The management of both the Debtors and America West believe that the Merger is in the best interests of both companies' stakeholders, including creditors of the Debtors' bankruptcy estates. The Merger would result in the creation of the first nationwide low-cost carrier. The Debtors and America West would operate under a single brand name, "US Airways," and offer consumers a nationwide route network, with full labor and operational integration between the Debtors and America West anticipated to occur over a period of 24 months.

The Debtors believe that the Merger will create a number of synergies with resulting annual revenue increases and cost savings to Reorganized Group in the aggregate amount of over $600 million. The Debtors anticipate that cost savings will result from shrinking unprofitable routes, redistributing excess capacity from the western United States to the East Coast, streamlining aircraft fleets (the companies contemplate a net reduction of 58 aircraft between the Debtors and America West), downgrading mainline aircraft to regional jets on certain routes, and better utilization of aircraft. The Debtors expect that further cost savings will result from reductions in management overhead; elimination of overlap in airport facilities, airport labor, office space and real estate; and utilization of America West's in-house information technology department. Finally, the Debtors and America West have similar labor costs, and there is a significant commonality in the companies' aircraft fleets.

The Merger will result in the fifth largest airline operating in the United States, with primary hubs in Charlotte, Philadelphia and Phoenix, and secondary hubs/focus cities in Pittsburgh, Las Vegas, New York-LaGuardia, Washington-Reagan National and Boston. America West and the Debtors believe that this combined presence in more cities will lead to increased revenue through the addition of new routes, including service to Hawaii, and through a broader network offering passengers improved connectivity between cities. In addition to cost savings, the Merger is anticipated to increase liquidity by combining the balance sheets of the Debtors and America West and from the cash infusions provided by the equity investments of the Plan Investors, thereby improving the ability of the merged company to obtain credit providing the combined entity with access to currently restricted cash.

The Debtors believe that the Merger Agreement, coupled with the new investments from the Plan Investors, present the best business opportunity for the Debtors' reorganization and emergence from the Chapter 11 Cases.

**B. America West and Its Business.**

America West, a Delaware corporation formed in 1996, is a holding company that owns all of the stock of America West Airlines, Inc. ("AWA"), a Delaware corporation formed in 1981. AWA accounted for most of America West's revenues and expenses in 2004. Based on 2004 operating revenues and ASMs, AWA is the eighth largest passenger airline and the second largest low-cost carrier in the United States. AWA is the largest low-cost carrier that operates a hub-and-spoke network, with large hubs in both Phoenix and Las Vegas. Since 2003, AWA has also offered limited point-to-point service in certain major transcontinental markets. As of March 31, 2005, AWA operated a fleet of 138 aircraft with an average age of 11.0 years and served 63 destinations in North America, including eight in Mexico, three in Canada and one in Costa Rica. Through regional alliance and code share arrangements with other airlines, AWA served an additional 51 destinations in North America. In 2004, AWA had approximately 21.1 million passengers boarding its planes and generated revenues of approximately $2.3 billion.

The following table sets forth selected financial data for America West for each of the five fiscal years ended December 31, 2004, 2003, 2002, 2001 and 2000 and for the fiscal quarters ended March 31, 2005 and 2004, respectively. The selected consolidated financial data presented below is derived from America West's consolidated financial statements contained in America West's annual reports on Form 10-K for the years ended December 30, 2004, 2003, 2002, 2001 and 2000 and America West's unaudited consolidated financial statements contained in America West's quarterly reports on Form 10-Q and Form 10-Q/A for the quarters ended March 31, 2005 and 2004, respectively. The selected consolidated financial data should be read in conjunction with the consolidated financial statements for the respective periods, the related notes and the related reports of America West's independent registered public accounting firms. A copy of America West's annual report on Form 10-K for the fiscal year ended December 31, 2004 is attached hereto as Appendix G hereto, and a copy of America West's quarterly report on Form 10-Q for the period ended March 31, 2005 is attached hereto as Appendix H hereto.

| | Three months ended March 31, | | Year ended December 31, | | | | |
|---|---|---|---|---|---|---|---|
| | 2005 | 2004 | 2004 | 2003 | 2002 | 2001 | 2000 |
| | | | (in thousands except per share amounts) | | | | |
| Consolidated statements of operations data: | | | | | | | |
| Operating revenues[a] | $ 722,812 | $ 649,327 | $ 2,338,957 | $ 2,254,497 | $ 2,047,116 | $ 2,065,913 | $ 2,344,354 |
| Operating expenses[a] [b] | 672,734 | 634,238 | 2,382,728 | 2,232,362 | 2,206,540 | 2,476,594 | 2,356,991 |
| Operating income (loss) | 50,078 | 15,089 | (43,771) | 22,135 | (159,424) | (410,681) | (12,637) |
| Income (loss) before income taxes (benefit) and cumulative effect of change in accounting principle[c] | 33,576 | (1,563) | (88,993) | 57,534 | (214,757) | (324,387) | 24,743 |
| Income taxes (benefit) | — | — | 30 | 114 | (35,071) | (74,536) | 17,064 |
| Income (loss) before cumulative effect of change in accounting principle | 33,576 | (1,563) | (89,023) | 57,420 | (179,686) | (249,851) | 7,679 |
| Net income (loss) | 33,576 | (1,563) | (89,023) | 57,420 | (387,909) | (249,851) | 7,679 |
| Earnings (loss) per share before cumulative effect of change in accounting principle: | | | | | | | |
| Basic | 0.93 | (0.04) | (2.47) | 1.66 | (5.33) | (7.42) | 0.22 |
| Diluted | 0.62 | (0.04) | (2.47) | 1.26 | (5.33) | (7.42) | 0.22 |
| Net income (loss) per share: | | | | | | | |
| Basic | 0.93 | (0.04) | (2.47) | 1.66 | (11.50) | (7.42) | 0.22 |
| Diluted[d] | 0.62 | (0.04) | (2.47) | 1.26 | (11.50) | (7.42) | 0.22 |
| Shares used for computation: | | | | | | | |
| Basic | 36,152 | 35,851 | 36,026 | 34,551 | 33,723 | 33,670 | 35,139 |
| Diluted[d] | 62,372 | 35,851 | 36,026 | 56,113 | 33,723 | 33,670 | 35,688 |
| Consolidated balance sheet data (at end of period): | | | | | | | |
| Total assets | $ 1,580,400 | $ 1,598,172 | $ 1,475,264 | $ 1,614,385 | $ 1,438,953 | $ 1,469,218 | $ 1,568,515 |
| Long-term debt, less current maturities | 588,589 | 643,351 | 635,129 | 688,965 | 700,983 | 224,551 | 145,578 |
| Total stockholders' equity | 70,130 | 124,007 | 36,447 | 125,989 | 68,178 | 420,363 | 667,073 |

Source: America West Holdings Corporation

(a) Effective with the first quarter of 2005, America West changed the presentation of its regional alliance agreement with Mesa Airlines to the gross basis of presentation. Previously, America West used the net basis of presentation. The amounts below depict total operating revenues and total operating expenses under the gross basis of presentation:

| | Year ended December 31, | | | | |
|---|---|---|---|---|---|
| | 2004 | 2003 | 2002 | 2001 | 2000 |
| | | | (in thousands) | | |
| Operating revenues | $ 2,711,530 | $2,541,471 | $2,309,162 | $2,273,339 | $ 2,522,553 |
| Operating expenses | 2,755,301 | 2,519,336 | 2,468,586 | 2,684,020 | 2,535,190 |

(b) The 2004 results include a $16.3 million net credit associated with the termination of the rate per engine hour agreement with General Electric Engine Services for overhaul maintenance services on V2500-A1 engines, a $0.6 million credit related to the revision of the estimated costs associated with the sale and lease back of certain aircraft recorded in the first quarter of 2002 and a $0.4 million credit related to the revision of estimated charges associated with the Columbus, Ohio hub closure originally recorded in the second quarter of 2003. These credits were partially offset by $1.9 million of net charges related to the return of certain Boeing 737-200 aircraft which includes termination payments of $2.1 million, the write-down of leasehold improvements and deferred rent of $2.8 million, offset by the net reversal of maintenance reserves of $3.0 million. The 2003 period includes $16.0 million of charges resulting from the elimination of America West Airlines, Inc.'s hub operations in Columbus, Ohio ($11.1 million), the reduction-in-force of certain management, professional and administrative employees ($2.3 million), and the impairment of certain owned Boeing 737-200 aircraft that have been grounded ($2.6 million) offset by a $1.1 million reduction of charges due to a revision of the estimated costs related to the early termination of certain aircraft leases and a $0.5 million reduction related to the revision of estimated costs associated with the sale and leaseback of certain aircraft. The 2002 period includes $19.0 million of charges primarily related to the restructuring completed on January 18, 2002, resulting from the events of September 11, 2001. The 2001 period includes $141.6 million of special charges related to the impairment of reorganization value in excess of amounts allocable to identifiable assets 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. America West reclassified amounts related to settled fuel hedge transactions and mark-to-market adjustments on open hedge instruments from fuel expense to gain (loss) on derivative instruments, net. The amounts for the years ended December 31, 2004 and 2003 were an addition to fuel expense of $30.5 million and $10.7 million, respectively. For the years ended December 31, 2002 and 2001, the amounts reduced fuel expense by $0.7 million and $7.2 million, respectively.

(c) Nonoperating income (expense) in the 2004 period includes a $30.5 million net gain on derivative instruments, which included mark-to-market changes and settled transactions, and $1.3 million for the write-off of debt issue costs in connection with the refinancing of a term loan issued by General Electric Capital Corporation with an aggregate amount of $110.6 million. The 2003 period includes federal government assistance of $81.3 million recognized as nonoperating income under the Emergency Wartime Supplemental Appropriations Act and $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. The 2003, 2002 and 2001 periods include a $ 10.7 million net gain, $0.7 million net loss and $7.2 million net loss on derivative instruments, respectively, including mark-to-market changes and settled transactions.

(d) America West diluted earnings per share for the year ended December 31, 2003 includes the impact related to the 7.25% notes under the "if-converted" methodology. The impact reduced diluted earnings per share by $0.03 from $1.29 to $1.26.

## C. Structure and Terms of the Merger Agreement.

### 1. *Closing and Effective Time of the Merger.*

The closing of the Merger will occur on the fifth business day after the satisfaction or waiver of all of the closing conditions provided in the Merger Agreement, except for those conditions that, by their terms, are to be satisfied at the closing (but subject to the satisfaction or waiver of those conditions), or on such other date as America West and Group may agree in writing. As soon as practicable following the closing, America West and Group will deliver an executed and acknowledged certificate of merger to the Secretary of State of the State of Delaware. At that time, or at such later time as may be agreed by the parties in writing and specified in the certificate of merger, the Merger will become effective.

### 2. *The Merger Consideration.*

At the effective time of the Merger, each share of America West Class A common stock issued and outstanding immediately prior to the effective time (other than any shares of America West Class A common stock owned by Group, America West or any of their respective subsidiaries, which shares are not beneficially owned by third parties) will be converted into the right to receive 0.5362 of a share of New Common Stock, together with the right, if any, to receive cash in lieu of fractional shares of New Common Stock. At the effective time of the Merger, each share of America West Class B common stock issued and outstanding immediately prior to the effective time (other than any shares of America West Class B common stock owned by Group, America West or any of their respective subsidiaries, which shares are not beneficially owned by third parties) will be converted into the right to receive 0.4125 of a share of New Common Stock, together with the right, if any, to receive cash in lieu of fractional shares of New Common Stock. In connection with the Merger, Group has filed a registration statement on Form S-4 under the Securities Act to register the shares of New Common Stock to be issued to holders of America West Class A common stock and America West Class B common stock in the Merger (the "S-4 Registration Statement"). A copy of the prospectus/proxy statement comprising a part of the S-4 Registration Statement is attached to the Disclosure Statement as Appendix I.

Shares of America West common stock owned by Group, America West or any of their respective subsidiaries, except for shares that are beneficially owned by third parties, will be canceled and retired without payment of any consideration therefor and will cease to exist.

### 3. *Effect of the Merger on America West's Labor and Benefits.*

Group has agreed that it will cause America West after the Merger to honor all America West compensation and benefit plans, other than collective bargaining agreements, in accordance with their terms as in effect immediately before the effective time of the Merger, subject to any amendment or termination of those plans that may be permitted by the terms of those plans and applicable law.

Subject to the terms of any applicable collective bargaining agreement, Reorganized Group will cause any Reorganized Group compensation and benefit plans that cover the employees of America West and its subsidiaries who are employed by Reorganized Group or any of its subsidiaries at or after the effective time of the Merger, which are referred to as continuing employees, to treat the employment and service of the continuing employees with America West and its subsidiaries and any predecessor employers through the date the Merger closes as employment and service with Reorganized Group and its subsidiaries for eligibility and vesting purposes, but not benefit accrual purposes under any defined benefit pension plan, under the Reorganized Group compensation and benefit plans. Subject to the terms of any applicable collective bargaining agreement, the continuing employees and their dependents and beneficiaries will not be required for the calendar year that includes the closing date of the Merger to satisfy any deductible, co-payment, out-of pocket maximum or similar requirements under any Reorganized Group compensation and benefit plan that provides medical, dental and other welfare benefits to the continuing employees and their beneficiaries to the extent of amounts previously credited for those purposes under the medical, dental and other welfare benefit plans of America West and its subsidiaries that covered the continuing employees prior to the closing date of the Merger, and any waiting periods, pre-existing condition exclusions and requirements to show evidence of good health contained in that Reorganized Group compensation and benefit plan will not apply with respect to the continuing employees and their dependents and beneficiaries, except to the extent such waiting periods, exclusions or requirements were applicable under the America West compensation and benefit plans at the effective time of the Merger.

*4. Approvals Arising in Connection with the Merger.*

*(a) United States Antitrust*

The Merger is subject to review by the Antitrust Division of the U.S. Department of Justice (the "Antitrust Division"), under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, (the "HSR Act"). Under the HSR Act, America West and Group are required to make pre-merger notification filings at the expiration or early termination of the statutory waiting period prior to completing the Merger. On May 23, 2005, America West and Group each filed a Premerger Notification and Report Form with the Antitrust Division and the U.S. Federal Trade Commission (the "FTC"). The initial waiting period expired on June 23, 2005, without America West or Group having received notice of a second request.

There can be no assurance that other government agencies, including state attorneys general, or a private party, could not also initiate action to challenge the Merger before or after it is completed. Any such challenge to the Merger could result in restrictions or conditions that would have a material adverse effect on the combined company if the Merger is completed. These restrictions and conditions could include operating restrictions, or the divestiture, spin-off or the holding separate of assets or businesses. Under the terms of the Merger Agreement, America West and Group, if requested by America West, are each required to commit to any divestitures, licenses or hold separate or similar arrangements with respect to its assets or conduct of business arrangements if that divestiture, license, holding separate or arrangement is a condition to obtain any approval from any governmental entity in order to complete the merger and would not have a material adverse effect on the combined company. Group may condition any divestiture, license or hold separate or similar arrangement upon the completion of the Merger. No additional stockholder approval is expected to be required or sought for any decision by America West or Group, after the America West special meeting, to agree to any terms and conditions necessary to resolve any regulatory objections to the Merger.

Certain of the Plan Investors are also required to file notifications under the HSR Act and obtain regulatory approvals. These waiting periods, applicable to those Plan Investors, expired on or before June 27, 2005, with the Department of Justice ending its inquiry into the transactions.

*(b) Other Regulatory Approvals*

America West and Group are regulated by various federal, state and foreign regulatory authorities that exercise broad powers, generally governing activities such as operations, safety, financial reporting, security and certain mergers, consolidations and acquisitions. The airline industry is subject to possible regulatory and legislative changes that may affect the economics of the industry by requiring changes in operating practices or by affecting the cost of providing services.

In addition to the required filings under the HSR Act, completion of the Merger is conditioned on America West and Group supplying or obtaining certain notices, reports, filings, consents, registrations, approvals, permits or authorizations with, from or to the U.S. Department of Transportation ("DOT"), the Federal Aviation Administration ("FAA"), the Federal Communications Commission ("FCC"), the Department of Homeland Security and the Air Transportation Stabilization Board (the "ATSB").

America West and Group must also either notify or obtain consent from certain foreign regulatory agencies. Pursuant to the terms of the Merger Agreement, Group and America West are required to file a notification with, and obtain approval from, the German Federal Cartel Office or Bundeskartellamt. Such approval was granted in June 2005.

*(c) Approvals of the Air Transportation Stabilization Board*

Pursuant to a loan agreement partially guaranteed by the ATSB, America West will require the consent of the ATSB to complete the Merger. On January 18, 2002, AWA closed a $429 million loan supported by a $380 million guarantee provided by the ATSB. America West fully and unconditionally guaranteed the payment of all principal, premium, interest and other obligations outstanding under the loan partially guaranteed by the ATSB and has pledged the stock of AWA to secure its obligations under such guarantee. The loan balance is currently $300.3 million. Principal amounts under this loan are due in ten installments of $42.9 million on each March 31 and September 30, commencing on March 31, 2004 and ending on September 30, 2008. Principal amounts outstanding under the loan partially guaranteed by the ATSB bear interest at a rate per annum equal to LIBOR plus 40 basis points, and the portion of the loan guaranteed by the ATSB is subject to a guarantee fee of 8% per year.

Subject to certain exceptions, America West is required to prepay the loan upon a change in control and may be required to prepay portions of the loan if America West's employee compensation costs exceed a certain threshold.

The loan partially guaranteed by the ATSB requires that AWA maintain a minimum unrestricted cash balance of $100 million. In addition, the loan contains customary affirmative covenants and the following negative covenants: restrictions on liens, investments, restricted payments, fundamental changes, asset sales and acquisitions, the creation of new subsidiaries, sale and leasebacks, transactions with affiliates, the conduct of business, mergers or consolidations, issuances and dispositions of capital stock of subsidiaries, and amendments to other indebtedness. The loan contains customary events of default, including payment defaults, cross-defaults, breach of covenants, bankruptcy and insolvency defaults and judgment defaults.

*5. Major Conditions to Consummation of the Merger.*

*(a) Conditions to Each Party's Obligations to Effect the Merger*

The respective obligations of each of Group, Barbell and America West to complete the Merger are conditioned upon the satisfaction or waiver prior to the effective time of the Merger of each of the following conditions:

- the Merger Agreement must have been duly adopted by holders of a majority of the outstanding shares of America West common stock entitled to vote on the matter in accordance with applicable law and America West's certificate of incorporation and bylaws;
- the waiting period applicable to the completion of the Merger under the HSR Act must have expired or been earlier terminated;
- all approvals and authorizations required to be obtained from the ATSB, DOT and FAA for the completion of the Merger must have been obtained;

- all other governmental consents required to be obtained from any governmental entities for the completion of the Merger must have been obtained (subject to certain exceptions);

- all other governmental consents the failure of which to make or obtain would, individually or in the aggregate, provide a reasonable basis to conclude that America West or its directors or officers would be subject to the risk of criminal liability, must have been made or obtained;

- no governmental entity of competent jurisdiction must have enacted, issued, promulgated, enforced or entered any order or law that is in effect and restrains, enjoins, makes illegal or otherwise prohibits completion of the Merger or the other transactions contemplated by the Merger Agreement, except for orders of governmental entities outside the United States as would not, individually or in the aggregate, reasonably be expected to have a specified material adverse effect and which do not provide a reasonable basis to conclude that America West, Group or their respective directors or officers would be subject to the risk of criminal liability;

- the registration statement relating to the shares of New Common Stock to be issued pursuant to the Merger Agreement must have been declared effective by the SEC under the Securities Act and no stop order suspending its effectiveness will have been issued by the SEC and no proceedings for that purpose will have been initiated or threatened by the SEC;

- the Plan, in form and substance reasonably acceptable to each of Group and America West, must have been confirmed by the Court pursuant to a confirmation order in form and substance reasonably acceptable to each of Group and America West, and such confirmation order must have become a final order;

- in connection with the emergence of Group from bankruptcy and the completion of the Plan, Group must have received from the Plan Investors on or before the effective time of the Merger, cash equity investments of not less than $375 million, such equity investments to be made substantially on the basis set forth in the Investment Agreements;

- all agreements and Court orders entered into, modified or otherwise effected pursuant to or in connection with the Merger Agreement or the Plan must be in form and substance reasonably acceptable to each of Group and America West; and

- the shares of Reorganized Group common stock to be issued in the Merger must have been authorized for listing or quotation, as applicable, on the NYSE or the NASDAQ Stock Market, upon official notice of issuance.

*(b) Conditions to Obligations of Group*

The obligations of Group to effect the Merger are subject to the satisfaction or waiver by Group at or prior to the effective time of the Merger of certain conditions, including the following:

- each of the representations and warranties made by America West in the Merger Agreement must be true and correct in all respects as of the date of the Merger Agreement and as of the closing date as though made on and as of the closing date (except to the extent any such representation and warranty expressly speaks as of an earlier date, in which case such representation and warranty shall be true and correct as of such earlier date) except where the failure of that representation and warranty to be true and correct would not, individually or in the aggregate, reasonably be expected to have a specified material adverse effect on America West, and Group must have received a certificate as to the foregoing from the chief executive officer or chief financial officer of America West;

- America West must have performed in all material respects all obligations required to be performed by it under the Merger Agreement at or prior to the closing date, and Group must have received a certificate as to the foregoing from the chief executive officer or chief financial officer of America West;

- no governmental entity of competent jurisdiction must have instituted (or if instituted, must not have withdrawn) any suit, action or proceeding seeking any order which would, in the reasonable judgment of Group, individually or in the aggregate, be reasonably likely to result in the failure of the condition described in the sixth bullet point under Section III.C.5(a) above;

- America West must have obtained the consent or approval of each person whose consent or approval will be required under any material contract to which America West or any of its subsidiaries is a party in connection with the transactions contemplated by the Merger Agreement, except where the failure to obtain such consent or approval, individually or in the aggregate, would not reasonably be expected to result in a specified material adverse effect on America West; and

- Group must have received the opinion of Arnold & Porter LLP, counsel to Group, in form and substance reasonably satisfactory to Group, dated the closing date, substantially to the effect that the Merger will be treated for federal income tax purposes as a reorganization within the meaning of Section 368(a) of the Internal Revenue Code of 1986, as amended (the "Internal Revenue Code").

*(c) Conditions to Obligations of America West*

The obligations of America West to effect the Merger are subject to the satisfaction or waiver by America West at or prior to the effective time of the Merger of certain conditions, including the following:

- each of the representations and warranties made by Group in the Merger Agreement must be true and correct in all respects as of the date of the Merger Agreement and as of the closing date as though made on and as of the closing date (except to the extent any such representation and warranty expressly speaks as of an earlier date, in which case such representation and warranty shall be true and correct as of such earlier date) except where the failure of such representations and warranties to be true and correct would not, individually or in the aggregate, reasonably be expected to have a specified material adverse effect on Group, and America West must have received a certificate as to the foregoing from the chief executive officer or chief financial officer of Group;

- each of Group and Barbell must have performed in all material respects all obligations required to be performed by it under the Merger Agreement at or prior to the closing date, and America West must have received a certificate as to the foregoing from the chief executive officer or chief financial officer of Group and Barbell;

- no governmental entity of competent jurisdiction must have instituted (or if instituted, must not have withdrawn) any suit, action or proceeding seeking any order which would, in the reasonable judgment of America West, individually or in the aggregate, be reasonably likely to result in the failure of the condition described in the sixth bullet point under Section III.C.5(a) above;

- Group must have obtained the consent or approval of each person whose consent or approval will be required under any material contract to which Group or any of its subsidiaries is a party in connection with the transactions contemplated by the Merger Agreement, except where the failure to obtain such consent or approval, individually or in the aggregate, would not reasonably be expected to result in a specified material adverse effect on Group;

- America West must have received the opinion of Skadden, Arps, Slate, Meagher & Flom LLP, counsel to America West, in form and substance reasonably satisfactory to America West, dated the closing date, substantially to the effect that the Merger will be treated for federal income tax purposes as a reorganization within the meaning of Section 368(a) of the Internal Revenue Code; and

- immediately prior to the effective time of the Merger, there must not exist more than $10 million of Administrative Claims, including contingent liabilities, arising out of or related to any Group compensation and benefit plan that is subject to Section 302 of the Employee Retirement Income Security Act of 1974, as amended ("ERISA") or Section 412 of the Internal Revenue Code, other than any claims relating to amounts incurred in the ordinary course of Group's business.

*6. Representations, Warranties, Covenants and Agreements.*

The Merger Agreement contains customary and substantially reciprocal representations and warranties by each of Group and America West. Parties-in-interest are referred to the Merger Agreement, a copy of which is attached as an exhibit to the Plan, for a complete statement of the parties' representations and warranties. The assertions embodied in those representations and warranties are qualified by information in confidential disclosure letters that Group and America West exchanged in connection with the signing of the Merger Agreement. While Group and America West do not believe that the disclosure letters contain information that the securities laws require Group and America West to publicly disclose other than information that has already been so disclosed, the disclosure letters may contain information that modifies, qualifies and creates exceptions to the representations and warranties in the Merger Agreement. Accordingly, holders of Claims and Interests should not rely on any of those representations and warranties as characterizations of the actual state of facts because they may be modified in important responses by the underlying disclosure letters. Moreover, information concerning the subject matter of the representations and warranties may have changed since the date of the Merger Agreement.

The Merger Agreement contains covenants and agreements by the parties to conduct their businesses and the businesses of their respective subsidiaries in the ordinary and usual course pending consummation of the Merger, and to maintain existing relations and goodwill with governmental entities, customers, suppliers, distributors, creditors, lessors, employees and business associates and keep available the services of present employees and agents of the parties and their respective subsidiaries. The Merger Agreement also contains certain negative covenants, including but not limited to an agreement by the parties not to knowingly take or permit any of their respective subsidiaries to take any action or refrain from taking any action that would be reasonably and foreseeably likely to prevent the closing conditions in the Merger Agreement not to be satisfied. Parties-in-interest are referred to the Merger Agreement for a complete description of the parties' covenants and agreements.

*7. Termination of the Merger Agreement.*

*(a) Termination by Mutual Consent*

The Merger Agreement may be terminated and the Merger may be abandoned at any time prior to the effective time of the Merger by action taken by the board of directors of the terminating party or parties by mutual written consent of America West and Group, whether before or after the adoption of the Merger Agreement by America West stockholders or the entry of the order confirming the Plan.

*(b) Termination by either America West or Group*

Either America West or Group may terminate the merger under the following circumstances:

- the Merger is not completed by October 31, 2005, whether such date is before or after the adoption of the Merger Agreement by America West's stockholders or the entry of the order confirming the Plan, unless the closing conditions described in the second, third, fourth, fifth, seventh and eight bullet points under Section III.C.5(a) above have not been satisfied by October 31, 2005, in which case the termination date may be extended from time to time by either Group or America West one or more times to a date not beyond December 31, 2005;

- the adoption of the Merger Agreement by America West's stockholders is not obtained at the stockholders meeting or at any adjournment or postponement of such meeting;

- any order of a governmental entity permanently restraining, enjoining or otherwise prohibiting the completion of the Merger becomes final and non-appealable, except for any orders the existence of which would not result in the failure of the closing condition described in the sixth bullet point under Section III.C.5(a) above (whether before or after the adoption of the Merger Agreement by America West's stockholders);

- the Merger and the transactions contemplated under the Merger Agreement are not determined by the Court to be the approved proposal within 45 days after the entry of the Bidding Procedures Order, in which case each of Group and America West has five business days within which to terminate the Merger Agreement. If the Merger Agreement is not terminated within those five business days, the time period with respect to the termination triggers is automatically extended for ten business days. After those ten business days, if the Merger and the transactions contemplated under the Merger Agreement shall not have been determined by the Court to be the approved proposal, then the Merger Agreement shall terminate automatically.

The foregoing rights to terminate the Merger Agreement will not be available to any party that has breached its obligations under the Merger Agreement in any manner that will have proximately contributed to the occurrence of the failure of a condition to the completion of the Merger.

*(c) Termination by America West*

The Merger Agreement may be terminated and the Merger may be abandoned at any time prior to the effective time of the Merger by America West if, whether before or after the adoption of the Merger Agreement by America West's stockholders:

- without the consent of America West, Group enters into or seeks authority from the Court to enter into (or does not object to efforts by any other party to have Group enter into) a binding written agreement concerning any qualified competing plan proposal;

- the America West board of directors authorizes America West, subject to complying with the terms of the Merger Agreement, to enter into a binding written agreement concerning a transaction that constitutes a superior proposal;

- there is a breach of any representation, warranty, covenant or agreement made by Group or Barbell in the Merger Agreement, or any representation or warranty becomes untrue or incorrect after the execution of the Merger Agreement, such that closing conditions to America West's obligation to effect the Merger would not be satisfied and such breach or failure to be true and correct is not curable within 60 days of America West providing notice of such breach or failure to Group;

- Group knowingly, materially and not inadvertently breaches any of its obligations under the Merger Agreement relating to acquisition proposals; or

- Group withdraws the Plan after it is filed with the Court, Group ceases to seek actively to have the Plan confirmed by the Court (or does not actively contest efforts by another person to cause the Plan not to be so confirmed) or 20 days after the Court enters an order denying confirmation of the Plan.

*(d) Termination by Group*

The Merger Agreement may be terminated and the Merger may be abandoned at any time prior to the effective time of the Merger by Group if, whether before or after the adoption of the Merger Agreement by America West's stockholders:

- the board of directors of America West withdraws, modifies or qualifies, or agrees to withdraw, modify or qualify, in fact or in substance, its adoption of the Merger Agreement or its recommendation of the Merger in a manner adverse to Group;
- America West enters into a binding written agreement concerning a transaction that constitutes a superior proposal;
- Group, by duly authorized action, is authorized to enter into a binding written agreement concerning a transaction that constitutes an approved proposal;
- there is a breach of any representation, warranty, covenant or agreement made by America West, or any such representation or warranty becomes untrue or incorrect after the execution of the Merger Agreement, such that closing conditions to Group's obligation to effect the Merger would not be satisfied and such breach or failure to be true or correct is not curable within 60 days of Group providing notice of such breach or failure to America West;
- by the later of 120 days after the date of the Merger Agreement or 60 days after effectiveness of the registration statement to be filed under the Securities Act with respect to the shares of New Common Stock to be issued in the Merger, America West's stockholders meeting is not held, or the vote of America West's stockholders is not taken, unless America West has used its reasonable best efforts to convene the stockholders meeting and hold that vote by the later of such dates; or
- America West knowingly, materially and not inadvertently breaches its obligations under the Merger Agreement relating to acquisition proposals.

*(e) Effect of Termination*

If the Merger Agreement is terminated and the Merger is abandoned as described above, the Merger Agreement will be void and of no effect, with no liability on the part of any party to the Merger Agreement, except that certain designated provisions of the Merger Agreement, including the payment of fees and expenses, the confidential treatment of information and, if applicable, the termination fee described below, will survive the termination. Termination of the Merger Agreement does not relieve or release either party from liabilities or damages arising out of the party's willful breach of any provision of the Merger Agreement.

*(f) Termination Fees and Expenses*

The Merger Agreement and the Procedures provide for payment of a termination fee in the amount of $15 million (inclusive of expenses) by America West to Group (the "Group Termination Fee") or by Group to America West (the "America West Termination Fee"). Unlike many situations, in which a break-up or termination fee is negotiated only for the benefit of the nondebtor "stalking horse" bidder, in this case the termination fee between the Debtors and America West is effectively equal and bilateral. Each party has invested substantial time and resources in the negotiation of the Merger Agreement. In pursuing the Merger Agreement, each party may have chosen to forgo the opportunity to explore other potential transactions, and each party has legitimate economic interests in having the other party close the Merger Agreement.

(i) *The Group Termination Fee*

America West will promptly, but in no event later than two days after the date of termination, pay to Group the Group Termination Fee, if:

- a bona fide acquisition proposal relating to at least 40% of the assets or equity interests of America West and its subsidiaries taken as a whole, is made to America West or any of its subsidiaries or its stockholders and that proposal becomes publicly known, or any person publicly announces an intention, whether or not conditional, to make such a proposal with respect to America West or any of its subsidiaries, and that proposal or announced intention are not withdrawn at the time of the America West stockholders meeting, and either Group or America West terminates the Merger Agreement because the adoption of the Merger Agreement by America West's stockholders was not obtained at the stockholders meeting or at any adjournment or postponement of that meeting;

- Group terminates the Merger Agreement because by the later of 120 days after the date of the Merger Agreement or 60 days after effectiveness of the relevant registration statement, America West's stockholders meeting has not been held, or the vote of America West's stockholders has not been taken unless America West has used its reasonable best efforts to convene the stockholders meeting and hold the vote by the later of those dates;

- Group terminates the Merger Agreement because the board of directors of America West withdraws, modifies or qualifies, or agrees to withdraw, modify or qualify, in fact or in substance, its adoption of the Merger Agreement or its recommendation of the Merger in a manner adverse to Group;

- Group terminates the Merger Agreement because America West enters into a binding written agreement concerning a transaction that constitutes a superior proposal;

- Group terminates the Merger Agreement because America West knowingly and materially and not inadvertently breaches its obligations under the Merger Agreement relating to acquisition proposals;

- Group terminates the Merger Agreement because there is any knowing, material and not inadvertent breach of any covenant or agreement made by America West such that closing conditions to Group's obligation to effect the Merger would not be satisfied and that breach is not curable within 60 days of Group providing notice of the breach or failure to America West; or

- America West terminates the Merger Agreement because its board of directors authorizes America West to enter into a binding written agreement concerning a transaction that constitutes a superior proposal.

No termination fee will be payable to Group in the case described in the first bullet point above unless and until:

- any person other than Group acquires, by purchase, sale, assignment, lease, transfer or otherwise, in one transaction or any series of related transactions, within 18 months of that termination, a majority of the voting power of America West's outstanding securities or all or substantially all of the assets of America West or enters into an agreement with America West for such an acquisition within 18 months of that termination; or

- a merger, consolidation or similar business combination is completed between America West or one of its subsidiaries and such an acquiring party within that 18 month period.

If America West fails to promptly pay the Group Termination Fee and related expenses and, in order to obtain that payment, Group or Barbell commences a lawsuit which results in judgment against America West for the Group Termination Fee or related expenses, then America West will pay Group or Barbell its costs and expenses, including attorneys' fees, in connection with the lawsuit with interest on the delinquent Group Termination Fee at Citibank's prime rate effective at the time the Group Termination Fee was due. If the Group Termination Fee and/or out-of-pocket expenses are paid by America West, those amounts will be Group's and Barbell's sole and exclusive remedy for monetary damages under the Merger Agreement.

(ii) *The America West Termination Fee*

Group will promptly, but in no event later than two days after the date of termination, pay to America West the America West Termination Fee, if:

- America West terminates the Merger Agreement because Group, without the consent of America West, enters into or seeks authority from the Court to enter into, or does not object to efforts by any other party to have Group enter into, a binding written agreement concerning any qualified competing plan proposal;

- America West terminates the Merger Agreement because Group knowingly and materially and not inadvertently breaches its obligations under the Merger Agreement relating to acquisition proposals;

- America West terminates the Merger Agreement because Group withdraws the Plan after it has been filed with the Court, Group ceases to seek actively to have the Plan confirmed by the Court, or does not actively contest efforts by another person to cause the Plan not to be so confirmed, or 20 days after the Court enters an order denying confirmation of the Plan;

- America West terminates the Merger Agreement because the Merger and the transactions contemplated under the Merger Agreement have not been determined by the Court to be the approved proposal within 45 days after the entry of the Bidding Procedures Order by the Court, or within the applicable extension of that time period;

- Group terminates the Merger Agreement because its board of directors authorizes Group to enter into a binding written agreement concerning a transaction that constitutes an approved proposal; or

- America West terminates the Merger Agreement because there is any knowing, material and not inadvertent breach of any covenant or agreement made by Group such that closing conditions to America West's obligation to effect the Merger would not be satisfied and that breach is not curable within 60 days of America West providing notice of that breach or failure to Group.

If Group fails to promptly pay the America West Termination Fee and related expenses and, in order to obtain that payment, America West commences a lawsuit which results in judgment against Group for the America West Termination Fee or related expenses, then Group will pay America West its costs and expenses, including attorneys' fees, in connection with the lawsuit with interest on the delinquent America West Termination Fee at Citibank's prime rate effective at the time the America West Termination Fee was due. If the America West Termination Fee and/or out-of-pocket expenses are paid by Group, those amounts will be America West's sole and exclusive remedy for monetary damages under the Merger Agreement. However, notwithstanding the preceding sentence, in the event that the Merger Agreement is validly terminated by America West in the case described in the second bullet point above, then in addition to Group paying the America West Termination Fee, America West is also entitled to seek any other additional remedy at law or equity, including, but not limited to, injunctive relief from the Court and damages sustained by America West (to the extent the amount of those damages exceeds $15 million).

(iii) *Bankruptcy Treatment of the America West Termination Fee*

In event that America West becomes entitled to be paid the America West Termination Fee, such claim will be treated as an administrative priority expense pursuant to Sections 503(b) and 507(a)(1) of the Bankruptcy Code, without the need for any application, motion or further Court order, payable within two business days of the event triggering the payment, in accordance with the terms of the Merger Agreement. If the America West Termination Fee is paid to America West, then America West shall not be entitled to assert any other claim against the Debtors or their estates related to the Merger Agreement; provided, however, that if the Debtors "knowingly and materially and not inadvertently" breached any of their obligations under Section 4.4 of the Merger Agreement (primarily relative to the exclusivity of the transaction) America West may, at its option, pursuant to Section 6.5(d) of the Merger Agreement, attempt to prove and recover damages in excess of the termination fee as well as seek injunctive or other equitable relief.

## D. Equity Investments from the Plan Investors

An integral part of the Merger is the investment of $500 million in new equity by the five Plan Investors: Eastshore Aviation, LLC ("Eastshore"), ACE Aviation Holdings Inc. ("ACE"), Par Investment Partners, L.P. ("Par"), Peninsula Investment Partners, L.P. ("Peninsula"), and Wellington Management Company, LLP (as investment advisor to each investor listed on Schedule 1 to the Wellington Investment Agreement) ("Wellington").

Eastshore is an investment entity affiliate of Air Wisconsin that has extended junior debtor-in-possession financing to the Debtors in the amount of $125 million, which is convertible to equity in the form of 8,333,333 shares of New Common Stock upon consummation of the Merger and the Effective Date. ACE is the corporate parent of Air Canada and its affiliates, and will invest $75 million in exchange for 5,000,000 shares of New Common Stock. Par is a Boston-based equity fund that controls a $1 billion portfolio. Par will invest not less than $100,000,005 in exchange for 6,768,485 shares of New Common Stock. Peninsula is a Virginia-based investment firm that will invest not less than $49,999,995 in exchange for 3,333,333 shares of New Common Stock. A group of investors under the management of Wellington, a Boston-based investment management firm, will invest $149,999,850 in exchange for 9,090,900 shares of New Common Stock. The Debtors' agreements with each of the Plan Investors are described below.

*1. Eastshore Junior Debtor-in-Possession Financing and Investment Transactions.*

*(a) Junior Debtor-in-Possession Financing*

On February 18, 2005, the Debtors entered into the Junior Debtor-in-Possession Credit Facility Agreement (the "Eastshore Financing Agreement") with Eastshore, an investment entity affiliate of Air Wisconsin Airlines Corp. ("Air Wisconsin"). The agreement provides for USAI, as Borrower, with the other Debtors as guarantors, to borrow a total of $125 million from Eastshore in three tranches of $75 million, $25 million and $25 million, respectively. The first tranche of $75 million was advanced to USAI on March 1, 2005, following entry of the Bankruptcy Court's order approving the Eastshore Financing Agreement on February 28, 2005, the second tranche of $25 million was advanced on April 4, 2005 and the Debtors intend to draw the third tranche of $25 million in accordance with the terms and conditions of the Eastshore Financing Agreement in August 2005.

The Eastshore Financing Agreement provides that borrowings thereunder will be collateralized by a lien on all assets of the Debtors currently securing the Debtors' obligations to the ATSB Lenders under the ATSB Loan and the ATSB Cash Collateral Order, junior only to such liens of the ATSB Lenders thereon. The Eastshore Financing Agreement further provides that in the event that the Debtors fail to prepay the Eastshore Financing Agreement as provided for therein, the $125 million loan will be repaid with shares of New Common Stock (the "Shares Repayment Alternative").

In consideration of Eastshore's entry into and performance under the Eastshore Financing Agreement, USAI entered into a Jet Services Agreement with Air Wisconsin, whereby the Debtors agreed to accept up to 70 CRJ-200 fifty seat regional jets for flying in the Debtors' system.

The Debtors and Eastshore subsequently reached an agreement on an amendment to the Eastshore Financing Agreement (the "Junior DIP Amendment") and on May 19, 2005, entered into the Eastshore Investment Agreement described below. The Junior DIP Amendment, for the most part, amends the Eastshore Financing Agreement to make appropriate changes resulting from the Merger and the agreements with the other Plan Investors described in this Section III.D and removes certain of the conditions relating to Shares Repayment Alternative and replaces those conditions with the Eastshore Investment Agreement.

*(b) The Eastshore Investment Agreement*

In connection with the Shares Repayment Alternative, the Debtors, America West and Eastshore are parties to an investment agreement (the "Eastshore Investment Agreement"), which was contemplated by the Eastshore Financing Agreement. The Eastshore Investment Agreement provides that upon the Effective Date and concurrent with the closing of the Merger, pursuant to the Shares Repayment Alternative, Group will issue to Eastshore 8,333,333 shares of New Common Stock, and Eastshore will have the right to designate one member of the Board of Directors of Reorganized Group.

Under the Eastshore Investment Agreement, Group and America West will have the right to undertake a right offering of New Common Stock to their existing stakeholders in an amount up to the difference between $650 million and the amount of the investment received from the Plan Investors and any other equity investors. The Debtors intend to effect the Rights Offering for this purpose. On or after the effective date of the Plan, Reorganized Group may issue additional shares of New Common Stock for proceeds in excess of $650 million, provided that (i) the sole use of such proceeds is the redemption or repurchase of equity securities from existing Group and America West stakeholders at a repurchase or redemption price that values the New Common Stock at a price per share no less than the purchase price per share of New Common Stock paid by Eastshore under the Eastshore Investment Agreement, (ii) the aggregate value of the New Common Stock (valued on the same basis as the New Common Stock to be issued pursuant to the Eastshore Investment Agreement) so issued shall not exceed $200,000,000, and (iii) Eastshore is provided the right to purchase, at its option, up to $25,000,000 of such New Common Stock.

The Eastshore Investment Agreement contains customary representations and warranties. Eastshore may terminate the Eastshore Investment Agreement if: (i) closing of the Merger Agreement and the Investment Agreements has not occurred on or before December 31, 2005; (ii) the Merger Agreement shall have been terminated in accordance with its terms on or before December 31, 2005; (iii) the Merger and the transactions contemplated by the Merger Agreement and the Eastshore Investment Agreement shall not have been determined by the Court to be the approved proposal within 65 days after the entry of the Bidding Procedures Order; (iv) Group or America West breaches any material representation, warranty, covenant or agreement under the Eastshore Investment Agreement in any material respect and such breach remains uncured for 30 days following written notice by Eastshore to Group and America West; (v) any of the conditions to Eastshore's obligations under the Eastshore Investment Agreement is not capable of being satisfied; (vi) Group enters into a written agreement or letter of intent or agreement in principle providing for an alternative proposal; or (vii) the Court orders Group to terminate the Eastshore Investment Agreement in order to accept an alternative proposal.

In connection with the Eastshore Transaction, the Debtors have agreed to reimburse Eastshore for its reasonable out-of-pocket expenses in an amount not to exceed $350,000, including the reasonable fees, charges and disbursements of Eastshore's counsel, plus filing fees incurred in connection with any required filings under the HSR Act.

*2. The ACE Agreements.*

Group and ACE are parties to an investment agreement (the "ACE Investment Agreement"). In addition, America West, Group and ACE (or subsidiaries of ACE) are parties to four separate memoranda of understanding relating to definitive commercial agreements to be entered into on market terms in an effort to capitalize on synergies that exist among America West, Group and ACE (the "ACE Synergy Agreements").

*(a) The ACE Synergy Agreements*

Through the ACE Synergy Agreements, America West, Group and ACE will each obtain various benefits as a result of services, goods, or traffic provided by the other. The ACE Synergy Agreements are comprised of the following memoranda of understanding:

- A memorandum of understanding among Air Canada Technical Services ("ACTS"), AWA and USAI in anticipation of definitive agreements under which ACTS will, consistent with prior existing constraints, have the opportunity to provide for a term of five years all aircraft, engine, aircraft component, and aircraft heavy maintenance for AWA and USAI to the extent that it can do so on a competitive basis versus other providers taking into consideration price, terms and conditions. As part of these arrangements, ACTS will have a right of first offer with respect to maintenance related facilities or equipment to be sold by AWA or USAI. The parties will also enter into an agreement under which ACTS will subcontract with AWA and USAI to provide on-call aircraft maintenance services to Air Canada in the United States and AWA and USAI will contract with ACTS to provide each of them with on-call aircraft maintenance services in Canada'

- A memorandum of understanding among ACE, America West and Group under which, in the event that Reorganized Group plans to increase the number of 70 or 90 seat regional jet U.S. – Canada trans-border flights operated as US Airways Express or America West Express, then Air Canada Jazz will have the right, for a period of five years from the date of the closing to provide those flights using its 70 or 90 seat jet aircraft provided that Air Canada Jazz is competitive on price, terms and conditions and subject to entry into a definitive agreement thereon comparable to those in effect with carriers operating as US Airways Express or America West Express as well as obtaining necessary regulatory and labor approvals.

- A memorandum of understanding among ACE, AWA and USAI in anticipation of and subject to entry into definitive agreements for five-year terms, but not beyond five years from the date of the closing, under which each of AWA and USAI may provide certain airport facilities and ground handling services in the United States to ACE and under which ACE may provide certain ground handling services in Canada to AWA and USAI.

- A memorandum of understanding among ACE, AWA and USAI in anticipation of a definitive agreement under which each will operate flights under the others' codes, commonly known as a "code share agreement."

Although certain aspects of the ACE Synergy Agreements may be implemented prior to the consummation of the Merger, all of these agreements will be terminable by the Debtors and America West if ACE does not make an investment of $75 million into the Reorganized Debtors. Although the code share agreement is subject to regulatory approval, and the investment by ACE is not conditioned on obtaining such regulatory approval, the Debtors believe that it is highly likely that such approval will be obtained.

*(b) The ACE Investment Agreement*

The ACE Investment Agreement provides that upon the effective date of the Plan and concurrent with the closing of the Merger, ACE will invest not less than $75 million in Reorganized Group (the "ACE Investment"). In exchange for the ACE Investment, Reorganized Group will issue to ACE 5,000,000 shares of New Common Stock, and ACE will have the right to designate one member of the Board of Directors of Reorganized Group, subject to certain conditions.

Under the ACE Investment Agreement, Group and America West will have the right to undertake a rights offering of New Common Stock to their existing stakeholders in an amount up to the difference between $650 million and the amount of the investment received from the Plan Investors and any other equity investors. The Debtors intend to effect the Rights Offering for this purpose. On or prior to the effective date of the Plan, Group may issue additional shares of New Common Stock for proceeds in excess of $650 million, provided that (i) the sole use of such proceeds is the redemption or repurchase of equity securities from existing Group and America West stakeholders at a repurchase or redemption price that values the New Common Stock at a price per share no less than the purchase price per share of New Common Stock paid by ACE under the ACE Investment Agreement, (ii) the aggregate value of the New Common Stock (valued on the same basis as the New Common Stock to be issued pursuant to the ACE Investment Agreement) so issued shall not exceed $200,000,000, and (iii) ACE is provided the right to purchase, at its option, up to $15,000,000 of such New Common Stock.

The ACE Investment Agreement contains customary representations and warranties, and funding by ACE will be subject to customary closing conditions and satisfaction or waiver of certain specific closing conditions. The Debtors have agreed to reimburse ACE for its reasonable out-of-pocket expenses incurred in connection with the ACE Agreements, as set forth in the ACE Investment Agreement, in an amount not to exceed $350,000 plus filing fees incurred in connection with any required filings under the HSR Act.

ACE may terminate the ACE Investment Agreement if: (i) closing of the Merger Agreement and the Investment Agreements has not occurred on or before December 31, 2005; (ii) the Merger Agreement has been terminated in accordance with its terms on or before December 31, 2005; (iii) the Merger and the Investment Agreements have not been determined by the Court to be the approved proposal by sixty-five (65) days after entry of the Bidding Procedures Order; (iv) Group or America West breaches any material representation, warranty, covenant or agreement under the ACE Investment Agreement in any material respect and such breach remains uncured for 30 days following written notice by ACE to Group and America West; (v) any of the conditions to ACE's obligations under the ACE Investment Agreement is not capable of being satisfied; (vi) Group enters into a written agreement or letter of intent or agreement in principle providing for an alternative proposal; or (vii) the Court orders Group to terminate the ACE Investment Agreement in order to accept an alternative proposal.

If (i) the transactions contemplated by the ACE Investment Agreement are not consummated, (ii) ACE is not in breach of the ACE Investment Agreement, and (iii) an alternative transaction is consummated, ACE will be entitled to receive a break-up fee equal to $2,250,000 (the "ACE Break-Up Fee").

*3. The Par Investment Agreement.*

The Debtors, America West and Par are parties to an investment agreement (the "Par Investment Agreement"). The Par Investment Agreement provides that upon the Effective Date and concurrent with the closing of the Merger, Par will invest not less than $100,000,005 in Reorganized Group (the "Par Investment"). In exchange for the Par Investment, Reorganized Group will issue to Par 6,768,485 shares of New Common Stock, and Par will have the right to designate one member of the Board of Directors of Reorganized Group.

Under the Par Investment Agreement, Group and America West will have the right to undertake a rights offering of New Common Stock to their existing stakeholders in an amount up to the difference between $650 million and the amount of the investment received from the Plan Investors and any other equity investors. The Debtors intend to effect the Rights Offering for this purpose. On or after the effective date of the Plan, Reorganized Group may issue additional shares of New Common Stock for proceeds in excess of $650 million, provided that (i) the sole use of such proceeds is the redemption or repurchase of equity securities from existing Group and America West stakeholders at a repurchase or redemption price that values the New Common Stock at a price per share no less than the purchase price per share of New Common Stock paid by Par under the Par Investment Agreement, (ii) the aggregate value of the New Common Stock (valued on the same basis as the New Common Stock to be issued pursuant to the Par Investment Agreement) so issued shall not exceed $200,000,000, and (iii) Par is provided the right to purchase, at its option, up to $20,000,000 of such New Common Stock.

The Par Investment Agreement contains customary representations and warranties, and funding by Par will be subject to customary closing conditions and satisfaction and waiver of certain specific closing conditions. The Debtors have agreed to reimburse Par for its reasonable out-of-pocket expenses incurred in connection with the Par Transaction, as set forth in the Par Investment Agreement, in an amount not to exceed $350,000 plus filing fees incurred in connection with any required filings under the HSR Act.[3]

Par may terminate the Par Investment if: (i) closing of the Merger Agreement and the Investment Agreements has not occurred on or before December 31, 2005; (ii) the Merger Agreement has been terminated in accordance with its terms on or before December 31, 2005; (iii) the Merger and the Investment Agreements have not been determined by the Bankruptcy Court to be the approved proposal within sixty-five (65) days after entry of the Bidding Procedures Order; (iv) Group or America West breaches any material representation, warranty, covenant or agreement under the Par Investment Agreement in any material respect and such breach remains uncured for 30 days following written notice by Par to Group and America West; (v) any of the conditions to Par's obligations under the Par Investment Agreement is not capable of being satisfied; (vi) Group enters into a written agreement or letter of intent or agreement in principle providing for an alternative proposal; or (vii) the Court orders Group to terminate the Par Investment Agreement in order to accept an alternative proposal.

As set forth in the Par Investment Agreement, if (i) the transactions contemplated by the Par Investment Agreement are not consummated, (ii) Par is not in breach of the Par Investment Agreement, and (iii) an alternative transaction is consummated pursuant to a plan of reorganization, Par will be entitled to receive a break-up fee equal to $3,000,000 (the "Par Break-Up Fee").

*4. The Peninsula Investment Agreement.*

The Debtors, America West and Peninsula are parties to an investment agreement (the "Peninsula Investment Agreement"). The Peninsula Investment Agreement provides that upon the Effective Date and concurrent with the closing of the Merger, Peninsula will invest not less than $49,999,995 in Reorganized Group (the "Peninsula Investment"). In exchange for the Peninsula Investment, Reorganized Group will issue to Peninsula 3,333,333 shares of New Common Stock.

Under the Peninsula Investment Agreement, Group and America West will have the right to undertake a rights offering of New Common Stock to their existing stakeholders in an amount up to the difference between $650 million and the amount of the investment received from the Plan Investors and any other equity investors. The Debtors intend to effect the Rights Offering for this purpose. On or after the effective date of the Plan, Reorganized Group may issue additional shares of New Common Stock for proceeds in excess of $650 million, provided that (i) the sole use of such proceeds is the redemption or repurchase of equity securities from existing Group and America West stakeholders at a repurchase or redemption price that values the New Common Stock at a price per share no less than the purchase price per share of New Common Stock paid by Peninsula under the Peninsula Investment Agreement, (ii) the aggregate value of the New Common Stock (valued on the same basis as the New Common Stock to be issued pursuant to the Peninsula Investment Agreement) so issued shall not exceed $200,000,000, and (iii) Peninsula is provided the right to purchase, at its option, up to $10,000,000 of New Common Stock.

The Peninsula Investment Agreement contains customary representations and warranties, and funding by Peninsula will be subject to customary closing conditions and satisfaction and waiver of certain

[3] In connection with the Par Investment Agreement, Par and America West entered into a Participation Agreement that provides for sharing of additional stock allocable to America West in the event that Par is replaced by a different financial investor.

specific closing conditions. The Debtors have agreed to reimburse Peninsula for its reasonable out-of-pocket expenses relating to the enforcement of Peninsula's rights under the Term Sheet dated May 9, 2005, the Peninsula Investment Agreement, and/or the Stockholders Agreement (described below), plus filing fees incurred in connection with any required filings under the HSR Act. [4]

Peninsula may terminate the Peninsula Transaction if: (i) closing of the Merger Agreement and the Investment Agreements has not occurred on or before December 31, 2005; (ii) the Merger Agreement has been terminated in accordance with its terms on or before December 31, 2005; (iii) the Merger and the Investment Agreements have not been determined by the Bankruptcy Court to be the approved proposal within sixty-five (65) days after entry of the Bidding Procedures Order; (iv) Group or America West breaches any material representation, warranty, covenant or agreement under the Peninsula Investment Agreement in any material respect and such breach remains uncured for 30 days following written notice by Peninsula to Group and America West; (v) any of the conditions to Peninsula's obligations under the Peninsula Investment Agreement is not capable of being satisfied; (vi) Group enters into a written agreement or letter of intent or agreement in principle providing for an Alternative Proposal; or (vii) the Court orders Group to terminate the Peninsula Investment Agreement in order to accept an Alternative Proposal.

As set forth in the Peninsula Investment Agreement, if (i) the transactions contemplated by the Peninsula Investment Agreement are not consummated, (ii) Peninsula is not in breach of the Peninsula Investment Agreement, and (iii) an alternative transaction is consummated pursuant to a plan of reorganization, Peninsula will be entitled to receive a break-up fee equal to $1,500,000 (the "Peninsula Break-Up Fee," and collectively with the America West Termination Fee, the Group Termination Fee, the Par Break-Up Fee, and the ACE Break-Up Fee, the "Break-Up Fees").

*5. The Wellington Investment Agreement.*

The Debtors, America West, and Wellington are parties to an investment agreement (the "Wellington Investment Agreement") which provides for several investor funds to make an aggregate equity investment of $150 million in exchange for 9,090,900 shares of New Common Stock. The terms of the Wellington Investment Agreement, including but not limited to the parties' covenants, representations and warranties, are substantially similar to the investment agreements between Group and each of ACE, Eastshore, Par and Peninsula (the "Other Investment Agreements"), which are described above. The Other Investment Agreements, as well as certain additional agreements or term sheets to provide liquidity for purposes of the Plan, are conditioned upon a minimum equity raise of $375 million or $500 million, depending on the particular arrangement. Accordingly, the additional $150 million commitment from Wellington would allow the Debtors to meet their minimum equity raise obligations under all such agreements.

The Wellington Investment Agreement differs from the Other Investment Agreements in the following material respects:

- Per Share Purchase Price: Wellington will purchase new common stock at a per share purchase price of $16.50 per share, compared to the $15.00 per share price set forth in the Other Investment Agreements.

- Board Representation: Wellington will not be entitled to designate a director to Reorganized Group's board of directors.

- Break-Up Fee: Wellington will not be entitled to payment of a break-up fee.

[4] In connection with the Peninsula Investment Agreement, Peninsula and America West entered into a Participation Agreement that provides for sharing of additional stock allocable to America West in the event that Peninsula is replaced by a different financial investor.

- Expense Reimbursement: The Debtors have agreed to reimburse certain of Wellington's expenses in connection with the Wellington Investment in an amount not to exceed the sum of (i) $150,000 plus (ii) filing fees incurred in connection with filings under the HSR Act.

Other terms of the Wellington investment Agreement differ from the terms of the Other Investment Agreements only to the extent necessary to reflect the amount of the Wellington Investment. As noted above, the Wellington investment will be included as part of the Debtors' Plan funding proposal. Accordingly, the investor funds under the Wellington Investment Agreement will be deemed to be and will be treated as Plan Investors, subject to the specific provisions of the Wellington Investment Agreement. The Wellington Investment is subject to overbid under the terms of the Bidding Procedures and the Bidding Procedures Order.

*6. The Stockholders Agreement.*

The Investment Agreements contemplate that, at the closing of the Merger, each Plan Investor and Group will enter into the Stockholders Agreement. The Stockholders Agreement will provide that, subject to certain exceptions, each Plan Investor will agree not to transfer any of the shares of New Common Stock acquired pursuant to the Investment Agreements until six months following the closing under the Investment Agreements and that Reorganized Group will provide certain customary registration rights to the Plan Investors. The Stockholders Agreement will also provide for the appointment of up to three individuals designated by certain of the Plan Investors to be appointed to the board of directors of Reorganized Group as of the effective time of the Merger for a three-year term. In the case of ACE, the Stockholders Agreement will provide that (i) for so long as ACE holds at least 66.67% of the number of shares of New Common Stock acquired pursuant to its Investment Agreement, referred to as the ACE director threshold, ACE will be entitled to designate a director nominee for successive three-year terms, and (ii) if ACE falls below the ACE director threshold, ACE will cause its director designee to resign from the board of directors. In the case of the Plan Investors other than ACE who are entitled as of the effective time of the Merger to designate a director to the board of directors of Reorganized Group, the Stockholders Agreement will provide that (i) for so long as that Investor holds at least 35% of the number of shares of New Common Stock acquired pursuant to its Investment Agreement, referred to as the designating investor threshold, that Plan Investors will be entitled to designate a director nominee for successive three-year terms, and (ii) if any such Plan Investors falls below the designating director threshold, the designee of that Plan Investors will serve the remainder of that designee's term as a director, but that Plan Investors will no longer have the right to designate a director nominee under the Stockholders Agreement.

The following table sets forth certain information regarding the potential ownership of New Common Stock following the Merger and consummation of the Plan. The table sets forth the potential ownership (1) on a primary basis, (2) reflecting the impact of certain securities that are dilutive at the buy-in price paid by the Plan Investors, and (3) on a fully diluted basis assuming all equity securities are exercised or converted. This information is provided to describe what security holders or groups of security holders may beneficially own significant amounts of New Common Stock. Because many of the variables underlying the assumptions used to develop this table are out of the control of the Debtors or America West, it is impossible to predict what the ownership interest of any particular security holder or group will be in New Common Stock following the Merger. Parties-in-interest should read carefully the footnotes to this table in order to understand the many assumptions underlying the information in the table. The following information does not include any shares issued in the Rights Offering.

| Group | Primary Shares | | Anticipated Fully Diluted Shares (1) | | Fully Diluted Shares (2) | |
|---|---|---|---|---|---|---|
| | **Shares** | **%** | **Shares** | **%** | **Shares** | **%** |
| New Convertible Note (3) | -- | -- | -- | -- | 5,224,660 | 6% |
| Group creditors (4) | 8,212,121 | 15% | 8,212,121 | 12% | 8,212,121 | 10% |
| Group Total | 8,212,121 | 15% | 8,212,121 | 12% | 13,436,782 | 16% |
| **America West** (5) | | | | | | |
| Class A shares outstanding (6) | 460,686 | 1% | 460,686 | 1% | 460,686 | 1% |
| Class B shares outstanding (7) | 14,504,339 | 26% | 14,504,339 | 22% | 14,504,339 | 18% |
| 7.25% convertible note (8) | -- | -- | 5,606,196 | 8% | 5,606,196 | 7% |
| Warrants (9) | -- | -- | 4,542,319 | 7% | 8,122,683 | 10% |
| Options (10) | -- | -- | 741,646 | 1% | 4,280,725 | 5% |
| 7.5% convertible notes (11) | -- | -- | -- | -- | 3,860,163 | 5% |
| America West Total | 14,965,025 | 27% | 25,855,186 | 39% | 36,834,792 | 44% |
| **Plan Investors** | | | | | | |
| Eastshore | 8,333,333 | 15% | 8,333,333 | 13% | 8,333,333 | 10% |
| Par (12) | 6,768,485 | 12% | 6,768,485 | 10% | 6,768,485 | 8% |
| ACE | 5,000,000 | 9% | 5,000,000 | 8% | 5,000,000 | 6% |
| Peninsula | 3,333,333 | 6% | 3,333,333 | 5% | 3,333,333 | 4% |
| Wellington (13) | 9,090,900 | 16% | 9,090,900 | 14% | 9,090,900 | 11% |
| Total Plan Investors | 32,526,051 | 58% | 32,526,051 | 49% | 32,526,051 | 39% |
| **Total** | **55,703,197** | **100%** | **66,693,358** | **100%** | **82,797,624** | **100%** |

Percentages may not total 100% due to rounding

(1) This column includes the primary shares outstanding plus the dilutive impact of only those dilutive securities that are dilutive at the per share price paid by the Plan Investors, including the America West 7.25% convertible notes and America West warrants and exercisable options. America West dilutive securities represent fully diluted shares using the treasury stock method of accounting (i.e. assuming proceeds are used to repurchase outstanding shares) assuming a price of $16.50 per share of New Common Stock (the price paid by the most recent Plan Investor) and a conversion factor of 0.4125 of a share of New Common Stock for each share of America West Class B common stock.

(2) Fully diluted shares represent primary shares outstanding plus additional shares assuming all convertible notes, options and warrants are converted or exercised for shares of New Common Stock. America West dilutive securities represent fully diluted gross shares and a conversion factor of 0.4125 of a share of New Common Stock for each such share of America West Class B common stock.

(3) The $125 million GE convertible notes are convertible at a price that will be determined at a future date. The contractual conversion price will be 40 to 50% premium to the average of the closing price of New Common Stock for the first 60 days of trading following emergence from bankruptcy. Shares are estimated assuming conversion at a 45% premium and assuming a 60 day average price per share of New Common Stock of $16.50.

(4) Includes shares of New Common Stock issuable to ALPA. See Section VIII.C.20. The total shares of New Common Stock shown in the table will not be issued as of completion of the Merger, because not all of the creditors' claims will be finally resolved at that time. While the total number of shares of New Common Stock available to creditors will be fixed, it is impossible to determine when the claims process will be finalized. Shares allocated to certain Group creditors includes an allotment of excess shares resulting from the $150 million Wellington investment at $16.50 per share of New Common Stock.

(5) Share count of America West Class A and Class B common shares, warrants and options include a pro-rata allotment of 261,818 excess shares resulting from the $150 million Wellington investment at $16.50 per share of New Common Stock.

(6) Class A common shares outstanding at closing is based on 859,117 shares of America West Class A common stock outstanding and a conversion rate of 0.5362 of a share of New Common Stock per share of America West Class A common stock.

(7) Class B common shares outstanding at closing is based on 35,163,191 shares of America West Class B common stock outstanding and a conversion rate of 0.4125 shares of New Common Stock per share of America West Class B common stock.

(8) America West's 7.25% convertible notes are convertible at $10.73 per share of America West Class B common stock and contain a change-of-control feature that allows the noteholders to put the notes for all outstanding principal and accrued interest, totaling $87.9 million based on an assumed closing date of September 30, 2005. America West may satisfy the put with equity at a price per share that is 95% of the market price of New Common Shares. This market price is assumed to be $16.50 per share of New Common Stock, which would result in 5,606,196 shares being issued to the noteholders.

(9) Assumes that America West warrants are exercised at a strike price of $7.27 per share of New Common Stock. At the assumed closing price of $16.50 per share of New Common Stock, under the treasury stock method of accounting, the warrants would be exercisable for 4,542,319 shares.

(10) America West options are shown on a fully diluted basis assuming all options are exercised for shares of New Common Stock. At March 31, 2005, America West had 10,377,861 outstanding options with a weighted average exercise price of $9.54 per share

of America West Class B common stock. At the assumed closing price of $16.50 per share of New Common Stock, under the treasury stock method of accounting, the options would be exercisable for 741,646 shares.

(11) Assumes conversion of the America West 7.5% convertible notes at a conversion price of $29.09 per share of New Common Stock.

(12) Assumes that 101,818 excess shares resulting from the Wellington per share price of $16.50 per share of New Common Stock are allocated to Par, per its Investment Agreement, in addition to the 6,666,667 shares allocated for Par's primary investment of $100 million at $15.00 per share of New Common Stock.

(13) Represents a group of investors under the management of Wellington Management Company, LLP, a Boston-based investment firm.

## E. The Rights Offering

In connection with the Plan, Group intends to make a rights offering to raise up to $150 million pursuant to a registration statement on Form S-1 under the Securities Act (the "Rights Offering Registration Statement"). Pursuant to the Rights Offering, Group will issue at no charge (i) transferable rights to purchase up to 3,500,000 shares of New Common Stock at a price of $16.50 per share, to the holders of shares of America West Class A and Class B common stock and (ii) non-transferable rights to purchase up to 5,590,909 shares of New Common Stock at a price of $16.50 per share to certain unsecured creditors of the Debtors entitled to vote on the Plan, with certain exceptions as specified in the Plan. A copy of the prospectus comprising a part of the Rights Offering Registration Statement is attached hereto as Appendix J.

In addition, each holder of rights may also subscribe for additional shares, [up to a maximum of __ times the amount of that holder's basic subscription privilege,] at the same exercise price per share pursuant to an oversubscription privilege. If an insufficient number of shares are available to fully satisfy oversubscription privilege requests, the available shares, if any, will be allocated pro rata among holders of rights who exercised their oversubscription privilege based upon the number of shares each holder subscribed for under the basic subscription privilege. The rights agent will return any excess payments, without interest or deduction, as soon as is reasonably practicable following the expiration of the Rights Offering.

The issuance of shares in the Rights Offering is conditioned, among other things, on completion of the Merger. However, as set forth in the Rights Offering Registration Statement, persons entitled to participate in the Rights Offering are not required to vote for the Merger proposal in order to be permitted to exercise rights in the Rights Offering. Additionally, the Debtors reserve the right to determine not to proceed with the Rights Offering or to terminate it at any time. Accordingly, for purposes of voting on the Plan, holders of Claims in Class-9 should assume that they will not receive the right to participate in the Rights Offering.

## F. Combined Company Following the Merger

### *1. Overview.*

Following the implementation of the Plan, including the Merger and the new equity investments and other related transactions, the Reorganized Debtors and America West will operate under the single brand name of US Airways through their two principal operating subsidiaries, USAI and AWA. The Debtors and America West expect to integrate these two subsidiaries into one operation over the 24 months. Reorganized Group will constitute the fifth largest airline operating in the United States as measured by domestic RPMs and by ASMs. Reorganized Group will have primary hubs in Charlotte, Philadelphia and Phoenix, and secondary hubs/focus cities in Pittsburgh, Las Vegas, New York, Washington, D.C. and Boston. After the merger, Reorganized Group will be a low-cost airline offering scheduled passenger service on approximately 3,600 flights daily to 229 cities in the United States, Canada, Mexico, the Caribbean, and Europe. Reorganized Group will operate 361 mainline jets and will be supported by its regional airline subsidiaries and affiliates operating as US Airways Express, which will operate approximately 239 regional jets, of which 83 will be aircraft with 70 or more seats, and approximately 57 turboprops.

The Debtors and America West expect that Reorganized Group will have one of the most competitive cost structures in the airline industry due to cost cutting measures initiated by both companies over the last three years. The Debtors' restructuring activities in their current and prior Chapter 11 bankruptcy proceedings have specifically targeted cost reductions in four main areas. First, the Debtors have achieved important reductions in labor, pension and benefit costs resulting in ratified collective bargaining agreements representing over $2 billion of annual cost savings. Second, the Debtors have put restructuring initiatives in place to reduce overhead, including management payroll, and have revamped its schedule to improve aircraft utilization. Third, the Debtors have renegotiated various contractual obligations, including those related to aircraft, real estate and suppliers, and implemented cost savings such as lowering catering costs. Lastly, the Debtors rationalized their fleet through the elimination of older, less efficient aircraft, the introduction of large regional jet aircraft with low trip costs to better match capacity with demand, and the reduction of the number of mainline aircraft types in order to lower maintenance, inventory and pilot training costs.

Separately, America West has also been able to greatly reduce its operating expenses as a percentage of revenues since 2002. America West instituted programs to reduce management payroll, clerical payroll, travel agency based commissions, incentive programs and override commissions. It has reduced capital expenditures and discretionary expenses, and lowered catering costs. Other initiatives include increasing point-to-point flying at minimal additional costs using aircraft that would otherwise be parked at a gate, which increases daily utilization of aircraft.

In addition to the cost saving initiatives already undertaken by the Debtors and America West, the combination of America West and Group will result in significant annual revenue and cost synergies of approximately $600 million that would be unachievable without completing the Merger. These synergies derive from three principal sources. In anticipation of the Merger, Group has negotiated a reduction in its existing fleet so that the fleet of the combined company suits the expected network. Reorganized Group will be able to schedule the combined fleet to better match aircraft size with consumer demand. By scheduling the reduced fleet more efficiently and by adding new, low-fare service to Hawaii, the Debtors and America West expect to create approximately $175 million in annual operating synergies. They also expect to realize additional annual cost synergies of approximately $250 million by reducing administrative overhead, consolidating information technology systems and combining facilities. Lastly, by becoming one nationwide, low-cost carrier with a global reach that provides more choice for consumers and an improved ability to connect, the Debtors and America West expect to realize approximately $175 million in additional annual revenue.

Group and its subsidiaries currently employ approximately 30,100 people, and America West and its subsidiaries currently employ approximately 14,000 people. After seniority lists have been integrated for each of the combined airlines' unionized labor groups, Reorganized Group expects a single labor contract to apply to each of those groups.

Reorganized Group is expected to operate a mainline fleet of 361 planes (supported by approximately 239 regional jets and approximately 57 turboprops that provide passenger feed into the mainline system), down from a total of 417 mainline aircraft operated by the two airlines as of March 31, 2005. Group has removed an additional 13 aircraft from its fleet through May 31, 2005 and projects removing an additional 35 aircraft by the end of 2006. Reorganized Group is also expected to take delivery by the end of February 2006 of seven Airbus A320 family aircraft previously ordered by AWA. Airbus has also agreed to reconfirm 30 narrow body A320-family aircraft deliveries and reschedule those deliveries from the 2006 to 2008 period to the 2009 to 2010 period. To rationalize international flying, Reorganized Group anticipates working with Airbus to begin transitioning to an all-Airbus widebody fleet of A350 aircraft in 2011.

The Debtors and America West believe the Merger will create one of the industry's most financially stable airlines with approximately $1.5 billion in new liquidity coming from equity investments, the proposed Rights Offering, new cash infusions, commercial partners, asset sales and the release of currently restricted cash.

In addition to $500 million of new equity from the Plan Investors and an additional $150 million of equity financing from the Rights Offering, Reorganized Group will receive approximately $550 million of cash infusions from commercial partners, approximately $100 million from asset-based financings or sales of aircraft and approximately $170 million from release of certain cash reserves that are currently restricted but that should be released as a part of the Plan.

### 2. *Business Strategy.*

#### (a) *Provide Excellent Value to Customers*

Reorganized Group plans to standardize customer service initiatives system-wise and provide a competitive, simplified pricing structure that Reorganized Group expects will provide customers with an excellent value when compared to other low-cost carriers as well as legacy mainline carriers. Reorganized Group is committed to building a successful airline by taking care of its customers and believes that this focus on excellent customer service in every aspect of operations, including personnel, flight equipment, in-flight and ancillary amenities, on-time performance, flight completion ratios and baggage handling, will strengthen customer loyalty, provide excellent value to customers and attract new customers. Further, it is expected that the amenities provided to customer, such as a frequent flyer program, airport clubs, assigned seating and a First Class cabin, will differentiate Reorganized Group from other low-cost carriers.

#### (b) *Continue to Reduce Operating Costs*

After the Merger, Reorganized Group will focus on achieving cost reduction synergies that it expects to realize from the Merger. Key areas where cost reductions can be achieved as a result of the Merger include overhead costs, in-sourcing of information technology solutions where America West has existing capabilities, airport savings through better use of gates and employees in airports both America West and Group serve today, and eliminating redundant facilities such as office space and hangars. It is expected that these initiatives will achieve approximately $250 million in annual savings once fully implemented. In addition, Reorganized Group also plans to increase aircraft use to increase flying and reduce unit costs.

#### (c) *Leverage Broader Route Network and Rationalize Fleet*

Reorganized Group is expected to achieve annual savings of approximately $175 million from rationalizing its fleet, rescheduling its operations, and adding new, low-fare service to Hawaii. As a result of the Merger, Reorganized Group plans to combine the current regional strengths of both America West on the West Coast and Group on the East Coast to provide a comprehensive product offering more attractive to customers. Reorganized Group also plans to make more efficient use of its nationwide network by coordinating the schedules to and from the hubs and secondary hubs/focus cities of both airlines to create a significantly greater number of flight connections across the route network. Similarly, Reorganized Group will be able to optimize the utilization of its aircraft and employees. For instance, aircraft of one airline that today would have to sit idle awaiting the next scheduled departure could be utilized after the Merger along existing routes of the other airline to increase daily utilization.

In anticipation of the Merger, Group has negotiated a reduction to its existing fleet so that the fleet of Reorganized Group suits the expected route network and so that the introduction of new aircraft will be timed to coincide with the expiration of existing aircraft leases. Reorganized Group will also seek to reschedule the combined fleet to better match aircraft size with consumer demand. For example, in some markets that Group currently serves with a Boeing 737 aircraft, that service is expected to be replaced with a 90-seat regional jet that is currently operated in America West's system. In addition, new America West aircraft are expected to be placed into service on flights out of current Group hubs. Furthermore, Boeing 757 aircraft service is expected to be initiated to Hawaii, which neither airline currently serves. These changes are expected to generate revenue benefits of approximately $175 million.

*(d) Prudent Integration of America West's and Group's Operations*

While management will move quickly to try to provide a seamless integration for consumers, Reorganized Group expects to achieve full labor and operational integration of AWA and USAI over a 24 month period. It is expected that this timeframe will allow Reorganized Group to resolve the critical labor and systems issues necessary to achieve full integration. Reorganized Group will operate under a single brand name of US Airways while AWA and USAI maintain separate operating certificates for this 24 month period. Group and America West believe that the majority of the synergy value can be realized through the rapid integration of routes, schedules, pricing, other marketing initiatives and overhead reductions.

## IV. DESCRIPTION OF THE DEBTORS

### A. Overview of Business Operations

Group is a corporation organized under the laws of the State of Delaware. Group's executive offices are located at 2345 Crystal Drive, Arlington, Virginia 22227. Group's internet address is www.usairways.com.

Group's primary business activity is the operation of a major network air carrier through its ownership of the common stock of US Airways, Inc. ("USAI"), Piedmont Airlines, Inc., PSA Airlines, Inc., Material Services Company, Inc., Airways Assurance Limited, and, until July 1, 2004, Allegheny Airlines, Inc. Effective July 1, 2004, Allegheny Airlines merged with Piedmont Airlines, with Piedmont Airlines as the surviving entity.

As discussed in more detail below, on September 12, 2004, Group and its domestic subsidiaries, which account for substantially all of the operations of Group, commenced the Chapter 11 Cases.

USAI, which is also a corporation organized under the laws of the State of Delaware, is Group's principal operating subsidiary. USAI is a certificated air carrier engaged primarily in the business of transporting passengers, property and mail. USAI enplaned approximately 42 million passengers in 2004 and was the seventh largest U.S. air carrier based on ASMs. As of March 31, 2005, USAI operated 279 jet aircraft and 25 regional jet aircraft and provided regularly scheduled service at 101 airports in the continental United States, Canada, the Caribbean, Latin America and Europe.

Certain air carriers have code share arrangements with USAI to operate under the trade name US Airways Express. Typically, under a code share arrangement, one air carrier places its designator code and sells tickets on the flights of another air carrier, referred to as its code share partner. US Airways Express carriers are an integral component of USAI's operating network. Due to the relatively small local traffic base at some of its hubs, USAI has historically relied heavily on feed traffic from its US Airways Express affiliates, which carry passengers from low-density markets that are uneconomical for USAI to serve with large jets, to USAI's hubs. As of March 31, 2005, the US Airways Express network operated 156 regional jet aircraft and 107 turboprop aircraft and served 133 airports in the continental United States, Canada and the Bahamas, including 51 airports also served by USAI. During 2004, US Airways Express air carriers enplaned approximately 15.2 million passengers, approximately 48% of whom connected to Group's flights. Of these 15.2 million passengers, approximately 6.2 million were enplaned by Group's wholly owned regional airlines, approximately 7.4 million were enplaned by third-party carriers operating under capacity purchase agreements and approximately 1.6 million were enplaned by carriers operating under prorate agreements, as described below.

The US Airways Express code share arrangements are either in the form of capacity purchase or prorate agreements. The two wholly owned regional airlines and the regional jet affiliate operators are capacity purchase relationships. PSA operated 49 regional jets as of March 31, 2005, while Piedmont operated 57 turboprop aircraft as of March 31, 2005. The regional jet affiliates with capacity purchase agreements are Chautauqua Airlines, Inc., which operated 35 regional jets as US Airways Express as of March 31, 2005; Mesa Airlines, Inc., which operated 59 regional jets as US Airways Express as of March 31, 2005; and Trans States Airlines, Inc., which operated 13 regional jets as US Airways Express as of March 31, 2005. Air Wisconsin Airlines Corporation will also begin operating regional jets under a capacity purchase agreement in August 2005. The capacity purchase agreements provide that all revenues, including passenger, mail and freight revenues, go to USAI. In return, USAI agrees to pay predetermined fees to these airlines for operating an agreed upon number of aircraft, without regard to the number of passengers on board. In addition, these agreements provide that certain variable costs, such as fuel and airport landing fees, will be reimbursed 100% by USAI. USAI controls marketing, scheduling, ticketing, pricing and seat inventories. The regional jet capacity purchase agreements have expirations from 2008 to 2013 and provide for optional extensions at Group's discretion. Certain other regional jet agreements are expected to be amended as a result of the Air Wisconsin agreement. The carriers with prorate agreements are non-owned turboprop operators and include all or a portion of the turboprop operations of Colgan Airlines, Inc., which operated 28 turboprops as US Airways Express as of March 31, 2005, Trans States Airlines, Inc., which operated 8 turboprops as US Airways Express as of March 31, 2005, and Air Midwest, Inc., which operated 14 turboprops as US Airways Express as of March 31, 2005. The prorate agreements provide for affiliate carriers to pay certain service fees to USAI as well as to receive a prorated share of revenue for connecting customers. USAI is responsible for pricing and marketing of connecting services to and from the prorate carrier. The prorate carrier is responsible for pricing and marketing the local, point to point markets, and is responsible for all costs incurred operating the aircraft. All US Airways Express carriers use USAI's reservation systems, and have logos, service marks, aircraft paint schemes and uniforms similar to those of USAI.

In April 2004, MidAtlantic Airways, USAI's new regional jet division, began operating as part of the US Airways Express network. As of March 31, 2005, MidAtlantic Airways operates 25 Embraer ERJ-170 regional jets with 72 seats. MidAtlantic Airways served approximately one million passengers in 2004. On June 23, 2005, USAI exercised its option under its agreement with Republic Airways Holdings, Inc. ("Republic") and Wexford Capital LLC to sell the assets of MidAtlantic Airways, including the regional jets, a flight simulator and certain commuter slots at Ronald Reagan Washington National Airport and New York LaGuardia International Airport. If the sale is completed, Republic will operate the aircraft as a US Airways Express carrier under a capacity purchase agreement and will lease the slots back to USAI.

Group's major connecting hubs are at airports in Charlotte and Philadelphia. Group also has substantial operations at Boston's Logan International Airport, New York's LaGuardia International Airport, Pittsburgh International Airport, and Washington D.C.'s Ronald Reagan Washington National Airport. Measured by departures, USAI is among the largest at each of the foregoing airports. USAI is also a leading airline from the Northeast United States to Florida. USAI's East coast-based hubs, combined with its strong presence at many East coast airports, have made it among the largest intra-East coast carriers, comprising approximately 30% of the industry's intra-East coast revenues based on the most recent industry revenue data available.

For the years ended December 31, 2004, 2003 and 2002, passenger revenues accounted for approximately 89%, 90% and 90%, respectively, of Group's consolidated operating revenues. Cargo revenues and other sources accounted for 11%, 10% and 10% of Group's consolidated operating revenues in 2004, 2003 and 2002, respectively. Group's results are seasonal with operating results typically highest in the second and third quarters due to USAI's combination of business traffic and North-South leisure traffic in the eastern United States during those periods.

Material Services Company, Inc. and Airways Assurance Limited operate in support of Group's airline subsidiaries in areas such as the procurement of aviation fuel and insurance.

**B. Airline Industry and the Debtors' Position in the Marketplace**

Most of the markets in which Group's airline subsidiaries and affiliates operate are highly competitive. These airline subsidiaries and affiliates compete to varying degrees with other air carriers and with other forms of transportation. USAI competes with at least one major airline on most of its routes between major cities. Airlines, including USAI, typically use discount fares and other promotions to stimulate traffic during normally slack travel periods to generate cash flow and to maximize revenue per available seat mile. Discount and promotional fares are often non-refundable and may be subject to various restrictions such as minimum stay requirements, advance ticketing, limited seating and change fees. USAI has often elected to match discount or promotional fares initiated by other air carriers in certain markets in order to compete in those markets. Competition between air carriers also involves certain route structure characteristics, such as flight frequencies, availability of nonstop flights, markets served and the time certain flights are operated. To a lesser extent, competition can involve other products, such as frequent flyer programs and airport clubs.

The Debtors consider the growth of low-fare, low-cost competition to be their foremost competitive threat. Recent years have seen the entrance and growth of low-fare, low-cost competitors in many of the markets in which Group's airline subsidiaries and affiliates operate. These competitors, based on low costs of operations and low-fare structures, include Southwest Airlines, AirTran Airways and JetBlue Airways. Southwest Airlines has steadily increased operations within the Eastern United States since first offering service in this region in late 1993. In May 2004, Southwest began service at the Philadelphia International Airport, a hub airport for USAI. Southwest also began service from Pittsburgh International Airport, a former hub, in May 2005. AirTran and JetBlue also have growing presences in the Eastern United States. In January 2005, Delta Air Lines, Inc. announced a broad low-fare pricing scheme. Group anticipates the continued growth of low-fare competition in the industry in the future.

A substantial portion of the flights of Group's airline subsidiaries and affiliates are to or from cities in the Eastern United States. Accordingly, severe weather, air traffic control problems and downturns in the economy in the Eastern United States adversely affect Group's results of operations and financial condition. With their concentration in the Eastern United States, the airline subsidiaries' and affiliates' average stage length, or trip distance, is shorter than those of other major airlines. This makes Group more susceptible than other major airlines to competition from surface transportation, such as automobiles and trains. The increased airport security charges and procedures have also had a disproportionate impact on short-haul travel, which constitutes a significant portion of flying for Group's airline subsidiaries and affiliates. Additional terrorist attacks or fear of these attacks, even if not made directly on the airline industry, including elevated national threat warnings, negatively affect the Debtors and the airline industry.

In recent years, Group's profitability was significantly eroded by competitive pressures, including the incursion of regional jets, the expansion of low-fare, low-cost carriers and the entry of additional carriers into its operating territories, including key focus cities and hubs; unfavorable economic trends; and rising fuel and labor costs. The May 2000 proposed merger of United Airlines and Group was designed to address this profitability erosion by adding Group into a global network. During the period in which the merger was pending, Group was effectively precluded from restructuring its operations as a stand-alone carrier. That period ended in the termination of the merger agreement in late July 2001 after the merger failed to receive approval from the U.S. Department of Justice. Following the merger termination, Group embarked on a phased, stand-alone restructuring plan to address the problems facing its airline subsidiaries and affiliates; however, this plan was preempted almost immediately by the September 11th terrorist attacks, which were then followed by the filing for Chapter 11 in the prior bankruptcy in August 2002.

**C. Marketing Agreements with Other Airlines**

Group has entered into a number of bilateral and multilateral alliances with other airlines to provide customers with more choices and to access markets worldwide that Group does not serve directly. In May 2004, USAI joined the Star Alliance, the world's largest airline alliance, with 16 member airlines serving 795 destinations in 139 countries. Membership in the Star Alliance further enhances the value of Group's domestic and international route network by allowing customers access to the global marketplace. Expanded benefits for customers include network expansion through code share service, benefits under USAI's frequent traveler program, Dividend Miles, airport lounge access, convenient single-ticket pricing, and one-stop check-in and coordinated baggage handling.

USAI also has comprehensive marketing agreements with United Airlines, a member of the Star Alliance, which began in July 2002. United Airlines, as well as its parent company, UAL Corporation, and certain of its affiliates, filed for protection under Chapter 11 of the Bankruptcy Code on December 9, 2002 in the United States Bankruptcy Court for the Northern District of Illinois (Chicago Division). United Airlines immediately requested Bankruptcy Court authority to assume these agreements and the court granted United Airlines' request. USAI also has marketing agreements with Lufthansa, Spanair, bmi and other Star Alliance carriers, as well as with several smaller regional carriers in the Caribbean operating collectively as the GoCaribbean Network.

**D. Industry Regulation and Airport Access**

Group's airline subsidiaries operate under certificates of public convenience and necessity or commuter authority issued by the U.S. Department of Transportation. The DOT may alter, amend, modify or suspend these certificates if the public convenience and necessity so require, or may revoke the certificates for failure to comply with the terms and conditions of the certificates. Airlines are also regulated by the FAA, a division of the DOT, primarily in the areas of flight operations, maintenance, ground facilities and other technical matters. Pursuant to these regulations, Group's airline subsidiaries have FAA-approved maintenance programs for each type of aircraft they operate that provide for the ongoing maintenance of these aircraft, ranging from periodic routine inspections to major overhauls. From time to time, the FAA issues airworthiness directives and other regulations affecting Group's airline subsidiaries or one or more of the aircraft types they operate. In recent years, for example, the FAA has issued or proposed these mandates relating to, among other things, enhanced ground proximity warning systems, fuselage pressure bulkhead reinforcement, fuselage lap joint inspection rework, increased inspections and maintenance procedures to be conducted on certain aircraft, increased cockpit security, fuel tank flammability reductions and domestic reduced vertical separation.

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

The airline industry is also subject to increasingly stringent federal, state and local laws protecting the environment. Future regulatory developments and actions could affect operations and increase operating costs for the airline industry, including Group's airline subsidiaries.

Group's airline subsidiaries are obligated to collect a federal excise tax on domestic and international air transportation, commonly referred to as the ticket tax. Group's airline subsidiaries collect these taxes, along with certain other U.S. and foreign taxes and user fees on air transportation, and pass through the collected amounts to the appropriate governmental agencies. Although these taxes are not operating expenses of Group, they represent an additional cost to Group's customers.

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

Funding for TSA is provided, in part, by a fee collected by air carriers from their passengers of $2.50 per flight segment, but not more than $10.00 per round trip. From time to time, legislation is proposed to increase this fee. Implementation of the requirements of the Aviation and Transportation Security Act have resulted and will continue to result in increased costs for Group and its passengers and has and will likely continue to result in service disruptions and delays.

Most major U.S. airports impose passenger facility charges. The ability of airlines to contest increases in these charges is restricted by federal legislation, DOT regulations and judicial decisions. Legislation enacted in 2000 permitted airports to increase passenger facility charges effective April 1, 2001. With certain exceptions, air carriers pass these charges on to passengers. However, the ability of Group to pass-through security fees and passenger facility charges to its customers is subject to various factors, including market conditions and competitive factors.

The FAA has designated John F. Kennedy International Airport, LaGuardia International Airport and Washington Ronald Reagan National Airport as "high-density traffic airports" and has limited the number of departure and arrival slots available to air carriers at those airports. In April 2000, legislation was enacted that eliminates slot restrictions in 2007 at LaGuardia International Airport and Kennedy Airport. Among other things, the legislation encouraged the development of air service to smaller communities from slot-controlled airports. During the interim period while slot restrictions remained in effect at LaGuardia International Airport, airlines could apply for slot exemptions to serve smaller communities using aircraft with a maximum seating capacity of less than 71. In connection with this legislation, Group and several other airlines increased service from LaGuardia International Airport, which led to excessive flight delays. In response to these delays, the FAA implemented a slot lottery system in December 2000 limiting the number of new flights at LaGuardia International Airport. As a result, several airlines, including Group, were required to reduce the number of flights added at LaGuardia International Airport in connection with this legislation. The resulting allocation of slots from the slot lottery system was initially scheduled to expire on September 15, 2001, but on August 3, 2001, the FAA announced an extension until October 26, 2002. On July 8, 2002, the FAA announced another extension until October 30, 2004, and subsequently announced a further extension through January 1, 2007. As a result of the 2007 slot elimination, the FAA has indicated an intent to rethink its approach to regulating operations at LaGuardia International Airport. Several proposals, including auctions, congestion pricing and other market-based solutions, are being considered along with more traditional regulatory approaches.

At Washington Ronald Reagan National Airport an additional eleven roundtrips were awarded by the DOT, pursuant to the Vision 100–Century of Aviation Reauthorization Act, which created additional slots for distribution by the DOT. Although USAI participated in the proceeding and was awarded slots, most of the slots were awarded to new entrant carriers.

Where the FAA has seen congestion and delay increases, it has stepped in and worked with the carriers to freeze operations at current or somewhat reduced levels. Specifically, incumbent carriers, including USAI, are not permitted to increase operations at Chicago O'Hare Airport as a result of an agreement reached between the FAA and these airlines in August 2004. This agreement has been extended through the Fall 2005. Currently, a rulemaking on extending the agreement with some modifications is underway at the FAA. USAI has actively participated in the rulemaking. A broader rulemaking to address congestion at other crowded airports could be forthcoming sometime in 2005 or 2006.

The availability of international routes to domestic air carriers is regulated by agreements between the United States and foreign governments. Changes in U.S. or foreign government aviation policy could result in the alteration or termination of these agreements and affect USAI's international operations.

## E. Employees

As of March 31, 2005, on a full-time equivalent basis, Group and its subsidiaries employed approximately 30,700 active employees, or 28,600 employees on a full-time equivalent basis. USAI employed approximately 25,200 active employees including approximately 8,000 station personnel, 5,300 flight attendants, 4,000 mechanics and related employees, 3,000 pilots, 1,500 reservations personnel and 3,400 personnel in administrative and miscellaneous job categories. Group's remaining subsidiaries employed 5,500 employees including approximately 3,000 station personnel, 1,000 pilots, 550 flight attendants, 450 mechanics and related employees and 500 personnel in administrative and miscellaneous job categories.

As of March 31, 2005, approximately 80% of Group's active employees were covered by collective bargaining agreements with various labor unions.

The status of USAI's labor agreements with its major employee groups as of March 31, 2005 is as follows:

| Union (1) | Class or Craft | Employees (2) | Date Contract Amendable |
|---|---|---|---|
| ALPA | Pilots | 3,000 | December 31, 2009 |
| IAMAW | Mechanics and related employees | 4,000 | December 31, 2009 |
| IAMAW | Fleet service employees | 4,500 | December 31, 2009 |
| CWA | Passenger service employees | 5,000 | December 31, 2011 |
| AFA | Flight attendants | 5,300 | December 21, 2011 |
| TWU | Dispatchers and other | 200 | December 31, 2009 and December 31, 2011 |

(1) ALPA Air Line Pilots Association
IAMAW International Association of Machinists and Aerospace Workers
CWA Communications Workers of America
AFA Association of Flight Attendants-Communications Workers of America
TWU Transport Workers Union

(2) Approximate number of active employees covered by the contract.

## F. Aviation Fuel

Aviation fuel is typically Group's second largest expense. Because the operations of the airline are dependent upon aviation fuel, increases in aviation fuel costs could materially and adversely affect liquidity, results of operations and financial condition. The following table shows Group's aircraft fuel consumption and costs for 2002-2004:

| Year | Gallons (in millions) | Average price per gallon (1) | Aviation fuel expense (1) (in millions) | Percentage of Total Operating Expenses |
|---|---|---|---|---|
| 2004 | 973 | $ 1.129 | $ 1,099 | 14.7% |
| 2003 | 936 | 0.887 | 830 | 11.7% |
| 2002 | 1,047 | 0.747 | 782 | 9.4% |

(1) Includes fuel taxes and the impact of fuel hedges.

For the first quarter of 2005, the average price per gallon increased to $1.480, and aviation fuel as a percentage of total operating expenses was 20.1%.

Prices and availability of all petroleum products are subject to political, economic and market factors that are generally outside of Group's control. Accordingly, the price and availability of aviation fuel, as well as other petroleum products, can be unpredictable. Prices may be affected by many factors, including the impact of political instability on crude production, especially in Russia and OPEC countries; unexpected changes to the availability of petroleum products due to disruptions in distribution systems or refineries; unpredicted increases to oil demand due to weather or the pace of economic growth; inventory levels of crude, refined products and natural gas; and other factors, such as the relative fluctuation between the U.S. dollar and other major currencies and influence of speculative positions on the futures exchanges.

To reduce the exposure to changes in fuel prices, Group periodically enters into certain fixed price swaps, collar structures and other similar derivative contracts. Group's current financial position and credit rating negatively affect its ability to hedge fuel in the future.

### G. Airline Ticket Distribution

The now common usage of electronic tickets within North America, and the rapid expansion in Europe and the rest of the world, has allowed for the streamlining of processes and the increased efficiency of customer servicing and support. Group began to support the issuance of electronic tickets in 1996. During 2004, electronic tickets represented 96% of all tickets issued to customers flying USAI. The addition of a $50 surcharge to most customers requiring paper tickets has allowed Group to continue to support the exceptional requests, while offsetting any cost variance associated with the issuance and postal fulfillment of paper tickets. Airlines based in North America have recently proposed a requested mandate that airlines move to 100% electronic ticketing over the next few years, which will only serve to enhance customer service and control costs for ticketing services supported by the airline and distribution partners.

The shift of consumer bookings from traditional travel agents, airline ticket offices and reservation centers to online travel agent sites, such as Orbitz, Travelocity, Expedia and others, as well as airline direct websites, such as usairways.com, continues to grow within the industry. Historically, traditional and online travel agencies used global distribution systems, or GDSs, such as Sabre, to obtain their fare and inventory data from airlines. Bookings made through these agencies result in a fee, referred to as the GDS fee, that is charged to the airline. Bookings made directly with the airline, through its reservation call centers or website, do not incur a GDS fee. The growth of the airline direct websites and travel agent sites that connect directly to airline host systems, effectively by-passing the traditional connection via GDSs, helps Group reduce distribution costs from the channels of distribution on the internet. In the first quarter of 2005, USAI received over 33% of its sales from internet sites. USAI's direct website, usairways.com, comprised over 13% of its sales, while the rest of the internet sites accounted for the remaining 20% of its sales.

Due to the continued pressure on legacy airlines to lower distribution fees more aggressively than anytime in the past in order to compete with low-cost airlines, many "newcomers" have entered the distribution industry. New low-cost GDSs, such as ITA Software, G2 Switchworks, Navitaire and others, are providing airlines with alternative economic models to do business with traditional travel agents. These new low-cost GDSs substantially reduce the fees charged to airlines by this distribution channel.

In an effort to further reduce distribution costs through internal channels, USAI and other airlines have instituted service fees for interaction in channels requiring specialized service such as reservation call centers ($5.00 per ticket), Airline Ticket Offices ($10.00 per ticket) and City Ticket Offices ($10.00 per ticket), while continuing to offer free service via the airlines' websites. The goals of these service fees are to reduce the cost to provide customer service as required by the traveler and promote the continued goal of shifting customers to Group's lowest cost distribution channel, usairways.com. For the first quarter of 2005, internal channels of distribution account for approximately 24% of all Group sales.

In July 2004, the DOT eliminated most regulations governing GDSs. Airlines and GDSs continue to have open dialogue regarding possible cost savings.

## H. Frequent Traveler Program

USAI operates a frequent traveler program known as Dividend Miles under which participants earn mileage credits for each paid flight segment on USAI, US Airways Shuttle, US Airways Express, Star Alliance carriers, and certain other airlines that participate in the program. Participants flying on First Class or Envoy class tickets receive additional mileage credits. Participants can also receive mileage credits through special promotions periodically offered by USAI and may also earn mileage credits by utilizing certain credit cards and purchasing services from various non-airline partners. Mileage credits can be redeemed for various free, discounted, or upgraded travel awards on USAI, Star Alliance carriers or other participating airlines.

USAI and the other participating airline partners limit the number of seats allocated per flight for award recipients by using various inventory management techniques. Award travel for all but the highest-level Dividend Miles participants is generally not permitted on blackout dates, which correspond to certain holiday periods or peak travel dates. USAI reserves the right to terminate Dividend Miles or portions of the program at any time. Program rules, partners, special offers, blackout dates, awards and requisite mileage levels for awards are subject to change.

## I. Insurance

Group and its subsidiaries maintain insurance of the types and in amounts deemed adequate to protect themselves and their property. Principal coverage includes liability for injury to members of the public, including passengers; damage to property of Group, its subsidiaries and others; loss of or damage to flight equipment, whether on the ground or in flight; fire and extended coverage; directors and officers; fiduciary; and workers' compensation and employer's liability.

In addition to customary deductibles, Group self-insures for all or a portion of its losses from claims related to environmental liabilities and medical insurance for employees.

Since September 11, 2001, Group and other airlines have been unable to obtain coverage for liability to persons other than employees and passengers for claims resulting from acts of terrorism, war or similar events, referred to as war risk coverage, at reasonable rates from the commercial insurance market. USAI has, as have most other U.S. airlines, therefore purchased its war risk coverage through a special program administered by the FAA. The Emergency Wartime Supplemental Appropriations Act extended this insurance protection until August 2005. The Secretary of Transportation may extend this policy until December 31, 2005. If the federal insurance program terminates, Group would likely face a material increase in the cost of war risk coverage, and because of competitive pressures in the industry, Group's ability to pass this additional cost to passengers would be limited.

There can be no assurances that Group can maintain insurance coverages and costs at its current levels.

## J. Properties

### 1. *Flight Equipment.*

As of March 31, 2005, USAI operated the following jet and regional jet aircraft:

| Type | Average Seat Capacity | Average Age (years) | Owned (1) | Leased (2) | Total |
|---|---|---|---|---|---|
| Airbus A330 | 266 | 4.6 | 9 | — | 9 |
| Boeing 767-200ER | 203 | 15.8 | 4 | 6 | 10 |
| Boeing 757-200 | 193 | 14.4 | — | 31 | 31 |
| Airbus A321 | 169 | 3.8 | 20 | 8 | 28 |
| Boeing 737-400 | 144 | 15.1 | 3 | 42 | 45 |
| Airbus A320 | 142 | 5.4 | 11 | 13 | 24 |
| Boeing 737-300 | 126 | 18.0 | 7 | 61 | 68 |
| Airbus A319 | 120 | 5.2 | 15 | 49 | 64 |
| | | 11.2 | 69 | 210 | 279 |
| EMB-170 | 72 | 0.7 | 10 | 15 | 25 |

(1) All owned aircraft are pledged as collateral for various secured financing agreements.
(2) The terms of the leases expire between 2005 and 2023.

As of March 31, 2005, Group's wholly owned regional airline subsidiaries operated the following turboprop and regional jet aircraft:

| Type | Average Seat Capacity | Average Age (years) | Owned | Leased (1) | Total |
|---|---|---|---|---|---|
| CRJ-700 | 70 | 0.4 | 8 | 6 | 14 |
| CRJ-200 | 50 | 1.0 | 21 | 14 | 35 |
| De Havilland Dash 8-300 | 50 | 13.2 | – | 12 | 12 |
| De Havilland Dash 8-100 | 37 | 14.8 | 30 | 9 | 39 |
| De Havilland Dash 8-200 | 37 | 7.5 | – | 9 | 9 |
| | | 7.2 | 59 | 50 | 109 |

(1) The terms of the leases expire between 2005 and 2021.

As of March 31, 2005, Group had 19 A320-family aircraft on firm order scheduled for delivery in the years 2008 through 2010. Group also had ten A330-200 aircraft on firm order scheduled for delivery in the years 2008 and 2009. Subsequently, a Memorandum of Understanding was executed on May 18, 2005 between Airbus, Group, USAI and AWA (the "Airbus MOU") which provides for a $250 million line of credit from Airbus upon the satisfaction of various conditions precedent (including the completion of the Merger and the emergence of USAI from bankruptcy), the rescheduling of USAI's A320-family and A330-200 delivery commitments, and an order of 20 A350 aircraft, for which Airbus has agreed to provide backstop financing for a substantial number of aircraft, subject to certain terms and conditions. USAI's A320-family aircraft are now scheduled for delivery in 2009 and 2010. USAI's A330-200 aircraft are scheduled for delivery in 2009 and 2010, and new A350 aircraft deliveries are currently scheduled to occur during the period 2011 through 2013. The Airbus MOU eliminates cancellation penalties on Group's orders for the ten A330-200 aircraft, provided that Reorganized Group has met certain predelivery payment obligations under the A350 order.

Pursuant to the regional jet leasing term sheet of the Master Memorandum of Understanding approved by the Court on December 17, 2004, GECC or its affiliates agreed to provide lease financing for up to 31 regional jet aircraft. The aircraft to be financed will consist of 70- to 100-seat regional jet aircraft manufactured by Bombardier and/or Embraer in a mix and subject to other terms to be agreed mutually by GECC and USAI. Under the Master Memorandum of Understanding, GECC leased six Bombardier CRJ-

700s to USAI in the first quarter of 2005, with terms expiring on the earlier of Group's emergence from Chapter 11 and June 30, 2005, which leases will be converted to long-term leases. Subsequent to closing on the six Bombardier CRJ-700 aircraft, GECC and Group agreed, pursuant to the Master Merger Memorandum of Understanding, approved by the Bankruptcy Court on June 23, 3005, ("GE Merger MOU") to eliminate the obligation of GECC to provide the remaining regional jet financing directly to Group, although GE agreed to provide single investor and operating lease financing to Republic Airways for the three EMB-170 aircraft already on order, and for ten EMB-170/190/195 aircraft for delivery to acceptable third-party carriers, which aircraft will be flown by those carriers for the benefit of Group. The Master Memorandum of Understanding is described in greater detail in Section VII.D.5 of this Disclosure Statement.

In December 2004, Group reached aircraft leasing and financing agreements with Embraer and Bombardier, which were approved by the Court in January 2005. Pursuant to the agreement reached with Embraer, USAI purchased and took delivery of three EMB-170 aircraft in January 2005 and committed to purchase and take delivery of three additional EMB-170 aircraft by March 31, 2005. USAI did not take delivery of the second three aircraft in March 2005. As a result, damages accrue from and after April 1, 2005 until the delivery of the aircraft at the rate of $162,795 per month per aircraft. If the aircraft are not delivered by July 31, 2005, Embraer's obligation to deliver these aircraft will terminate and its damages with respect to the undelivered aircraft may be as much as $10 million for all three aircraft (rather than at the rate of $162,795 per month per aircraft), with Embraer having the right to apply any remaining purchase deposits against Embraer's aggregate damages. Group is currently working to secure financing for these aircraft. Group's agreements with Embraer and Bombardier are described in greater detail in Section VII.D.6 of this Disclosure Statement.

Group maintains inventories of spare engines, spare parts, accessories and other maintenance supplies sufficient to meet its operating requirements.

As of March 31, 2005, Group owned or leased the following aircraft that were not considered part of its operating fleet presented in the tables above. These aircraft were either parked at storage facilities or, as shown in the far right column, leased or subleased to third parties or related parties.

| **Type** | **Average Age (years)** | **Owned** | **Leased** | **Total** | **Leased/ Subleased** |
|---|---|---|---|---|---|
| De Havilland Dash 8 | 14.8 | 3 | — | 3 | — |
| Douglas DC-9-30 | 24.3 | 6 | — | 6 | 6 |
| | | 9 | — | 9 | 6 |

As discussed above, USAI has code share agreements in the form of capacity purchase agreements with certain US Airways Express regional jet affiliate operators. Collectively, these regional jet affiliate operators flew 107 50-seat regional jet aircraft as part of US Airways Express as of March 31, 2005.

USAI is a participant in the Civil Reserve Air Fleet, a voluntary program administered by the Air Mobility Command. The General Services Administration of the U.S. government requires that airlines participate in Civil Reserve Air Fleet in order to receive U.S. government business. USAI's commitment under Civil Reserve Air Fleet is to provide up to its entire widebody fleet of ten 767-200ER aircraft and nine A330-300 aircraft in support of military missions. USAI is reimbursed at compensatory rates when aircraft are activated under Civil Reserve Air Fleet. USAI is reimbursed during peacetime proportionally to its commitment.

USAI's 767-200ER aircraft are committed to the Aeromed Program of the Civil Reserve Air Fleet. Under this program, the aircraft are converted to flying hospitals for transportation of injured troops. USAI, Delta Air Lines and United Airlines are participants in the Aeromed Program. Participation in this program provides increased U.S. government revenues for USAI. Since the Civil Reserve Air Fleet activation of 2003, USAI has not provided "voluntary" lift to Air Mobility Command, due to operational limitations.

*2. Ground Facilities.*

USAI leases the majority of its ground facilities, including executive and administrative offices in Arlington, Virginia near Washington Ronald Reagan National Airport; its principal operating, overhaul and maintenance bases at the Pittsburgh International Airport and Charlotte/Douglas International Airports; training facilities in Pittsburgh and Charlotte; central reservations offices in Pittsburgh and Winston-Salem, North Carolina; and line maintenance bases and local ticket, cargo and administrative offices throughout its system.

USAI owns a training facility in Winston-Salem and previously owned a reservation facility in Orlando. The Orlando facility was closed on January 10, 2003 and was sold in May 2005. The Pittsburgh reservations call and service center will be closed in 2005 and consolidated into one location in Winston-Salem.

*3. Terminal Construction Projects.*

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

In 1998, USAI reached an agreement with the Philadelphia Authority for Industrial Development and the City of Philadelphia to construct a new international terminal and a new US Airways Express terminal at the Philadelphia International Airport, one of Group's connecting hubs and USAI's principal international gateway. The international terminal includes 12 gates for widebody aircraft and new federal customs and immigration facilities. The international terminal gates were put into operation in May 2003 and the ticket lobby opened in September 2003. The US Airways Express facility, completed in June 2001, can accommodate 38 regional aircraft.

### K. Financial Statements and Recent Financial Results

Set forth in Appendices E and F hereto are Group's annual report on Form 10-K for the fiscal year ended December 31, 2004, which includes audited financial statements on a consolidated basis for the years ended December 31, 2004 and 2003, including consolidated balance sheets, statements of operations, and statements of cash flows on a consolidated basis for those years, and Group's quarterly report for the period ended March 31, 2005, which includes unaudited financial statements on a consolidated basis for the three months ended March 31, 2005 and 2004.

## V. PREPETITION CAPITAL STRUCTURE OF THE DEBTORS

On the Petition Date, the Debtors other than Group were all subsidiaries of Group and Group's capital structure consisted primarily of its Class A common stock, which was listed on NASDAQ under the ticker symbol "UAIR," Class B common stock, several classes of preferred stock, and short-term and long-term debt consisting of equipment financing agreements, airport facility debt and capital lease obligations, as described below.

### A. Group's Stock

| Type of Stock | Authorized Shares | Shares Outstanding |
|---|---|---|
| Class A Common Stock | 200,000,000 shares | 52,145,360 shares (excluding 752,224 shares held in treasury) |
| Class B Common Stock | 5,000,000 shares | All 5,000,000 shares of Class B common stock outstanding were held by Retirement Systems of Alabama Holdings LLC ("RSA") |
| Class A Preferred Stock | 25,000,000 shares | 18,915,820 shares of Class A Preferred Stock were outstanding of which (i) 2,016,819 shares were held by RSA, (ii) 2,186,390 shares were held by Group's management, (iii) 3,817,500 shares were held by GE, (iv) 7,635,000 shares were held by ATSB, (v) 3,048,030 shares were held by unsecured creditors from the Prior Bankruptcy (as defined below), and (vi) 212,081 shares were held by Bank of America |
| Class B Preferred Stock | 250,000 shares | 75,000 shares of Class B Preferred Stock were outstanding and held by RSA |
| Class C Preferred Stock | 10 shares authorized for issuance in four (4) series to certain representatives of employees subject to collective bargaining agreements | All 10 shares of Class C Preferred Stock were outstanding of which (i) one (1) share of Series 1 Class C Preferred Stock was held by ALPA, (ii) one (1) share of Series 2 Class C Preferred Stock was held by IAMAW, (iii) three (3) shares of Series 3 Class C Preferred Stock were held by TWU, (iv) four (4) shares of Series 3 Class C Preferred Stock were held by AFA, and (v) one (1) share of Series 4 Class C Preferred Stock was held by the CWA |
| Preferred Stock (unclassified) | 24,749,990 shares | None |

### B. Group's Warrants

On the Petition Date, there were 4,750,000 shares of Class A Common Stock and 2,220,570 each of Class A-1 Warrants and shares of Class A Preferred Stock authorized to be granted to the Debtors' management and 500,000 options to purchase Class A Common Stock authorized to be granted to the Debtors' non-employee directors. On the Petition Date, 4,247,945 shares of Class A Common Stock, 2,186,390 each of Class A-1 Warrants and Class A Preferred Stock and 466,640 options to purchase Class A Common Stock were outstanding under prior grants to the Debtors' management. Additionally, an aggregate of 88,589 options to purchase Class A Common Stock were outstanding under grants to Group's non-employee directors.

The following table summarizes the activity of the Debtors' stock options and warrants since emerging from their prior bankruptcy:

| | Stock Options | Weighted Avg. Exercise Price | Warrants | Weighted Avg. Exercise Price |
|---|---|---|---|---|
| Granted | 50,000 | $ 7.34 | 2,227,576 | $ 7.42 |
| Canceled | – | – | (11,050) | 7.42 |
| Balance at December 31, 2003 | 50,000 | 7.34 | 2,216,526 | 7.42 |
| Granted | 513,037 | 1.53 | 56,123 | 7.42 |
| Canceled | (114,250) | 1.77 | (154,059) | 7.42 |
| Balance at December 31, 2004 | 448,787 | $ 2.11 | 2,118,490 | $ 7.42 |

## C. Debt

### 1. *ATSB Debt.*

As part of its reorganization under the Prior Bankruptcy, USAI received a $900 million Guarantee under the Air Transportation Safety and System Stabilization Act from the ATSB in connection with a $1 billion term loan financing (the "ATSB Loan") that was funded by certain lenders under the ATSB Loan on March 31, 2003. USAI is the primary obligor under the ATSB Loan, which is guaranteed by Group and each of Group's other domestic subsidiaries. The ATSB Loan is secured by substantially all of the present and future assets of the Debtors not otherwise encumbered (including certain cash and investments accounts, previously unencumbered aircraft, aircraft engines, spare parts, flight simulators, real property, takeoff and landing slots, ground equipment and accounts receivable), other than certain specified assets, including assets which are subject to other financing agreements. On the Petition Date, approximately $718 million was outstanding under the ATSB Loan and as of May 31, 2005 the outstanding principal balance of the ATSB Loan was $709,267,980.

### 2. *GE Facilities.*

In November 2001, USAI obtained a $404 million credit facility from General Electric Credit Corporation ("GECC") (the "2001 GE Credit Facility"). The 2001 GE Credit Facility is secured by collateral, including 11 A320-family aircraft and 28 spare engines. In connection with the Prior Bankruptcy, Group reached a settlement with GECC and its affiliates (collectively, "GE"), that resolved substantially all aircraft, aircraft engine and loan-related issues. In connection therewith, USAI obtained additional financing from GECC in the form of a liquidity facility of up to $360 million (the "2003 GE Liquidity Facility"). Many of the Debtors' obligations to GECC, or affiliates of GECC, are generally cross-collateralized and cross-defaulted with other obligations owed by any Debtor to GECC or any of its affiliates (collectively, the "GE Obligations"). As discussed in greater detail below in Section VIII.D.5, the Bankruptcy Court has approved a series of transactions between the Debtors and GE, which, in part, addresses the Debtors' liabilities with respect to these facilities.

### 3. *Equipment Financing Arrangements.*

As of the Petition Date, the Debtors were parties to a significant number of equipment financing agreements, with installments due thereunder throughout the period from 2004 to 2022. These obligations, aggregating approximately $1.95 billion, are collateralized by aircraft and engines.

### 4. *Other Debt.*

On the Petition Date, the Debtors had approximately $7.93 billion in future minimum lease payments under noncancellable operating leases for aircraft, engines and ground facilities.

In September 2000, the City of Charlotte issued $35 million of special facility revenue bonds, the proceeds of which were used to pay the cost of design, acquisition, construction and equipping of certain airport related facilities to be leased to USAI at the Charlotte/Douglas International Airport. On the

Petition Date, Group had recorded a capital lease obligation, net of discount, related to these special facility revenue bonds of $20.7 million.

In the fourth quarter of 1999, USAI entered into an agreement with the Massachusetts Port Authority ("MassPort") to guarantee the principal and interest payments in connection with $33 million of revenue bonds issued by MassPort and the $49 million MassPort Special Facilities Revenue Bonds, Series 1996A. The proceeds of the bonds were used to finance the improvement and expansion of certain passenger terminal facilities which were leased to USAI at Boston's Logan International Airport. On the Petition Date, Group had recorded a capital lease obligation, net of discount, related to these revenue bonds of $27.6 million.

The Debtors were also parties to a number of long term contracts and leases, the rejection of which in the Chapter 11 Cases could give rise to substantial additional claims.

## VI. CORPORATE STRUCTURE OF THE DEBTORS

### A. Current Corporate Structure

#### *1. Capital Stock.*

The capital structure of the Debtors is as described above in Section V.

On the Effective Date, the existing capital stock of Group, as well as the Warrants and all existing stock options to purchase capital stock of Group, will be cancelled and new common stock, par value $0.01 per share (the "New Common Stock") of Reorganized Group will be issued, as described herein and in the Plan. Group is the parent company and sole stockholder of USAI, the three other Debtors (PSA, Piedmont and Material Services), Barbell Acquisition Corp., which will be merged with and into America West in the Merger, and one foreign insurance related subsidiary (Airways Assurance), which is not a Debtor.

### B. Management of the Debtors

#### *1. Board of Directors.*

The current Board of Directors is comprised of 15 directors, the majority of which are designated by RSA, pursuant to the agreement reached in the Prior Bankruptcy.

#### *2. Officers.*

The current management team of Group and USAI is composed of highly capable and seasoned professionals with substantial airline industry experience. The following individuals are the executive officers of Group and USAI as of March 31, 2005:

| Name | Position |
|---|---|
| Bruce R. Lakefield | President and Chief Executive Officer, Group and USAI |
| Ronald E. Stanley | Executive Vice President and Chief Financial Officer, Group and USAI |
| N. Bruce Ashby | Executive Vice President – Marketing and Planning of USAI and President – US Airways Express, Group |
| Alan W. Crellin | Executive Vice President – Operations, USAI |
| Elizabeth K. Lanier | Executive Vice President – Corporate Affairs, General Counsel and Secretary, Group and USAI |
| Jerrold A. Glass | Executive Vice President – Chief Human Resources Officer, USAI |
| Anita P. Beier | Senior Vice President – Finance and Controller, Group and USAI |

| | |
|---|---|
| Christopher L. Chiames | Senior Vice President – Corporate Affairs of USAI |
| Andrew P. Nocella | Senior Vice President – Planning of USAI |
| John Prestifilippo | Senior Vice President – Maintenance of USAI |

Mr. Lakefield is President and Chief Executive Officer and a director of Group and USAI. Mr. Lakefield served as Chairman and Chief Executive Officer of Lehman Brothers International from 1995 until 1999. He has served as a Senior Advisor to the Investment Policy Committee of HGK Asset Management since 2000. Mr. Lakefield serves as a non-executive director of Constellation Corporation PLC and a member of the Board of Directors of Magic Media, Inc. He is a member of the Strategy and Finance Committee of Group's Board of Directors.

Mr. Stanley is the current Executive Vice President and Chief Financial Officer of Group and USAI, in which position he has served since October 2004. Mr. Stanley has served as a director of Scholefield, Turnbull & Partners, a business travel consulting firm based in London, England since 2000. Mr. Stanley also serves as a director of Decatur Foundry, Inc., a private company. Mr. Stanley served as Chief Operating Officer and a member of the Executive Committee and Board of Directors of HSBC Equator from 2000 until 2002. He served as Senior Vice President & General Manager of Royal Bank of Canada ("RBC") Group, Chairman and CEO of Royal Bank of Canada Europe Limited and a member of the Executive Committee of RBC Dominion Securities from 1995 to 1999. He is also a director of USAI.

Mr. Ashby served as USAI's Vice President – Financial Planning and Analysis from April 1996 until his election as Senior Vice President – Planning of USAI in January 1998. In June 1999, Mr. Ashby was elected Senior Vice President – Corporate Development of Group and USAI. Mr. Ashby served as Senior Vice President – Alliances of Group and USAI and President – US Airways Express from March 2003 to January 2005. In January 2005, Mr. Ashby was elected Executive Vice President – Marketing and Planning and will continue as President – US Airways Express. He previously served as Vice President – Marketing Development at Delta Air Lines from June 1995 to April 1996, and in several management positions at United from January 1989 to June 1995, including Vice President – Financial Planning and Analysis and Vice President and Treasurer.

Mr. Crellin joined USAI in 1988 as a result of the acquisition of Pacific Southwest Airlines. He was promoted to serve as Vice President – Ground Services of USAI in 1995. Mr. Crellin served as Senior Vice President – Customer Service of USAI from 2000 until his election as Executive Vice President – Operations in January 2002. Prior to joining USAI, Mr. Crellin held a variety of management positions with Pacific Southwest Airlines from 1971 to 1988, including Vice President – Customer Service.

Ms. Lanier joined Group and USAI in March 2003 as Executive Vice President – Corporate Affairs and General Counsel, and was appointed as Secretary of Group and USAI in January 2004. Previously, Ms. Lanier was Senior Vice President – General Counsel for Trizec Properties, Inc. from April to December 2002, and prior to that, Vice President – General Counsel for General Electric Power Systems from 1998 to 2002, and Vice President and Chief of Staff for Cinergy Corporation from 1996 to 1998. Ms. Lanier has been a member of the board of directors of Patina Oil & Gas Corporation since 1998. She serves as a member of the audit committee and chair of the corporate governance and nominating committee of Patina. Ms. Lanier previously was associated with Davis Polk & Wardwell and was an associate and partner of Frost & Jacobs, now Frost Brown Todd, LLC.

Mr. Glass joined USAI in April 2002 as Senior Vice President – Employee Relations and was promoted to Executive Vice President – Chief Human Resources Officer on April 18, 2005. Mr. Glass is a recognized expert in airline and railroad labor and employee relations issues. Mr. Glass joined USAI from J. Glass and Associates, of which he was the founder and where he served as President from 1989 until April 2002. At USAI, he is responsible for labor relations, human resources policy and development, compensation, corporate learning and development, recruiting and benefits.

Ms. Beier joined USAI in June 1999 from CSX Corporation as Vice President – Finance and Controller. In May 2004, Ms. Beier was promoted to Senior Vice President – Finance and Controller, and she is responsible for the management of all accounting functions for Group and its subsidiaries and for monitoring the restructuring of Group and USAI. At CSX Corporation, Ms. Beier held a number of positions in financial management, including Vice President – Financial Planning. Prior to being named Vice President–Financial Planning at CSX Corporation in September 1998, Ms. Beier was Chief Financial Officer of American Commercial Lines in 1997-1998. Ms. Beier served in a variety of financial positions in economic and financial analysis, budgeting and accounting at CSX Corporation from 1981 to 1997.

Mr. Chiames joined USAI in May 2002 as Senior Vice President – Corporate Affairs. Mr. Chiames is responsible for USAI's government relations and corporate communications functions. Mr. Chiames has almost 15 years of airline industry experience, including leadership of Burson-Marsteller's transportation and tourism public affairs practice from 2001 to 2002 and Managing Director of Public Relations at American Airlines, Inc. from 1996 to 2001.

Mr. Nocella joined USAI in April 2002 as Vice President –Planning and Scheduling. He served as Vice President – Revenue Management and Pricing of USAI from December 2002 to June 2003.

Mr. Nocella served as Vice President – Network and Revenue Management from June 2003 until his election as Senior Vice President – Planning in January 2005. At USAI, he is responsible for route planning, scheduling, pricing and yield management functions. Prior to joining USAI, Mr. Nocella served as Vice President, Planning and Scheduling of America West Airlines from April 1997 to April 2002 and in several management positions at Continental Airlines from December 1993 to March 1997.

Mr. Prestifilippo joined USAI in August 2002 as Senior Vice President – Maintenance. With nearly 20 years of airline maintenance management experience, Mr. Prestifilippo previously held the position of Vice President – Technical Services and Operations for Continental Express Airlines from 1986 to 2001 and other senior-level management positions for Continental Express and Continental Airlines.

## C. Current Debtors Other Than Group and USAI

The following list identifies the officers and directors of each of the Debtors other than Group and USAI:

*1. PSA Airlines, Inc.*

| | Name | Position |
|---|---|---|
| **OFFICERS:** | Keith D. Houk | President & Chief Executive Officer |
| | Timothy G. Keuscher | Vice President – Operations |
| | Kevin Reinhalter | Vice President – Maintenance |
| | Brian E. Foont | Secretary |
| **DIRECTORS:** | N. Bruce Ashby | |
| | Keith D. Houk | |
| | Ronald E. Stanley | |

*2. Piedmont Airlines, Inc.*

| | Name | Position |
|---|---|---|
| **OFFICERS:** | Stephen R. Farrow | President & Chief Executive Officer |
| | Michael J. Scrobola | Vice President – Operations |
| | Eric H. Morgan | Vice President – Customer Service |
| | Peter R. Barry | Vice President – Maintenance |
| | Scott J. Strohm | Vice President – Finance |
| | Terry J. Petrun | Vice President – Administration |
| | Brian E. Foont | Secretary |

| | | |
|---|---|---|
| **DIRECTORS:** | N. Bruce Ashby<br>Stephen R. Farrow<br>Ronald E. Stanley | |

3. *Material Services Company, Inc.*

| **OFFICERS:** | **Name** | **Position** |
|---|---|---|
| | Ronald E. Stanley | President & Chief Executive Officer |
| | Terry J. Petrun | Vice President – Purchasing |
| | Scott J. Strohm | Vice President – Finance & Treasurer |
| | Brian E. Foont | Secretary |

| | |
|---|---|
| **DIRECTORS:** | Stephen R. Farrow<br>Keith D. Houk<br>Ronald E. Stanley |

## VII. THE CHAPTER 11 CASES

### A. Events Leading Up to the Chapter 11 Cases

From 1996 through 1999, the Debtors generated over $2 billion in net profits. The last profitable fiscal year for the Debtors was 1999. In recent years, the Debtors' profitability was significantly eroded by competitive pressures (including the incursion of both regional jets and low-cost carriers into the Debtors' operating territories, discussed above), unfavorable economic trends, and rising fuel and labor costs.

USAI was one of the airlines most significantly affected by the events of September 11th. Not only were the Debtors' operations shut down entirely for three days in September, but Ronald Reagan Washington National Airport, at which USAI is the largest carrier, was closed until October 4, 2001. Service was not fully restored until May 2002. In addition, the East Coast in general has been the part of the country most affected in the aftermath of the attacks. The Debtors compete heavily with trains and automobiles as a result of their short-haul network and, as such, have been more affected than other airlines by this competition. The increased airport security charges and procedures have also had a disproportionate impact on short-haul travel.

Each of the Debtors in these cases had previously filed a voluntary petition for relief under Chapter 11 on August 11, 2002. The Debtors emerged from the Prior Bankruptcy under the First Amended Joint Plan of Reorganization of US Airways Group, Inc. and Affiliated Debtors and Debtors-in-Possession, As Modified (the "2003 Plan"), which was confirmed pursuant to an order of the Bankruptcy Court on March 18, 2003 and became effective on March 31, 2003.

Before emerging from the Prior Bankruptcy in 2003, the Debtors examined every phase of their contracts and operations and had significantly reduced costs. The Debtors had reduced mainline capacity, realigned the network to maximize yield, initiated a business plan to use more regional jets, procured financing for these aircraft and expanded their alliances with other carriers. Since emerging from the Prior Bankruptcy, the Debtors continued to incur substantial losses from operations. For calendar year 2003, the Debtors' operating revenues were $6.85 billion, operating loss was $251 million, and net income was $1.46 billion including the emergence gain of $1.92 billion. For the calendar year 2004, the Debtors' operating revenues were $7.12 billion, operating loss was $378 million, net loss was $611 million and loss per common share was $11.19. The primary factors contributing to these losses include the reduction in domestic industry unit revenue and significant increases in fuel prices. The downward pressure on domestic industry revenue was a result of the rapid growth of low-fare, low-cost airlines, the increasing transparency of fares through Internet sources and other changes in fare structures that resulted in substantially lower fares for many business and leisure travelers. The competitive environment continued to intensify throughout 2004, particularly in key markets such as Philadelphia, Washington, D.C., Boston and New York.

As it became apparent that the Debtors would not survive if they continued to operate under the business plan that had formed the basis for the plan of reorganization in the Prior Bankruptcy, the Debtors began to develop the Transformation Plan. A key element of the Transformation Plan was significant reductions in labor costs through changes to the Debtors' collective bargaining agreements. The Debtors aggressively sought the necessary agreements to allow full implementation of the Transformation Plan without the need for filing new Chapter 11 Cases, but were unable to do so in a timely manner. As a result of the recurring losses, declining available cash and risk of defaults or cross defaults under certain key financing and operating agreements, it was necessary for the Debtors to file voluntary petitions for reorganization under Chapter 11 of the Bankruptcy Code.

On September 12, 2004, the Debtors filed voluntary petitions for relief under Chapter 11 of the Bankruptcy Code in the United States Bankruptcy Court for the Eastern District of Virginia, Alexandria Division (Case Nos. 04-13819-SSM through 04-13823-SSM). The Debtors continue to operate their businesses as debtors-in-possession under the jurisdiction of the Bankruptcy Court and in accordance with the applicable provisions of the Bankruptcy Code and orders of the Bankruptcy Court.

## B. Failure of Reorganization after Prior Bankruptcy

In 2002, the airline industry was still reeling from the effects of September 11, 2001, and the financial impact of the events of September 11th on the Debtors was exacerbated by the extended closure of Ronald Reagan Washington National Airport. There was, however, a set of generally accepted industry expectations. It was broadly accepted that industry revenues, while then depressed, would rebound as the economy recovered from the terrorist attacks. Based on these expectations, the Debtors and their stakeholders all believed that the cost reductions, structural changes and revenue initiatives undertaken pursuant to the reorganization plan in the Prior Bankruptcy would enable the Debtors to return to reasonable profitability and competitiveness. The Debtors projected that the combination of their actions in the restructuring and the universally projected rebound in industry revenue would result in increases in pre-tax income of Group and its subsidiaries from a loss of $225 million in 2003 to a profit of $660 million in 2009.

The Debtors completed each of the steps they had identified in the reorganization plan in the Prior Bankruptcy to enhance revenues and reduce costs. A review of the Debtors' mainline financial projections contained in the plan as of March 2003, compared with the status of the same data points as of the end of the year 2004, demonstrates that the Debtors implemented the prior plan as contemplated.

| | **Prior Bankruptcy Projections for 2004** | **Actual 2004 Results** |
|---|---|---|
| Fleet Size | 279 | 281 |
| Capacity (ASMs) (billions) | 53.7 | 53.2 |
| Revenue passenger miles (billions) | 39.4 | 40.0 |
| Cities served | 87 | 89 |
| Labor cost (per ASM) | 4.2¢ | 4.0¢ |
| Load factor (mainline) | 73.3% | 75.1% |
| Total cost (per ASM) (excl. fuel and unusual items) | 10.1¢ | 9.5¢ |
| Total operating expenses (excl. fuel) (millions) | $5,237 | $5,047 |

In virtually every category of cost savings, the Debtors met or exceeded the goals of the reorganization plan in the Prior Bankruptcy. Had revenue results similarly conformed to plan, the Debtors would have been positioned to be a profitable enterprise. But, as it turned out, the Debtors' forecasts were too optimistic about the revenue environment in which they would have to compete. The two primary reasons the reorganization plan in the Prior Bankruptcy did not succeed were higher than predicted fuel costs and lower revenues. The Debtors' projections for mainline were as follows:

| | Prior Bankruptcy- Projections for 2004 | 2004 Results |
|---|---|---|
| Fuel price (per gallon) | 80.5¢ | 112.08¢ (net of hedging) |
| Passenger revenue (per available seat mile) | 10.4¢ | 9.3¢ |
| Yield | 14.1¢ | 12.4¢ |
| Total passenger revenue (in millions) | $5,567 | $4,966 |

While fuel prices accelerated the current bankruptcy filing, it was the decline in domestic passenger unit revenues, not fuel prices, that was the central problem. The growth of low-cost carriers and the low-cost carriers' increase in pricing power in the domestic market had a profound structural impact on the airline industry. The Debtors did not anticipate the magnitude of this structural shift.

Industry revenue is down, even though passenger travel is up. The reason revenue is down while passenger travel is up is pricing. Although low-cost carriers currently represent only about 26% of industry capacity, the low-cost carriers achieved pricing power in the general market as a result of their explosive growth. With their movement into new markets, and the growth of the Internet as a source of fare and scheduling information, low-cost carriers now establish price levels in most of the markets in which the Debtors and other legacy carriers fly. This development, although positive for consumers, has had a persistent and deleterious effect on the revenue side of the Debtors' businesses and represents a new paradigm in the airline industry. Passenger levels are increasing, but the legacy carriers, such as the Debtors, are still losing money.

### C. Efforts to Implement the Transformation Plan

Throughout the spring and summer of 2004, the Debtors communicated with key stakeholders and the public their plan to transform into a low cost carrier, making it a fully competitive and profitable airline (the "Transformation Plan"). The Debtors believed that the Transformation Plan would enable them to be a strong and viable competitor in the future. The Transformation Plan was built on several aspects of proven success in the airline industry, beyond the necessary lower labor costs, including lower overall costs, a simplified fare structure and expanded services in the eastern United States, the Caribbean and Latin America. Specifically, the Debtors have taken or are currently undertaking the following initiatives:

- Lower, simplified pricing and lower distribution costs. USAI has taken steps to simplify its fares by introducing its "Go Fares" pricing plan in many markets served from Philadelphia and Washington, D.C., and has stated its intent to expand that pricing plan across its system in conjunction with achieving lower costs. A redesigned web site and more airport technology will also lower distribution costs, enhance customer service and improve airport processing.

- Enhanced low-cost product offering. USAI customers will benefit from a combination of product offerings that is unique among low-cost carriers, including two-class service, international flights to Europe, the Caribbean, Latin America and Canada, service to airports that business travelers prefer, access to a global network via the Star Alliance, a premium frequent flyer program and competitive on-board service.

- Network enhancements. Leveraging its strong positions in the major Northeast markets, USAI will use its airport slot and facilities assets to offer nonstop service to more major business and leisure destinations. Service to and from Pittsburgh has been reduced in accordance with previously announced operational changes. Fort Lauderdale will handle certain Latin America service. Operations at Charlotte have been expanded and new routes from Ronald Reagan Washington National Airport have been introduced. In addition, changes have been made to the scheduling practices at Philadelphia to improve reliability, new destinations are being added to the Caribbean and Latin America and service was introduced to Barcelona and Venice in May.

- Lower unit operating costs. In conjunction with more point-to-point flying, USAI intends to fly its fleet more hours per day as it decreases the time aircraft sit on the ground at hubs, waiting for connecting passengers. Productivity increases will be gained through this more efficient scheduling in conjunction with the contractual labor changes.

## D. Significant Events During the Bankruptcy Cases

### *1. Bankruptcy Filing.*

The Debtors filed for relief under Chapter 11 of the Bankruptcy Code on September 12, 2004. Since the Petition Date, the Debtors have continued to operate as debtors-in-possession subject to the supervision of the Court in accordance with the Bankruptcy Code. An immediate effect of the filing of the Debtors' bankruptcy petitions was the imposition of the automatic stay under Section 362(a) of the Bankruptcy Code which, with limited exceptions, enjoined the commencement or continuation of all collection efforts by creditors, the enforcement of liens against property of the Debtors and the continuation of litigation against the Debtors. This relief provided the Debtors with the "breathing room" necessary to assess and reorganize their businesses.

### *2. First Day Orders.*

The Debtors filed numerous motions on the Petition Date seeking the relief provided by certain first day orders. First day orders are intended to ensure a seamless transition between a debtor's prepetition and postpetition business operations by approving certain normal business conduct that may not be specifically authorized under the Bankruptcy Code or as to which the Bankruptcy Code requires prior approval by the bankruptcy court. On the Petition Date, the Court entered an order scheduling hearings on the first day motions to be held on September 13, 2004 and entered bridge orders granting the Debtors limited relief on certain of the first day motions pending such hearing. At the hearing held on September 13, 2004 (the "First Day Hearing"), the Bankruptcy Court granted the Debtors' first day motions for various relief designed to stabilize the Debtors' business operations and business relationships with customers, vendors, employees and others. The first day orders in the Chapter 11 Cases authorized the Debtors to, among other things:

- substantially maintain their existing bank accounts and operation of their cash management system;
- reject certain unexpired real property leases and establish procedures relating thereto;
- honor prepetition obligations to the Debtors' customers and to continue customer programs and practices in the ordinary course of business;
- pay prepetition obligations to foreign vendors, foreign service providers and foreign governments;
- pay certain outside maintenance providers, shippers and contractors in satisfaction of perfected or potential mechanics', materialmens', or similar liens or interests and other claims and honor certain related contracts in the ordinary course of business;
- pay certain prepetition employee wages, salaries, benefits and continue employee benefit programs in the ordinary course of business and directing all banks to honor certain prepetition checks for payment of prepetition wage, salary and benefit obligations;
- pay prepetition sales, use, trust fund and related tax obligations;

- apply prepetition payments to prepetition and/or postpetition fuel supply contracts, honor other fuel, supply, distribution, and storage contracts and continue participation in fuel consortia;

- assume executory contracts relating to clearing house agreements, ARC agreements, BSP agreements, cargo settlement agreements, UATP agreements, and ATPCO agreements and honor certain obligations related to such agreements and related bilateral interline agreements, alliance agreements, code share agreements, global distribution (reservation) systems agreements, service agreements, travel agency agreements, online services agreements, dividend miles agreements, and cargo agreements in the ordinary course of business;

- reject certain leased aircraft equipment; and

- retain the following professionals to serve on behalf of the Debtors in the Chapter 11 Cases: Arnold & Porter LLP as primary bankruptcy counsel; Seabury Aviation Advisors Inc. as aviation, financial and restructuring advisors and consultants; McGuire Woods LLP as local bankruptcy counsel; O'Melveny & Meyers LLP as special labor counsel; FTI Consulting, Inc. as Restructuring Advisors and consultants; and KPMG LLP as Auditors and Tax Advisors.

These first day orders had the desired effect of allowing the Debtors to have a smooth entry into the Chapter 11 process.

*3. Other Significant Bankruptcy Court Actions.*

In addition to the orders approving the first day motions and the other matters described above, the Debtors have sought and obtained certain orders from the Bankruptcy Court that are of particular importance in the operation of the Debtors' businesses or in the administration of the Chapter 11 Cases. Included among such orders are the following:

- Extension of Time to Assume or Reject Nonresidential Real Property Leases. The Bankruptcy Court extended the deadline under 11 U.S.C. § 365(d)(4) for the Debtors to assume or reject nonresidential leases through the earlier of August 31, 2005 or the date of confirmation of a plan of reorganization.

- Extension of Time to Remove Actions. The Bankruptcy Court extended the time within which the Debtors may remove actions pursuant to 28 U.S.C. § 1452 and Federal Rule of Bankruptcy Procedure 9027(a)(2) through and including the later to occur of (i) April 30, 2005 or (ii) 30 days after entry of an order terminating the automatic stay with respect to the particular action sought to be removed.

- Aircraft Rejection/Abandonment Motions. In addition to the motion filed by the Debtors on the Petition Date, the Debtors subsequently filed additional motions (the "Postpetition Rejection/Abandonment Motions") seeking the authority to reject or abandon certain, but not necessarily all, additional aircraft and engines from larger pools of aircraft identified on exhibits to the Postpetition Rejection/Abandonment Motions. The Debtors have rejected numerous additional aircraft since the Petition Date.

- Procedures for Lifting the Automatic Stay with respect to Certain Claims. On November 22, 2004, the Bankruptcy Court entered an order authorizing the Debtors to enter into stipulations to modify the automatic stay to allow certain claims, primarily personal injury claimants, to proceed to settlement or judgment of such claims solely with respect to available insurance proceeds.

- Labor and Benefits Matters. The Bankruptcy Court entered certain orders with respect to the Debtors' collective bargaining agreements with its labor unions, benefit plans and retiree benefits, which are discussed in Section VII.D.9 below.

- Exclusivity. Pursuant to an order entered on January 27, 2005, the Bankruptcy Court extended the Debtors' exclusive period to propose a plan of reorganization (the "Filing Period") through March 31, 2005, and to solicit acceptances of such plan (the "Solicitation Period") through June 30, 2005. Subsequently, by an order entered on April 1, 2005, the Court extended the Filing Period through and including May 31, 2005 and extending the Solicitation Period through and including August 31, 2005, and by an order entered on June 23, 2005, the Filing Period was extended through and including August 31, 2005 and the Solicitation Period was extended through and including October 31, 2005.

- Credit Card Agreements. Credit card sales represent the substantial majority of the Debtors' total gross receipts. The Debtors have various agreements with credit card processors to collect and process credit card receivables. Pursuant to these various agreements, the parties specify a discount rate that reduces the amount of credit card receivables that are paid by processors to the Debtors. In addition, the agreements specify the amount of reserve that the processors can maintain. As the largest component of the Debtors' revenues, credit card sales are an absolutely essential component of the Debtors' business. Accordingly, the Debtors moved for several orders authorizing the Debtors to assume, as modified, contracts with their credit card processors. Specifically the Bankruptcy Court, in four separate orders, authorized the Debtors to assume modified credit card processing agreements with (i) Diners Club International Ltd., (ii) American Express Travel Related Services Company, Inc., (iii) Discover Financial Services, Inc. and (iv) Bank of America, N.A.

- Section 1110 Agreements and Stipulations. The Bankruptcy Court entered an order authorizing: (i) the Debtors to enter into agreements pursuant to Section 1110(a)(2) of the Bankruptcy Code ("1110 Agreements") confirming their undertaking to perform all obligations under certain leases and secured financings (the "Aircraft Agreements") relating to aircraft and other equipment that may be subject to Section 1110 of the Bankruptcy Code (collectively, the "Aircraft Equipment"); (ii) the Debtors to make such payments, and to take such actions, as may be necessary to cure defaults and retain protection of the automatic stay with respect to such Aircraft Equipment; and (iii) the Debtors to enter into stipulations pursuant to Section 1110(b) of the Bankruptcy Code with the Debtors' aircraft lessors and financiers that may qualify for protections under Section 1110 of the Bankruptcy Code (collectively, the "Aircraft Creditors") to extend the time to perform obligations required under Section 1110 of the Bankruptcy Code, all such agreements being subject to final approval of the Bankruptcy Court.

- Rejection of Real Property Leases. In addition to leases rejected as part of the First Day Hearing, the Debtors were also granted authority to reject a number of real property leases that were no longer necessary to the Debtors' continued business operations, including the following: PSA rejected a terminal lease at the Toledo Express Airport in Toledo, Ohio; Piedmont rejected a terminal lease at St. Joseph's County Airport in South Bend, Indiana; and USAI rejected a city ticket office lease in Annapolis, Maryland and a lease and use agreement at Chicago Midway Airport.

- Sale of Assets to the City of Philadelphia and Authorization for Setoff of Prepetition Debts. On February 18, 2005, the Bankruptcy Court entered an order approving the Debtors' agreement with the City of Philadelphia for the sale and leaseback by the Debtors of thirty (30) jet bridges and all machinery and equipment attached to the jet bridges or necessary for the operation of the jet bridges currently owned by the Debtors and located at gates in Terminals B and C of the Philadelphia International Airport. As a result of the transaction, the Debtors will receive approximately $5.2 million in credits issued by the City of Philadelphia to the Debtors, which credits will be applied, in lieu of cash, against obligations due and owing by the Debtors to the City of Philadelphia on account of goods, services and rent. Additionally, the Bankruptcy Court granted the City of Philadelphia relief from the automatic stay to exercise its right to setoff its prepetition claim against USAI of approximately $3.9 million against a prepetition credit owed to USAI of approximately $7.6 million, leaving USAI with net credits of over $3.7 million to be applied by USAI against the Debtors' obligations in respect of rent, fees and other charges owing to the City of Philadelphia.

- Aircraft and Equipment Financings. The Debtors have devoted significant time and effort to evaluating their numerous aircraft and equipment debt and lease financings and rationalizing their fleet. The Debtors have engaged in extensive negotiations with their various Aircraft Creditors with respect to the Debtors' fleet requirements in order*, inter alia,* to restructure their aircraft obligations consistent with market rates and otherwise to obtain significant additional cost savings. Most notably, pursuant to the GE Master MOU, as defined and discussed more specifically in Section VII.D.5 below, the Bankruptcy Court entered an order on December 17, 2004 approving a global aircraft finance restructuring agreement among the Debtors and GECC, the Debtors' largest Aircraft Creditor, which provides the Debtors with critical short-term liquidity, reduced debt, lower aircraft ownership costs, and enhanced engine maintenance services and leases for new regional jets, while preserving the vast majority of the Debtors' mainline fleet. On June 23, 2005, the Bankruptcy Court entered an order approving certain arrangements, modifications and supplements to the GE Master MOU. The Bankruptcy Court has also entered orders approving agreements among the Debtors and its other key Aircraft Creditors, including Airbus North America Sales Inc., ("Airbus"), Bombardier, Inc. ("Bombardier"), Empresa Brasileira de Aeronautica SA ("Embraer"), and SNECMA.

- Fuel Hedging Agreements. Recognizing the Debtors' large consumption of jet fuel in connection with their business activities and the potential risk-management benefits that would inure to the Debtors' bankruptcy estates if allowed to hedge fuel transactions, the Bankruptcy Court authorized the Debtors, subject to the prior written consent of the ATSB Lenders, to enter into and provide collateral for transactions pursuant to an aviation fuel hedging program for purposes of hedging against changes in fuel prices.

- Junior Debtor-in-Possession Financing. As described in Section III.D.1 above, on February 28, 2005, the Court entered an order authorizing the Debtors to enter into the Eastshore Financing Agreement.

- Bidding Procedures. As discussed in Section VII.D.11, on May 31, 2005, The Court approved an order approving procedures for the consideration of plan funding proposals, approving the form and manner of notice of competing offer procedures, and approving break up fees and related provisions.

- Transaction Retention Program. The Bankruptcy Court entered an order on June 15, 2005 authorizing the Debtors to implement (i) amended and restated severance policies for managing directors and covered employees below the level of managing director, and (ii) their Retention Payment Program.

*4. Use of Cash Collateral.*

In order to continue their business operations, meet their payroll and other necessary, ordinary business expenditures, acquire goods and services and otherwise preserve the value of the Estates, on the Petition Date, the Debtors moved the Bankruptcy Court for the entry of bridge, interim and final orders authorizing the Debtors' use of the cash collateral of the ATSB Lenders (the "ATSB Cash Collateral"). In connection with the filing of the Chapter 11 Cases, the ATSB Lenders agreed to the Debtors' continued use of ATSB Cash Collateral on an interim basis, which agreement was approved by the Bankruptcy Court pursuant to an Interim Order entered on September 13, 2004. The Bankruptcy Court thereafter approved three subsequent agreements reached among the Debtors and the ATSB Lenders extending the Debtors' ability to use the ATSB Cash Collateral, first through January 14, 2005, then through June 30, 2005, and an interim extension through July 29, 2005 subject to certain conditions and limitations more specifically set forth in such agreements (such orders authorizing the Debtors' continuing use of ATSB Cash Collateral are collectively referred to herein as the "ATSB Cash Collateral Order"). Under the ATSB Cash Collateral Order, the Debtors continue to have access to ATSB Cash Collateral in support of their daily business operations, subject to the requirement that they maintain an agreed-upon minimum amount of cash on hand each week. This weekly minimum cash requirement declines from approximately $500 million at the end of January 2005 to approximately $340 million on June 30, 2005. The interim agreement that will expire on July 29, 2005 requires, among other conditions, a weekly minimum unrestricted cash balance of $325 million. The Debtors must also maintain and achieve certain cumulative earnings levels during the period of the Debtors' permitted use of ATSB Cash Collateral, and must otherwise comply with certain additional covenants and restrictions set forth in the ATSB Cash Collateral Order.

*5. GE Master Memorandum of Understanding.*

In November 2004, Group reached a comprehensive agreement with GE as described in the Master Memorandum of Understanding and related term sheets (as amended, supplemented and modified from time to time, including where the context requires, by the GE Merger MOU, as defined below, the "GE Master MOU") that was approved by the Bankruptcy Court on December 17, 2004. The GE Master MOU and the transactions contemplated by the term sheets attached to the GE Master MOU, provided the Debtors with short-term liquidity, reduced debt, lower aircraft ownership costs, enhanced engine maintenance services and operating leases for new regional jets, while preserving the vast majority of USAI's mainline fleet owned or otherwise financed by GE. The key aspects of the GE Master MOU are as follows: (i) agreements providing for continued use of certain Airbus, Boeing and regional jet aircraft, and the return to GECC of certain other Airbus and Boeing aircraft, (ii) the creation of a bridge facility of up to approximately $56 million for use by the Debtors during the pendency of these Chapter 11 Cases, (iii) the purchase by GECC, and immediate lease back to USAI, of (a) the assets securing the 2001 GE Credit Facility, the 2003 GE Liquidity Facility, and other GE Obligations, consisting of 11 Airbus aircraft, 28 spare engines and the engine stands, and (b) 10 regional jet aircraft currently mortgaged-debt financed by GECC, (iv) a restructuring of the balance of the 2001 GE Credit Facility, with an additional permitted draw thereunder, subject to the pledge of certain additional collateral to secure the 2001 GE Credit Facility, (v) the commitment of GECC, subject to financial tests and other conditions, to provide leases for up to 31 additional regional jet aircraft, (vi) the modification of USAI's engine maintenance agreements with GEAE, and (viii) upon emergence from bankruptcy, the issuance of convertible notes in the aggregate principal amount of $125 million.

In connection with the Merger, the Debtors and America West have renegotiated certain of their respective existing agreements, and entered into new agreements, with GE. These agreements are set forth in a comprehensive agreement with GE and certain of its affiliates in the GE Merger MOU. In part, the GE Merger MOU modified and supplemented the agreements reached between the Debtors and GE in the GE Master MOU.

In relevant part, a summary of the key terms of the GE Master MOU, as modified, amended and supplemented by the GE Merger MOU, are as follows:

*(a) Bridge Facility*

The bridge facility entered into between Group and GECC pursuant to the GE Master MOU on December 20, 2004 will continue in effect during the pendency of the Chapter 11 Cases. The bridge facility provides for a loan in the amount of up to approximately $56 million, which has been drawn down.

The bridge facility bears interest at the rate of LIBOR plus 4.25%, matures on the date the Debtors emerge from their Chapter 11 Cases, and is payable in cash or, upon maturity, by issuance of the $125 million of convertible notes, as described below. The bridge facility is cross-collateralized and cross-defaulted with all other GE Obligations owed by any of the Debtors to GE, and is entitled to administrative expense claim status in the Chapter 11 Cases, with priority over all other administrative claims other than for aircraft financing, which are *pari passu*, and subordinate only to (i) the super-priority administrative expense claim of the ATSB Lenders under the ATSB Loan, (ii) post-petition wages and benefits, and (iii) any new money debtor-in-possession financing.

*(b) 2001 GE Credit Facility*

Following the application of the proceeds realized from the sale-leaseback transaction, the remaining balance due on the 2001 GE Credit Facility will be restructured into an amended and restated 2001 GE credit agreement, pursuant to which Group will be entitled to borrow additional amounts, which will result in a total principal outstanding balance thereunder of approximately $28 million. The additional borrowing will bear interest at LIBOR plus 4.25%, and will be repayable over eight quarters commencing September 2005, provided that if the Merger occurs, amortization will commence in September 2006 with a final maturity in 2010. The amended and restated GE credit agreement will be secured by a third lien on three CRJ-700 aircraft and a second lien on one CRJ-700 aircraft (in each case, subject to senior lien positions and subject to the consent of the senior lien holders pursuant to inter-creditor agreements reasonably acceptable to GE), and a first lien on one CF34 spare engine owned by USAI, with the aggregate of any senior liens on the collateral not to exceed $62 million. GE will release its liens on the four CRT aircraft in connection with the sale of all of the aircraft for a repayment on the loan of an agreed upon amount. Although Group's entry into the amended and restated GE 2001 credit agreement will not constitute an assumption of the amended and restated GE 2001 credit agreement, Group is required to reinstate the amended and restated GE 2001 credit agreement and related guaranty in connection with the Debtors' emergence from the Chapter 11 Cases.

*(c) GE Aircraft Transactions*

The GE Master MOU contemplated a series of transactions intended to provide the Debtors with additional liquidity and lower aircraft ownership costs. Pursuant to the GE Merger MOU, certain of these transactions were modified, with the parties also reaching new agreements regarding the restructuring of lease payments relative to certain aircraft and the early redelivery of additional aircraft. Under the GE Master MOU, as modified and supplemented by the GE Merger MOU, the parties have now reached the following agreements:

(i) With respect to certain B737-300, B757 and B737-400 aircraft, Group agreed, pursuant to the GE Master MOU and applicable Section 1110 agreements, to pay and perform all of its obligations under the applicable leases for those aircraft during the pendency of the Chapter 11 Cases, with a "true-up" payment to be made with respect to the B737-300 and B757 aircraft for accrued rent owing on June 30, 2005, at an assumed lease rental rate per aircraft, pro-rated for partial months. From and after the Debtors' emergence from bankruptcy, the average monthly rent on the B737-300, B757 and B737-400 aircraft would be at reduced rates per month, provided that Reorganized Group could further reduce the postpetition rent for the B737-400 aircraft by either paying GE cash or issuing the convertible notes of the reorganized US Airways, Inc. in an agreed upon amount. Under the GE Merger MOU, GE has agreed that, following the "true-up" payment being made, as determined as of June 30, 2005, with respect to the B737-300 and B757 aircraft, the rent payments due on the B737-300, B757 and B737-400 aircraft will be adjusted to the agreed upon reduced rates effective as of July 1, 2005, even though the Debtors have not yet emerged from bankruptcy, and, with respect to the B737-400, without the agreed upon cash payment or the issuance of the required amount of convertible notes. Each of the leases for these Boeing aircraft, as modified, will be assumed by the Debtors, provided that, if the Debtors fail to emerge from bankruptcy, only rent, return conditions and deferred rent (being the difference between current contractual rentals and the amended lease rentals) payable through the later of October 31, 2005 or the return of the aircraft will be entitled to administrative expense status, with all other claims under those leases, including rejection damages, being unsecured pre-petition claims. In the event that the Debtors fail to complete the Merger, the terms for the Boeing leases, including the rental rates, return conditions and expiry dates, will revert to their original terms (with the debtors receiving credit for all previously paid rent), subject to administrative expense status, as set forth above, and Group will again have the benefit of the provisions of the GE Master MOU in respect of the Boeing aircraft.

(ii) With respect to 23 CRJ-200 aircraft, GE has agreed to restructure the timing of the rental payments under the leases applicable to the aircraft to reduce the quarterly rent payments for a period of 30 months following the Debtors' emergence from bankruptcy. The amount of the rent reductions will be deferred and added to the rents payable under the applicable leases over a 24 month period immediately following the 30 month deferral, such that the lessors' lease economics are maintained. Fourteen of the leases for the CRJ-200 aircraft will also be extended for an additional three months.

(iii) Under the GE Master MOU, the Debtors have agreed to enter into short-term leases with respect to 16 CRJ aircraft, consisting of nine CRJ-200 aircraft and seven CRJ 700 aircraft, with those leases to be converted to long-term leases in connection with the Debtors' emergence from the Chapter 11 Cases. Pursuant to the GE Merger MOU, the Debtors have agreed to enter into the contemplated long-term leases by July 29, 2005, with those leases being postpetition agreements, subject to administrative expense status only for rent payable through the later of the October 31, 2005 and the return of the aircraft and return conditions, with all other claims under such leases, including rejection damages, being unsecured prepetition claims.

(iv) Pursuant to the GE Master MOU, Group agreed to modify the expiry dates for the leases relative to ten A319/A320 aircraft in order to provide for the early redelivery of the associated aircraft to GE, and also agreed to modify the expiry dates of the single investor documentation relating to certain Boeing aircraft, in both cases with redelivery conditions to be agreed upon. GE agreed to waive cross-default provisions and consent to the foreclosure of its interest in five B737-400 aircraft without any resulting claims in order to facilitate the Debtors' restructuring of the lease financing with respect to the aircraft with SNECMA which restructuring occurred in February 2005. As a result of the GE Merger MOU, in addition to the ten A319/A320 aircraft referred to above, Group agreed on the terms and conditions for the early return of 41 aircraft and up to six spare engines, with related return condition concessions to facilitate these redeliveries, all as follows:

> (a) With respect to six A319/320 aircraft that are subject to the sale-leaseback transaction, and one B737-300 aircraft, the applicable leases will be amended to modify the expiry dates under the leases to provide for their early termination and return of the subject aircraft to GE during the last six months of 2005. The amendments to the applicable leases and the early return of the aircraft will be effectuated without regard to the completion of the Merger or the occurrence of an event of default.
>
> (b) The leases for five B737-300s currently operated by the Debtors will be amended to provide for their termination, and attendant early redelivery of the subject aircraft between July 2005 and October 31, 2005, provided that, as of the date of each such termination and redelivery, no event of default has occurred and is continuing and there has been no public announcement by Group or America West, any SEC filing or any governmental authority pronouncement, which evidences that any significant term or condition of the Merger will not be

complied with or that an applicable milestone as provided for in the GE Merger MOU will not be met.

(c) Leases in respect of an additional 29 Boeing aircraft from Group's fleet will be amended to modify the expiry dates under the leases so as to provide for their early termination and accompanying early return of the subject aircraft to GE between 2005 and 2009, subject to completion of the Merger. With respect to eleven of the Boeing aircraft, however, which will be scheduled for removal from service during 2009 pursuant to the applicable amended leases, Group will grant GE an option exercisable on or before October 31, 2006 to further modify the expiry dates of those leases to provide for the removal of those aircraft during an earlier period, from July 2007 through July 2008, unless Group has, as of September 30, 2006, achieved an agreed upon corporate credit rating or satisfied certain financial covenant tests.

(d) In connection with the removal of the above-referenced Boeing aircraft from Group's fleet, Group will be permitted to terminate an agreed upon number of the spare engine leases entered into by the Debtors pursuant to the sale-leaseback transaction, from time to time, as and when an agreed upon number of those aircraft have been redelivered to GE.

(e) To facilitate the early redelivery of the Airbus aircraft from Group's fleet, GE has agreed to grant certain return condition concessions relative to such aircraft. Prior to the Debtors' emergence from their Chapter 11 Cases, GE and Group have agreed to net (i) any redelivery payment obligations payable by GE to the Debtors against (ii) any redelivery payment obligations payable by the debtors to GE relative to redelivered aircraft, and to the extent that any net balance is owing to the Debtors by GE, the balance will be payable to the debtors upon Group's emergence from the Chapter 11 Cases.

(v) Under the GE Master MOU, Group and GE reached an agreement with respect to five engine repair and maintenance agreements, and certain other matters. This agreement included, among other things, the agreement of Group to assume three of the agreements, subject to a limitation on possible administrative expense claims, and also provided for GE's agreement to: forgive and release USAI from certain prepetition obligations; defer certain payment obligations arising under these agreements; extend one maintenance agreement; continue certain existing deferrals; and determine the treatment of certain removal charges.

(vi) Pursuant to the GE Merger MOU, Group and GE further agreed, among other things, to:

(a) forgive certain removal charges relative to CFM56-3 engines, in addition to those removal charges to be forgiven pursuant to the GE Master MOU;

(b) provide USAI with the right to remove certain CFM56-3 engines otherwise subject to agreements with GE Engine Services, with all removal credits owing to the Debtors in connection with those agreements to be applied against outstanding amounts otherwise owing to GE Engine Services by the Debtors under the term note issued to GE Engine Services pursuant to the GE Master MOU;

(c) modify the Debtors' obligations with respect to deferred obligations (as defined in the GE Master MOU) to provide that those obligations will be payable in two installments, due on each of June 30, 2005 and September 30, 2005;

(d) extend the term of the CFM56-5 engine maintenance agreement with GE Engine Services, with the Debtors waiving certain conversion rights; and

(e) modify the CFM56-3 engine maintenance agreement to provide for an agreement upon minimum monthly payments on account of accrued engine flight hours;

(f) a last right of offer for GE Engine Services with respect to any follow-on engine maintenance agreement for the debtors' CF6-80C2 fleet;

(g) certain arrangements relative to engine selection in the event Group elects to assume an existing A320 aircraft purchase agreement between Airbus and Group upon its emergence from the Chapter 11 Cases; and

(h) certain arrangements relative to engine selection in the event Reorganized Group, following the Merger, proceeds to take delivery of certain A350 aircraft from Airbus.

*(d) Sale-Leaseback Transaction*

Pursuant to the GE Master MOU, as amended and supplemented by the GE Merger MOU, the Debtors will sell all of the collateral securing the 2001 GE Credit Facility, the 2003 GE Liquidity Facility and certain of the GE Engine Services maintenance agreements, consisting of 11 Airbus aircraft and 28 spare engines, together with ten CRJ aircraft, to affiliates of GE for approximately $633 million, with USAI immediately leasing back the aircraft and engines under agreed upon operating leases at market rates. The lease terms will commence upon the closing of the sale of each aircraft and spare engine, and will expire at various times. The sale proceeds realized from the sale-leaseback transaction will be applied to repay the 2003 GE Liquidity Facility, the mortgage financing associated with the CRJ aircraft and a portion of the 2001 GE Credit Facility. The operating leases will be cross-defaulted with all other GE obligations, other than excepted obligations, and will be subject to return conditions as agreed to by the parties.

*(e) Regional Jet Leasing*

Pursuant to the GE Master MOU, GE agreed to provide lease financing for up to 31 regional jet aircraft, to consist of 70- to 100-seat regional jet aircraft in a mix and on terms to be agreed to between Group and GE. During the first quarter of 2005, GE provided lease financing for six CRJ-700 aircraft, with terms expiring on the earlier of the Debtors' emergence from bankruptcy and June 30, 2005. Under the terms and conditions of the GE Merger MOU, Group and GE have agreed to convert the leases for the six CRJ aircraft into long term leases by July 29, 2005, with the long term leases being post-petition agreements, subject to a limitation on administrative expense status to rent payable through October 31, 2005 (or a later date agreed to by the parties) and return condition obligations. The GE Merger MOU also eliminates any further obligation on GE to provide regional jet financing directly to Group, but GE has agreed to provide single investor or operating leases to third party carriers meeting financial tests and otherwise acceptable to GE for ten EMB-170/190/195 aircraft delivering between 2007 and 2008, on a schedule and terms to be agreed on by the parties, and subject to manufacturer support. GE will also provide single investor or operating lease financing to Republic Airways for three EMB-170 aircraft referred to below that are currently committed to be delivered to the debtors, subject to manufacturer support and other terms and conditions acceptable to GE. Finally, to facilitate a transaction agreed to between Group and Republic Airways, GE will also consent to the assignment to Republic Airways of up to 15 EMB-170 leases, subject to manufacturer support and other conditions acceptable to GE.

*(f)* *Convertible Notes*

Pursuant to the GE Master MOU, the Debtors agreed that upon its emergence from their Chapter 11 Cases, as consideration for conversion of the bridge facility, forgiveness and release of USAI from certain prepetition obligations, deferral of certain payment obligations and amendments to future maintenance agreements, entering into the GE Master MOU, an affiliate of GECC will receive convertible notes of Reorganized USAI in the aggregate principal amount of $125 million. The convertible notes will be convertible at any time, at the holders' election, into shares of New Common Stock of Reorganized Group at a conversion price equal to the product of (x) 140%-150% (at USAI's option) and (y) the average closing price of New Common Stock for the sixty consecutive trading days following emergence from bankruptcy and the listing of New Common Stock on NASDAQ or a national stock exchange. The convertible notes will bear interest at a rate to be determined no later than thirty days prior to the Debtors' scheduled date of emergence from bankruptcy and interest will be payable semi-annually, in arrears, and will mature in 2020. USAI will be permitted to redeem some or all of the convertible notes at any time on or after the fifth anniversary of their issuance, at a redemption price payable in cash or, subject to certain conditions, New Common Stock. Holders of the convertible notes may require USAI to repurchase all or a portion of their convertible notes on the fifth and tenth anniversary of the issuance of the notes at 100% of the principal amount of the convertible notes, plus accrued and unpaid interest to the date of repurchase, payable, at USAI's election, in cash or New Common Stock. The convertible notes will be senior unsecured obligations and will rank equally in right of payment with all existing and future unsecured senior obligations of Reorganized USAI. The convertible notes will be guaranteed by Reorganized Group.

*6.* *Aircraft Financings.*

In addition to the fleet restructuring resulting from the GE Master MOU, the Debtors restructured their financing arrangements with certain significant Aircraft Creditors, including, most notably, Embraer, Bombardier and Airbus.

*(a)* *Embraer*

Upon the commencement of the Chapter 11 Cases, Embraer ceased delivery of regional jets to the Debtors under that certain Purchase Agreement DCT-021/03 (as amended, modified and supplemented from time to time, the "Purchase Agreement") between Embraer and the Debtors. In addition, Embraer was, as of the Petition Date, holding approximately $52 million of pre-delivery cash deposits (the "EMB PDPs") advanced by the Debtors to Embraer on account of aircraft deliveries originally scheduled under the Purchase Agreement.

In December 2004, the Debtors reached an aircraft leasing and financing agreement with Embraer, which was approved by the Bankruptcy Court in January 2005. Pursuant to the agreement reached with Embraer, the Debtors purchased and took delivery of three ERJ-170 aircraft in January 2005, and undertook to purchase and take delivery of three additional ERJ-170 aircraft by March 31, 2005, which six aircraft (the "Six EJR-170s") were originally scheduled under the Purchase Agreement for delivery between the Petition Date and December 31, 2004. The purchase of the first three ERJ-170s delivered in January 2005 was financed by Embraer through a mortgage loan facility and the application of approximately $18.5 million of EMB PDPs held by Embraer. USAI did not take delivery by March 31, 2005 of the remaining three ERJ-170 aircraft. As a result, damages accrue on account of the Debtors' failure to take delivery of such aircraft from and after April 1, 2005 at the rate of $162,795 per month per aircraft until the delivery of the aircraft. If the aircraft are not delivered by July 31, 2005, Embraer's obligation to deliver the final three ERJ-170 aircraft will terminate and Embraer's damages with respect to such undelivered aircraft will be determined pursuant to the Purchase Agreement and may be as much as $10 million (rather than the rate of $162,795 per month per aircraft), as reduced by application of the $4.2 million of EMB PDPs previously applied against such damages as set forth below, with Embraer having the right to apply any then remaining EMB PDPs on account of Embraer's aggregate damages. Group is currently working to arrange financing for these aircraft and has secured GE's agreement to provide that financing under the GE Merger MOU. Upon delivery of the first three ERJ-170s, the parties have agreed that unless the Debtors assume the Purchase Agreement pursuant to Section 365 of the Bankruptcy Code, no further obligations shall arise on the part of either the Debtors or Embraer with respect to the purchase and delivery of any additional aircraft, other than those obligations related to the purchase and delivery of the final three ERJ-170s. Embraer and the Debtors have further agreed to negotiate a new delivery schedule upon the Debtors' assumption of the Purchase Agreement or upon the occurrence of certain other events.

The Debtors and Embraer have also agreed to (i) establish a reserve fund from the EMB PDPs in the approximate amount of $11.5 million to be applied in the amounts and on the dates as and when payments are due during the period from October 1, 2004 through July 31, 2005 under certain loans made by Embraer in connection with the seven ERJ-170s purchased by the Debtors pursuant to the Purchase Agreement prior to the Petition Date, (ii) apply approximately $4.2 million of EMB PDPs on account of damages arising incident to the failure of the Debtors to take delivery of the Six ERJ-170s as originally scheduled under the Purchase Agreement, and (iii) apply the remaining EMB PDPs held by Embraer in connection with the Debtors' acquisition of the final three ERJ-170s, provided such acquisition closes on or before July 31, 2005, failing which Embraer shall be entitled to retain such remaining balance of EMB PDPs on account of the damages arising from Debtors' failure to take delivery of the Six ERJ-170s as originally scheduled under the Purchase Agreement.

*(b)* *Bombardier*

(i) *CRJ-701 Aircraft*

Upon the commencement of the Chapter 11 Cases, Bombardier ceased delivery of regional jets to the Debtors under that certain Master Purchase Agreement, dated May 9, 2003, between the Debtors and Bombardier (as amended, modified and supplemented from time to time, the "Master Purchase Agreement"). In addition, Bombardier was, as of the Petition Date, holding approximately $37 million of pre-delivery cash deposits (the "BBD PDPs") advanced by the Debtors on account of aircraft deliveries scheduled under the Master Purchase Agreement. Under the restructuring agreement reached with Bombardier, and evidenced by that certain 1110 Agreement and Order Regarding Section 1110 Compliance with Respect to Certain Canadair Regional Jets on December 1, 2004 (the "CRJ 1110 Agreement"), (i) approximately $3.7 million of BBD PDPs were applied against and in full satisfaction of the then existing defaults and cure obligations of the Debtors in connection with the Debtors' Section 1110(a)(2) election relative to certain CRJ-701 aircraft then being operated by the Debtors, (ii) $3 million of BBD PDPs were applied by Bombardier against and in full satisfaction of all costs, expenses, losses, and damages associated with reconfiguring certain CRJ-701 aircraft deemed undelivered in breach of the Master Purchase Agreement, and (iii) approximately $28 million of BBD PDPs were made available by Bombardier toward the acquisition of three new CRJ-701 aircraft, provided such aircraft was acquired by the Debtors in January 2005. To that end, the Debtors subsequently arranged for financing with DVB Bank AG in an amount, which, together with the $28 million of available BBD PDPs and $2 million of the Debtors' available cash, allowed the Debtors to acquire such aircraft by the end of January 2005. The CRJ 1110 Agreement further provides that for so long as said agreement remains in effect and the Debtors do not terminate the Master Purchase Agreement no obligations will arise on the part of the Debtors or Bombardier with respect to the purchase and delivery of any aircraft under the Master Purchase Agreement or any documents related thereto.

(ii) *Dash-8 Aircraft*

The Debtors and Bombardier reached an agreement with respect to the twenty-four (24) aircraft lease or sublease agreements (as amended, modified or supplemented from time to time, the "BBD Aircraft Agreements") to which they are a party and pursuant to which the Debtors lease certain Dash-8 Aircraft. Under the terms of the agreement reached with Bombardier and evidenced by that certain 1110 Agreement and Order Regarding Section 1110 Compliance with Respect to Certain Dash-8 Aircraft, dated November 29, 2004, Bombardier applied certain credit notes issued under the BBD Aircraft Agreements against the Debtors' Section 1110(a)(2) cure obligations. Bombardier also agreed that for so long as the Dash-8 1110 Agreement is in effect and the Debtors are in compliance with their obligations thereunder, the Debtors are required to pay only the "net" amount from time to time owing by the Debtors to Bombardier on account of the Debtors' payment obligations under the BBD Aircraft Agreements after giving effect to the application of the credit notes issuable to the Debtors by Bombardier in connection with such payment obligations. The parties further agreed that any credit notes that may have been issued under the BBD Aircraft Agreements prior to the Petition Date will not be used for payments by the Debtors to Bombardier for any obligation owed to Bombardier by the Debtors under the BBD Aircraft Agreements or any other agreement the parties may have entered.

*(c) Airbus*

As of December 31, 2004, Group had 19 A320-family aircraft on firm order scheduled for delivery in the years 2007 through 2009. Group also had ten A330-200 aircraft on firm order scheduled for delivery in the years 2007 through 2009. On February 3, 2005, the Bankruptcy Court approved Group's agreement with Airbus providing for, among other things, delivery of the 19 A320 family aircraft in years 2008 through 2010, and delivery of the ten A330-200 aircraft in years 2008 through 2009.

The Airbus MOU includes, among other things: (a) adjustments to the delivery schedules for the narrow-body and wide-body aircraft, and an agreement by Group to assume the related purchase agreements in connection with its emergence from Chapter 11; (b) a new order for 20 A350 wide-body aircraft, subject to Group's right to convert up to ten A350 orders to A330 orders, and backstop financing commitment by Airbus with respect to a substantial number of the A350 aircraft; (c) elimination of cancellation penalties on Group's existing order for ten A330-200 aircraft, provided that Reorganized Group has met certain predelivery payment obligations under the A350 order; and (d) a term loan of up to $250 million, of which $213 million can be used for general corporate purposes.

As of March 31, 2005, Airbus held purchase deposits of $50 million related to Group's order for ten A330-200's, which, under the Airbus MOU will be applied, in part, as a non-refundable restructuring fee on account of the agreements reached relating to the A330-200's, and in part as purchase deposits on account of the A350 orders and the rescheduled A330-200 orders.

*7. Appointment of Creditors' Committee.*

On September 21, 2004, the United States Trustee for the Eastern District of Virginia appointed the following persons or entities to the Official Committee of Unsecured Creditors of the Debtors (the "Creditors' Committee"): Airbus North American Holdings, Inc.; Air Line Pilots Association International; Electronic Data Systems Corporation; Wachovia Bank National Association; International Association of Machinists and Aerospace Workers; Association of Flight Attendants; LSG Sky Chefs, Inc.; Pension Benefit Guaranty Corporation; US Bank National Association; Sabre, Inc.; Bombardier Aerospace; Communications Workers of America, AFL-CIO; and General Electric. The Creditors' Committee is represented by Otterbourg, Steindler, Houston & Rosen, P.C., with offices located in New York City. Co-Counsel to the Creditors' Committee is the law firm of Vorys, Sater, Seymour and Pease LLP of Alexandria, Virginia. The Creditors' Committee employed Giuliani Capital Advisors LLC, as financial advisors, Taurus F.C. as merger and acquisition advisors; and MergeGlobal, Inc. as airline advisors.

*8. Appointment of Retiree Committee.*

At the Petition Date, the Debtors had in excess of 10,800 current retirees receiving medical and other benefits, and the Debtors' financial obligations to fund such medical benefits were substantial, estimated to be $69 million for 2005 and $72.6 million for 2006. As part of the Transformation Plan, the Debtors sought to substantially reduce their obligations with respect to retiree medical benefits, and in connection with such efforts, the Debtors moved the Court for the appointment of a committee to represent the interests of retirees who are not otherwise represented by union representatives in the Chapter 11 Cases. The Debtors sought the appointment of a single retiree committee to serve as the authorized representative to represent the interests of nonunion retirees and those union retirees whose union elected not to serve as the authorized representative for retiree members. On October 29, 2004, the Bankruptcy Court entered an order forming a single retiree committee, the Official Committee of Retired Employees of USAI (the

"Retiree Committee") to serve as the "authorized representative" of the ALPA Retirees, the AFA Retirees, the CWA Retirees, and the Debtors' Non-union Retirees. The IAMAW and TWU represented their current retirees. The following five members were appointed to serve on the Retiree Committee: ALPA Retirees Member, Thomas G. Davis; AFA Retirees Member, Judith M. Schmidt; CWA Retirees Member, Judy W. Dreyer; Non-Union Retirees Member, James E. Lloyd; and Non-Union Retirees Member, Gerald Carrusi. The Retiree Committee employed Thelen Reid & Priest LLP as counsel, Alvarez & Marsal, LLC as financial advisors and Watson Wyatt & Company as actuarial consultants to the Retiree Committee. The Debtors immediately began negotiations with the Retiree Committee about reducing the cost of current retiree benefits. The results of those negotiations were embodied in the terms of a settlement described below.

*9. Labor, Pension and Benefit Matters.*

Already in extreme financial distress, the Debtors recognized from the outset of their bankruptcy cases that if immediate steps were not taken to make substantial reductions in labor costs, the Debtors would have insufficient cash, without regard to possible further deterioration in their revenue below projections as a result of further increases in fuel costs, to continue to operate beyond January 2005. Without substantial reductions in labor costs, the Debtors projected that they would be forced to undertake massive layoffs and potential liquidation by mid-February 2005. Based on such facts, on September 24, 2004, the Debtors moved pursuant to Section 1113(e) of the Bankruptcy Code for interim relief from their collective bargaining agreements ("CBAs") with ALPA, AFA, CWA, IAMAW and TWU. The Debtors sought through such relief immediate interim modifications in the CBAs that would reduce wages by 23 percent, reduce certain retirement contributions, and make certain other modifications in the work rules in the Debtors' CBAs resulting in an aggregate reduction in labor costs of approximately $38 million per month. The Debtors estimated that such modifications, if imposed through March 31, 2005, along with approximately $5 million per month in non-labor costs savings, would likely provide the cost reductions necessary for the Debtors to successfully maintain their business operations through the end of the first quarter of 2005.

The Bankruptcy Court conducted hearings on the Debtors' request for Interim Relief on October 7, 12, 14 and 15, 2004, and thereafter ruled that interim modifications to the Debtors' CBAs were essential to the Debtors' continuing in business and authorized the Debtors to make a number of modifications to the CBAs, including reduction in base pay rates of 21 percent, reduction in required employer contributions to certain pension plans and employee 401(k) plans, and rendering non-applicable the Debtors' contractual obligations to maintain minimum numbers of aircraft (hereinafter the "Interim Relief").

While the Debtors' Motion for Interim Relief was pending before the Court, they reached consensual modifications to a number of CBAs. They consensually modified three CBAs with the TWU which include the TWU Dispatchers, Flight Crew Training Instructors and Flight Simulator Engineers. The Debtors had attempted to negotiate modifications to the CBAs with the TWU prior to the commencement of the Debtors' Chapter 11 Cases and those efforts continued and intensified subsequent to the bankruptcy filing, with the TWU's membership ratifying the modifications to the CBAs in September and October, 2004. The modifications to the TWU's CBAs provide for cash savings in the form of reductions in pay and benefits, and modifications to certain work rules which helped provide the Debtors with flexibility to implement the Transformation Plan. In all, the modifications to the TWU's CBAs provided the Debtors with an estimated $6.6 million in annual cost savings. The Court approved the modifications to the TWU's CBAs by entry of a consent order on October 27, 2004.

Additionally, the Debtors reached consensual modifications to the Debtors' CBA with ALPA that will result in approximately $300 million in annual savings in 2005 with increased savings in future years. The consensual agreement was reached after extensive arms-length negotiations which involved trade-offs in each of the four areas covered by the CBA – pay, productivity, benefits and scope. The modifications provide cash savings in the form of reductions in pay and benefits that will provide immediate and long term cash savings to the Debtors. The agreement also provides modifications of certain work rules that, over time, will generate significant additional cash savings. The Court approved the modifications to the ALPA CBA by a consent order entered on October 27, 2004.

Due to the severity of the Debtors' remaining cost disadvantage with respect to the low-cost carriers, on November 12, 2004, the Debtors filed a motion seeking (1) permanent relief from CBAs with their labor unions which had not agreed to long-term cost reductions, (2) a reduction in retiree benefits, and (3) a termination of three defined benefit pension plans (the "Permanent Relief Motion"). A seven day evidentiary trial on the Permanent Relief Motion was held in December 2004 and early January 2005, during which time the Debtors continued their efforts to (1) negotiate modifications to the CBAs with their labor unions that had not already agreed to such modifications, and (2) negotiate reductions to retiree health benefits with the Retiree Committee and the IAMAW with the hope of consensually achieving the necessary labor cost savings under the Transformation Plan.

During the pendency of the Permanent Relief Motion, the Debtors and the CWA reached a tentative agreement regarding consensual modifications to the CBA between the two parties, which tentative agreement was subsequently ratified by the requisite membership of the CWA on December 23, 2004, and approved by the Bankruptcy Court on January 6, 2005. As a result, the Debtors will achieve approximately $130 million in annual cost savings. Similarly, the Debtors and the AFA reached a tentative agreement on December 16, 2004, regarding the creation of a new CBA between the parties, which tentative agreement was ratified by AFA's membership on January 5, 2005, and approved by the Bankruptcy Court on January 11, 2005. The Debtors' new CBA with the AFA will provide the Debtors with approximately $94 million in average annual cost savings.

As of the date of the Bankruptcy Court's ruling on the Permanent Relief Motion on January 6, 2005, the Debtors had successfully achieved ratified agreements providing for consensual, permanent modifications to their existing CBAs or providing for a new collective bargaining agreement with all but one of their unions, the IAMAW. The IAMAW previously had agreed to distribute the Debtors' most recent proposal for new CBAs to its membership for ratification, but that ratification vote was not scheduled to occur until January 21, 2005. Accordingly, the Bankruptcy Court entered an order granting the relief sought in the Permanent Relief Motion as it applied to the IAMAW and authorized the Debtors to reject the CBAs with the IAMAW, subject to the parties' agreement to maintain the status quo pending the outcome of the IAMAW's ratification vote.

On January 21, 2005, the IAMAW's membership ratified the Debtors' proposal for new CBAs, and the Debtors subsequently filed a motion seeking this Court's approval of the ratified proposal (the "IAMAW Consent Motion"). On February 3, 2005, the Bankruptcy Court entered an order granting the relief requested in the IAMAW Consent Motion, thereby providing the Debtors with approximately $271 million in average annual cost savings on a going forward basis.

On January 6, 2005, the Bankruptcy Court also entered an order authorizing the Debtors' requested distress termination of certain of their mainline defined benefit pension plans (the "Distress Termination Order"). The Distress Termination Order authorized the Debtors to terminate (1) the Retirement Plan for Flight Attendants in the Service of US Airways, Inc., (2) the Pension Plan for Employees of U.S. Airways, Inc., Who Are Represented by the International Association of Machinists and Aerospace Workers, and (3) the Retirement Plan for Certain Employees of US Airways, Inc. The Debtors' termination of the foregoing plans will provide the Debtors with approximately $947 million of cost savings over the course of the next five years.

In addition to the foregoing modifications to the Debtors' CBAs (which contained reductions in retiree benefits for future retirees) and the distress termination of the Debtors' defined benefit pension plans, the Debtors also were able to consensually negotiate with the authorized representatives of the current retirees, including the Retiree Committee, and obtain the Bankruptcy Court's authority to implement various cost-saving modifications to the benefit packages provided to certain retiree work groups, including retired members of ALPA, CWA, and AFA, as well as certain non-unionized retirees. The Debtors also obtained, and the Bankruptcy Court subsequently approved, a similar, consensual agreement with the retirees represented by the IAMAW. This settlement produced savings of approximately $36 million per year.

Thus, by mid-January, 2005, the Debtors had achieved a reduction in annual labor, retiree and pension costs of more than one billion dollars per year.

Under the Debtors' CBAs, as amended during the course of the Chapter 11 Cases, the Debtors agreed to propose a plan of reorganization that would include a proposal for profit sharing for its employees. The profit sharing was agreed to be in an amount equal to 10% of the first 5% of operating profits, and 25% of operating profits above 5%. The profit sharing plan was conditioned on labor groups giving up their right to participate in prior profit sharing plans and, as additional conditions, (1) approval by the board of directors, and (2) that the profit sharing program would be part of a confirmable plan of reorganization by which the Debtors would emerge from the Chapter 11 Cases.

As discussed in Section XIII, Alternatives to Confirmation and Consummation of the Plan, the Debtors do not have a current business plan to form the basis of a confirmable, feasible plan of reorganization on a stand-alone basis. In discussions with the Plan Investors who have agreed to fund the reorganization of the Debtors as part of the Merger with America West, it became clear that such investors were not prepared to make the necessary investments on terms which involved retention of the profit sharing plan as described above because it would have limited the potential return on investment below that considered acceptable by the investors. Without such investors making their contemplated investments, the Debtors could not successfully reorganize. Accordingly, the Board of Directors reviewed the profit sharing plan and concluded that the Debtors' employees would be better served by implementing a profit sharing plan at a level that the investors would support, rather than insist on maintaining the higher profit sharing level, at the cost of losing the ability to reorganize and to preserve jobs or have no profit sharing at all – an outcome that would have failed to recognize the substantial concessions granted by employees. In order to satisfy a condition negotiated by the investors and contained in each of the Investment Agreements, the Board approved a profit sharing program that paid out 10% of the first 10% of operating profits, and 15% of operating profits above 10%. The Board recognized that a smaller percentage of the potential operating profits of Reorganized Group realizable in accordance with the Merger and the equity investments of the Plan Investors, including the greater prospects for a successful reorganization, would provide greater value to employees than a hypothetical higher percentage of future profits that were unlikely to be realized and the very real prospect of the loss of all jobs as a result of a liquidation.

Under the terms of the ALPA CBA, as amended, USAI has the obligation to propose a plan of reorganization that will include both an offer of equity participation for ALPA members and profit sharing substantially in accordance with the provisions described above. The equity to be offered under the ALPA CBA was 4.25% of the reorganized company on a fully diluted basis if ALPA accepted profit sharing, 6.375% if ALPA accepted 50% of the offered profit sharing, and 8.5% if ALPA rejected profit sharing entirely. These percentages were agreed to be adjusted downward on a proportionate and appropriate basis, in light of all facts and circumstances, if the total equity investment in the reorganization was greater than $250 million.

The ALPA agreement further provided that any party in interest could object to the allocation of equity to ALPA, and that the Bankruptcy Court would not be constrained from considering any such objection and entering any appropriate ruling. The parties agreed that the Bankruptcy Court would have the exclusive jurisdiction to interpret and enforce this provision of the ALPA CBA and to determine appropriate remedies.

Under the Plan, the Debtors assume that ALPA will accept profit sharing. The Debtors also have taken into account the fact that the total equity investment in Reorganized Group, after the Merger, is materially larger than the $250 million contemplated in the ALPA CBA. The Debtors believe that providing to ALPA the amount of 1,038,030 shares, under the currently contemplated capitalization, constitutes compliance with its obligations under the Assumed Modified CBA with ALPA. In the event that ALPA were to disagree with this determination, or reject the offer of profit sharing, or in the event that any party in interest were to object to the allocation to ALPA, the Plan provides that the Bankruptcy Court will resolve the dispute and that ALPA will receive, under the Plan, the number of shares of New Common

Stock to which it is entitled by the terms of its agreement with the Debtors. The effect of any such dispute could be either to increase or to decrease the number of shares otherwise available for distribution to unsecured creditors.

*10. Summary of Claims Process, Bar Date, and Claims Filed.*

*(a) Schedules and Statements of Financial Affairs*

On October 27, 2004, each of the Debtors filed their respective Schedules of Assets and Liabilities and Statements of Financial Affairs and the corresponding Global Notes (collectively, the "Schedules and Statements") with the Bankruptcy Court. Among other things, the Schedules and Statements set forth the Claims of known creditors against the Debtors as of the Petition Date based upon the Debtors' books and records. A copy of the Schedules and Statements can be obtained at no cost from Donlin, Recano & Company, Inc.'s website at http://www.donlinrecano.com or for a fee from the Bankruptcy Court's website at http://ecf.vaeb.uscourts.gov. Moreover, hard copies can be obtained upon written request to Donlin, Recano & Company, Inc., 419 Park Avenue South, Suite 1206, New York, New York, 10016-8410, Attn: Copy Request.

*(b) Claims Bar Date*

On September 15, 2004, the Bankruptcy Court entered an Order (the "Bar Date Order") establishing the general deadline for filing proofs of claim against the Debtors (the "Bar Date"). The deadline established by the Bankruptcy Court was February 3, 2005 for Claims except Claims of governmental units for which the deadline was, in accordance with Section 502(b)(9) of the Bankruptcy Code, March 11, 2005. The Debtors' claims and notice agent provided notice of the Bar Date by mailing; (i) a notice of the Bar Date; (ii) a notice of case commencement and meeting of creditors pursuant to Section 341 of the Bankruptcy Code; (iii) a proof of claim form to each person listed in the Schedules; and (iv) statements which indicated whether the Claim of each recipient was listed in the Schedules and Statements as either unliquidated, contingent and/or disputed. In addition, the Debtors published notice of the Bar Date in The New York Times (national edition), The Wall Street Journal (national and European editions) and USA Today (worldwide). <u>The New York Times</u> (Docket No. 1188), <u>The Wall Street Journal</u> (Global) (Docket Nos. 1189) and <u>USA Today</u> (Domestic and International editions) (Docket No. 1190).

*(c) Proofs of Claim and Other Claims*

The Debtors' Claims Agent received approximately 5,000 timely filed proofs of claim as of the Bar Date, totaling approximately $39.3 billion. The Debtors believe that many of these proofs of claim are invalid, duplicative or otherwise substantially overstated in amount. The Debtors are in the process of evaluating the proofs of claim and anticipate that they will file objections to many of the proofs of claim.

*11. Procedures for Consideration of Plan Funding Proposals.*

In accordance with their fiduciary duties to creditors and their bankruptcy estates, and in order to ensure that the Merger Agreement and the related Plan Investment Agreements represent the best possible transactions to serve as the basis for the Debtors' reorganization and emergence from Chapter 11, the Debtors sought and obtained entry of an order establishing procedures (the "Bidding Procedures") governing the process by which any other qualified entity interested in funding and facilitating a plan of reorganization for the Debtors may submit a competing proposal.

The Court approved the Bidding Procedures, as modified, as well as the form and manner of notice of the Bidding Procedures (the "Bidding Procedures Notice") on May 31, 2005 (the "Bidding Procedures Order"). In accordance with the Bidding Procedures Order, the Debtors (i) served a copy of the Bidding Procedures Notice, along with a copy of the Bidding Procedures Order, to potential plan sponsors identified by the Debtors and all persons or entities on the Master Service List within five (5) days from the date on which the Bidding Procedures Order was entered, and (ii) caused the Bidding Procedures Notice to be published one time in the Wall Street Journal (National Edition) on June 8, 2005. Among other things, the Bidding Procedure Orders approved a bilateral termination fee in the amount of $15 million (inclusive of expenses) between Group and America West, payable by one party to the other under a variety of circumstances, as well as break-up fees and expense reimbursements payable to certain of the Plan Investors, as described in Section III.D of this Disclosure Statement. In addition, the Bidding Procedure Orders set forth the requirements for consideration of competing proposals and, among other things, established a deadline of July 1, 2005 for the submission of any such proposals.

In the event of a qualified competing proposal by a qualified entity, the Court scheduled a hearing on the approval of a proposal on July 7, 2005. Under the Bidding Procedures Order, if no qualified competing proposal was received by July 1, 2005, or if no qualified competing proposal was approved by the Court, the Merger Agreement and Investment Agreements were automatically deemed to be the approved proposal without any further action by the Court or any other party, subject to their ultimate implementation through the Chapter 11 plan process.

# VIII. SUMMARY OF THE REORGANIZATION PLAN

THIS SECTION CONTAINS A SUMMARY OF THE STRUCTURE OF, CLASSIFICATION AND TREATMENT OF CLAIMS AND INTERESTS IN, AND IMPLEMENTATION OF THE PLAN, AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO THE PLAN, WHICH ACCOMPANIES THIS DISCLOSURE STATEMENT, AND TO THE EXHIBITS ATTACHED THERETO OR REFERRED TO THEREIN. CAPITALIZED TERMS NOT DEFINED HEREIN SHALL HAVE THE RESPECTIVE MEANINGS SET FORTH IN THE PLAN.

THE STATEMENTS CONTAINED IN THIS DISCLOSURE STATEMENT INCLUDE SUMMARIES OF THE PROVISIONS CONTAINED IN THE PLAN AND IN DOCUMENTS REFERRED TO THEREIN. THE STATEMENTS CONTAINED IN THIS DISCLOSURE STATEMENT DO NOT PURPORT TO BE PRECISE OR COMPLETE STATEMENTS OF ALL THE TERMS AND PROVISIONS OF THE PLAN OR DOCUMENTS REFERRED TO THEREIN, AND REFERENCE IS MADE TO THE PLAN AND TO SUCH DOCUMENTS FOR THE FULL AND COMPLETE STATEMENTS OF SUCH TERMS AND PROVISIONS. THE PLAN ITSELF AND THE DOCUMENTS REFERRED TO THEREIN, WHICH ARE OR WILL HAVE BEEN FILED WITH THE COURT, WILL CONTROL THE TREATMENT OF CREDITORS AND EQUITY SECURITY HOLDERS UNDER THE PLAN AND WILL, UPON THE EFFECTIVE DATE OF THE PLAN, BE BINDING UPON HOLDERS OF CLAIMS AGAINST, OR INTERESTS IN THE REORGANIZED DEBTORS AND OTHER PARTIES IN INTEREST, REGARDLESS OF WHETHER OR HOW THEY HAVE VOTED ON THE PLAN.

## A. Overall Structure of the Plan

Since filing for Chapter 11 relief, the Debtors have focused on formulating a plan of reorganization that would enable them to emerge from Chapter 11 and to preserve the value of their business as a going concern. The Debtors recognize that in the competitive industry in which they operate, lengthy and uncertain Chapter 11 Cases adversely affect the confidence of their vendors and customers, further impair their financial condition and dim the prospects for a successful reorganization.

As described in Section III above, a central feature of the Plan is a merger between the Debtors and America West, together with new investments to be made by the Plan Investors pursuant to the Investment Agreement. The Merger is to be accomplished pursuant to the Merger Agreement.

The Plan constitutes a separate plan of reorganization for each of the Debtors. Accordingly, the voting and other confirmation requirements of the Bankruptcy Code must be satisfied for each of the Debtors. Under the Plan, Claims against, and Interests in, each of the Debtors are divided into Classes according to their relative seniority and other criteria.

If the Plan is confirmed by the Bankruptcy Court and consummated, Classes of Claims against and Interests in the Debtors will receive the treatment described in this Disclosure Statement. A description of the debt Claims and equity Interests included in each Class of Claims and Interests, the treatment of those Classes under the Plan, and the securities and other property (if any) to be distributed to holders of Claims or Interests in those Classes under the Plan are described below.

The amounts and forms (e.g., Cash, New Common Stock) of distributions under the Plan are based upon, among other things, the requirements of applicable law and the Debtors' assessment of their ability to achieve the goals set forth in their business plan.

## B. Classification and Treatment of Claims and Interests

Section 1122 of the Bankruptcy Code requires that a plan of reorganization classify the claims of a debtor's creditors and the interests of its equity holders. The Bankruptcy Code also provides that, except for certain claims classified for administrative convenience, a plan of reorganization may place a claim of a creditor or an interest of an equity holder in a particular class only if such claim or interest is substantially similar to the other claims or interests in such class.

The Bankruptcy Code also requires that a plan of reorganization provide the same treatment for each claim or interest of a particular class unless the holder of a particular claim or interest agrees to a less favorable treatment of its claim or interest. The Debtors believe that they have complied with such standard. If the Bankruptcy Court finds otherwise, however, it could deny confirmation of the Plan if the Claimholders affected do not consent to the treatment afforded them under the Plan.

The Plan classifies the following in separate Classes:

| **Chapter 11 Case** | **Class** | |
|---|---|---|
| US Airways, Inc. | Class USAI-1 | Miscellaneous Secured Claims |
| | Class USAI-2A | GECC Claims |
| | Class USAI-2B | GEAE Claims |
| | Class USAI-3 | ATSB Loan Claims |
| | Class USAI-5 | Other Priority Claims |
| | Class USAI-6 | Aircraft Secured Claims |
| | Class USAI-7 | PBGC Claims |
| | Class USAI-8 | General Unsecured Convenience Claims |
| | Class USAI-9 | General Unsecured Claims |
| | Class USAI-10 | Interests in USAI |
| US Airways Group, Inc. | Class Group-1 | Miscellaneous Secured Claims |
| | Class Group-2A | GECC Claims |
| | Class Group-2B | GEAE Claims |
| | Class Group-3 | ATSB Loan Claims |
| | Class Group-4 | Airbus Claims |
| | Class Group-5 | Other Priority Claims |
| | Class Group-6 | Aircraft Secured Claims |
| | Class Group-7 | PBGC Claims |
| | Class Group-8 | General Unsecured Convenience claims |
| | Class Group-9 | General Unsecured Claims |
| | Class Group-10 | Interests in Group |
| | Class Group-11 | Subordinated Securities Claims |

| Chapter 11 Case | Class | |
|---|---|---|
| PSA Airlines, Inc. | Class PSA-1<br>Class PSA-2A<br>Class PSA-2B<br>Class PSA-3<br>Class PSA-5<br>Class PSA-6<br>Class PSA-7<br>Class PSA-8<br>Class PSA-9<br>Class PSA-10 | Miscellaneous Secured Claims<br>GECC Claims<br>GEAE Claims<br>ATSB Loan Claims<br>Other Priority Claims<br>Aircraft Secured Claims<br>PBGC Claims<br>General Unsecured Convenience Claims<br>General Unsecured Claims<br>Interests in PSA |
| Piedmont Airlines, Inc. | Class Piedmont-1<br>Class Piedmont-2A<br>Class Piedmont-2B<br>Class Piedmont-3<br>Class Piedmont-5<br>Class Piedmont-6<br>Class Piedmont-7<br>Class Piedmont-8<br>Class Piedmont-9<br>Class Piedmont-10 | Miscellaneous Secured Claims<br>GECC Claims<br>GEAE Claims<br>ATSB Loan Claims<br>Other Priority Claims<br>Aircraft Secured Claims<br>PBGC Claims<br>General Unsecured Convenience Claims<br>General Unsecured Claims<br>Interests in Piedmont |
| Material Services Company, Inc. | Class Material Services-1<br>Class Material Services-2A<br>Class Material Services-2B<br>Class Material Services-3<br>Class Material Services-5<br>Class Material Services-6<br>Class Material Services-7<br>Class Material Services-8<br>Class Material Services-9<br>Class Material Services-10 | Miscellaneous Secured Claims<br>GECC Claims<br>GEAE Claims<br>ATSB Loan Claims<br>Other Priority Claims<br>Aircraft Secured Claims<br>PBGC Claims<br>General Unsecured Convenience Claims<br>General Unsecured Claims<br>Interests in Material Services |

In addition, the definition of General Unsecured Claims contained in the Plan states that General Unsecured Claims include all Claims that do not fall within another class of Claims set forth in the Plan. Accordingly, the Debtors believe that they have classified all Claims and Interests in compliance with the requirements of Section 1122 of the Bankruptcy Code. If a Claimholder or Interestholder challenges such classification of Claims or Interests and the Court finds that a different classification is required for the Plan to be confirmed, the Debtors, to the extent permitted by the Court, intend to make such modifications to the classifications of Claims or Interests under the Plan to provide for whatever classification might be required by the Court for confirmation. UNLESS SUCH MODIFICATION OF CLASSIFICATION ADVERSELY AFFECTS THE TREATMENT OF A HOLDER OF A CLAIM OR INTEREST AND REQUIRES RESOLICITATION, ACCEPTANCE OF THE PLAN BY ANY HOLDER OF A CLAIM OR INTEREST PURSUANT TO THIS SOLICITATION WILL BE DEEMED TO BE A CONSENT TO THE PLAN'S TREATMENT OF SUCH HOLDER OF A CLAIM OR INTEREST REGARDLESS OF THE CLASS AS TO WHICH SUCH HOLDER IS ULTIMATELY DEEMED TO BE A MEMBER.

As stated above, the Plan is a plan of reorganization proposed by each of the respective Debtors. The classifications set forth below apply separately with respect to each Debtor. For example, General Unsecured Claims relating to Group are included in Class Group-9 of the Plan, while General Unsecured Claims relating to USAI are included in Class USAI-9 of the Plan.

### 1. *Treatment of Unclassified Claims.*

#### *(a) Treatment of Administrative Claims*

Administrative Claims consist primarily of the costs and expenses of administration of the Chapter 11 Cases. They include, but are not limited to, the cost of operating the Debtors' businesses since the Petition Date, the outstanding unpaid fees and expenses of the professionals retained by the Debtors, the Creditors' Committee and the Retiree Committee as approved by the Court, the payments necessary to cure prepetition defaults on unexpired leases and executory contracts that are being assumed under the Plan ("Cure") and the ATSB's superpriority Administrative Claims under the ATSB Cash Collateral Order. All payments to professionals in connection with the Chapter 11 Cases for compensation and reimbursement of expenses, and all payments to reimburse allowed expenses of members of the Creditors' Committee and the Retiree Committee will be made in accordance with the procedures established by the Bankruptcy Code and the Bankruptcy Rules and are subject to the approval of the Court as being reasonable.

The Debtors believe that the aggregate amount of Administrative Claims will not exceed the Reorganized Debtors' ability to pay such Claims when they are allowed and/or otherwise become due. The procedures governing allowance and payment of Administrative Claims are described in Section VIII.D below entitled "Distributions."

Subject to the provisions of Article X of the Plan, on the first Periodic Distribution Date occurring after the later of (a) the date an Administrative Claim becomes an Allowed Administrative Claim, or (b) the date an Administrative Claim becomes payable pursuant to any agreement between a Debtor (or a Reorganized Debtor) and the holder of such Administrative Claim, an Allowed Administrative Claimholder in the Chapter 11 Cases shall receive, in full satisfaction, settlement, release, and discharge of and in exchange for such Administrative Claim, (i) Cash equal to the unpaid portion of such Allowed Administrative Claim, or (ii) such other treatment as to which the Debtors (or the Reorganized Debtors) and such Claimholder shall have agreed upon in writing; provided, however, that (x) Eastshore shall have an Allowed Administrative Claim under the Eastshore Financing Agreement in such amount as to which the Debtors and Eastshore shall have agreed in writing or as fixed by the Bankruptcy Court, which Administrative Claim shall be paid as of the Effective Date, (i) in Cash in respect of any accrued and unpaid interest, and (ii) in 8,333,333 shares of New Common Stock, in each case pursuant to the terms of the Eastshore Financing Agreement in respect of the outstanding principal amounts due thereunder, which treatment shall satisfy in full Eastshore's Secured Claims against the Debtors arising under the Eastshore Financing Agreement, and (y) Allowed Administrative Claims with respect to liabilities incurred by the Debtors in the ordinary course of business during the Chapter 11 Cases shall be paid in the ordinary course of business in accordance with the terms and conditions of any agreements relating thereto.

#### *(b) Treatment of Priority Tax Claims*

Priority Tax Claims are those tax claims entitled to priority pursuant to Section 507(a)(8) of the Bankruptcy Code. The Plan provides that, with respect to each Allowed Priority Tax Claim in the Chapter 11 Cases, at the sole option of the Debtors (or the Reorganized Debtors after the Effective Date), the Allowed Priority Tax Claimholder shall be entitled to receive on account of such Allowed Priority Tax Claim, in full satisfaction, settlement, release and discharge of and in exchange for such Allowed Priority Tax Claim, (a) equal Cash payments made on the last Business Day of every three-month period following the Effective Date, over a period not exceeding six (6) years after the assessment of the tax on which such Claim is based, totaling the principal amount of such Claim plus simple interest on any outstanding balance from the Effective Date calculated at the interest rate available on ninety (90) day United States Treasury bills on the Effective Date; (b) such other treatment agreed to by the Allowed Priority Tax Claimholder and the Debtors (or the Reorganized Debtors), provided such treatment is on more favorable terms to the Debtors (or the Reorganized Debtors after the Effective Date) than the treatment set forth in clause (a) hereof; or (c) payment in full in Cash.

2. *Treatment of Classified Claims.*

Pursuant to Section 1122 of the Bankruptcy Code, set forth below is a designation of classes of Claims against and Interests in each of the Debtors. All Claims and Interests, except Administrative Claims and Priority Tax Claims, are placed in the Classes set forth below. In accordance with Section 1123(a)(1) of the Bankruptcy Code, Administrative Claims and Priority Tax Claims of the kinds specified in Sections 507(a)(1) and 507(a)(8) of the Bankruptcy Code have not been classified, and their treatment is set forth in Article II of the Plan.

A Claim or Interest is placed in a particular Class only to the extent that the Claim or Interest falls within the description of that Class and is classified in other Classes to the extent that any portion of the Claim or Interest falls within the description of such other Classes. A Claim or Interest is also placed in a particular Class only for the purpose of voting on, and of receiving distributions pursuant to, the Plan only to the extent that such Claim or Interest is an Allowed Claim or an Allowed Interest in that Class and such Claim or Interest has not been paid, released or otherwise satisfied prior to the Effective Date.

*(a) Potentially Unimpaired Classes of Claims against and Interests in USAI*

(i) *Class USAI-1 (Miscellaneous Secured Claims)*

Except as otherwise provided in and subject to Section 9.8 of the Plan, at the option of the Debtors each holder of an Allowed Miscellaneous Secured Claim in USAI's Chapter 11 Case shall receive, in full satisfaction, settlement and release of and in exchange for such Allowed Miscellaneous Secured Claim, one of the following treatments: (i) the legal, equitable, and contractual rights of the Claimholder shall be Reinstated; (ii) Cash equal to the value of the Miscellaneous Secured Claimholder's interest in the property of the Estate that constitutes collateral for such Allowed Miscellaneous Secured Claim; (iii) the property of the Estate that constitutes collateral for such Allowed Miscellaneous Secured Claim shall be conveyed to the holder of such Claim; (iv) a note secured by such Claimholder's collateral (or, if approved by the Bankruptcy Court, a portion of such collateral and/or substitute collateral), which note shall (1) have an original principal balance equal to the amount of such Claimholder's Allowed Secured Claim, determined in accordance with Section 506(a) of the Bankruptcy Code, and (2) have a term, interest rate, amortization schedule, and other provisions established by the Debtors, subject to approval by the Bankruptcy Court at the Confirmation Hearing, provided that (x) such terms shall be disclosed at or prior to the Confirmation Hearing and (y) the terms of such note shall be such that the note has a present value equal to the amount of such Claimholder's Allowed Secured Claim, determined in accordance with Section 506(a) of the Bankruptcy Code, such that the note satisfies the requirements set forth in Section 1129(b)(2)(A)(i) of the Bankruptcy Code; (v) such other treatment determined by the Debtors and held by the Bankruptcy Court as constituting the indubitable equivalent of such Claimholder's Claim, in accordance with Section 1129(b)(2)(A)(iii) of the Bankruptcy Code; or (vi) such other treatment as to which USAI (or Reorganized USAI) and the holder of such Allowed Miscellaneous Secured Claim have agreed upon in writing. USAI's failure to object to any such Miscellaneous Secured Claim shall be without prejudice to Reorganized USAI's right to contest or otherwise defend against such Claim in the Bankruptcy Court or other appropriate non-bankruptcy forum (at the option of USAI or Reorganized USAI) when and if such Claim is sought to be enforced by the Class USAI-1 Miscellaneous Secured Claimholder. Notwithstanding Section 1141(c) or any other provision of the Bankruptcy Code, unless the Bankruptcy Court orders otherwise, all prepetition liens on property of USAI held by or on behalf of the Class USAI-1 Miscellaneous Secured Claimholders with respect to such Claims shall survive the Effective Date and continue in accordance with the contractual terms of the underlying agreements with such Claimholders until, as to each such Claimholder, the Allowed Claims of such Class USAI-1 Miscellaneous Secured Claimholder are satisfied in accordance with the terms of this Plan.

(ii) *Class USAI-6 (Aircraft Secured Claims)*

Except as otherwise provided in and subject to Section 9.8 of the Plan, on the first Periodic Distribution Date occurring after the later of (i) the date an Aircraft Secured Claim becomes an Allowed Aircraft Secured Claim or (ii) the date an Aircraft Secured Claim becomes payable pursuant to any agreement between USAI (or Reorganized USAI) and the holder of such Aircraft Secured Claim, an Allowed Class USAI-6 Aircraft Secured Claim either shall be Reinstated or the Claimholder shall receive, in full satisfaction, settlement, release and discharge of and in exchange for such Class USAI-6 Aircraft Secured Claim such treatment as to which USAI (or Reorganized USAI) and such Claimholder shall have agreed in writing.

*(b) Impaired Classes of Claims against and Interest in USAI*

(i) *Class USAI-2A (GECC Claims)*

In full satisfaction, settlement and release of and in exchange for its Claims against USAI, GECC shall receive treatment in accordance with the GE Master MOU.

(ii) *Class USAI-2B (GEAE Claims)*

In full satisfaction, settlement and release of and in exchange for its Claims against USAI, GEAE shall receive treatment in accordance with the GE Master MOU.

(iii) *Class USAI-3 (ATSB Loan Claims)*

In full satisfaction, settlement and release of and in exchange for their ATSB Loan Claims, the ATSB Lenders shall receive, treatment as agreed by the parties or ordered by the Bankruptcy Court.

(iv) *Class USAI-5 (Other Priority Claims)*

Except as otherwise provided in and subject to Section 9.8 of the Plan, on the first Periodic Distribution Date occurring after the later of (i) the date an Other Priority Claim becomes an Allowed Other Priority Claim, or (ii) the date an Other Priority Claim becomes payable pursuant to any agreement between USAI (or Reorganized USAI) and the holder of such Other Priority Claim, an Allowed Class USAI-5 Other Priority Claimholder in USAI's Chapter 11 Case shall receive, in full satisfaction, settlement, release and discharge of and in exchange for such Class USAI-5 Other Priority Claim (a) Cash equal to the amount of such Allowed Class USAI-5 Other Priority Claim, or (b) such other treatment as to which USAI (or Reorganized USAI) and such Claimholder shall have agreed in writing.

(v) *Class USAI-7 (PBGC Claims)*

In full satisfaction, settlement, release and discharge of and in exchange for the PBGC Claim, PBGC shall receive either (a) the same treatment that PBGC would receive if its claim were a single Class Group-9 General Unsecured Claim, (b) such other treatment as the Debtors or Reorganized Debtors and the PBGC shall have agreed upon in writing, provided that such other treatment shall be no less favorable to the Debtors and Reorganized Debtors than clause (a) above, or (c) as ordered by the Bankruptcy Court.

(vi) *Class USAI-8 (General Unsecured Convenience Claims)*

On the first Periodic Distribution Date occurring after the later of (i) the date a General Unsecured Convenience Claim becomes an Allowed General Unsecured Convenience Claim, or (ii) the date an Allowed General Unsecured Convenience Claim becomes payable pursuant to any agreement between USAI (or Reorganized USAI) and the holder of such Allowed General Unsecured Convenience Claim, the holder of an Allowed Class USAI-8 General Unsecured Convenience Claim in USAI's Chapter 11 Case shall receive, in full satisfaction, settlement, release and discharge of and in exchange for such Allowed Class USAI-8 General Unsecured Convenience Claim (and any and all other General Unsecured Convenience Claims or General Unsecured Claims of such Claimholder against any of the Debtors), Cash equal to (a) ten percent (10%) of the amount of such Allowed Claim if the amount of such Allowed Claim is less than or equal to $50,000, or (b) $5,000 if the amount of such Allowed Claim is greater than $50,000. Any Claimholder that receives General Unsecured Convenience Class treatment in accordance with Section 5.1(i) of the Plan waives any right such Claimholder might otherwise have to receive a distribution under any other section of the Plan on account of such General Unsecured Claim or General Unsecured Convenience Claim.

(vii) *Class USAI-9 (General Unsecured Claims)*

Subject to Section 9.8 of the Plan, on the first Periodic Distribution Date occurring after the later of (i) the date a General Unsecured Claim becomes an Allowed General Unsecured Claim or (ii) the date a General Unsecured Claim becomes payable pursuant to any agreement between USAI (or Reorganized USAI) and the holder of such General Unsecured Claim, the Disbursing Agent shall deliver to such Allowed Class USAI-9 General Unsecured Claimholder in USAI's Chapter 11 Case, in full satisfaction, settlement, release, and discharge of and in exchange for its Allowed General Unsecured Claim, such Claimholder's Pro Rata share of the Unsecured Creditors Stock.

In addition, pursuant to the Rights Offering Registration Statement, each holder of a Class USAI-9 General Unsecured Claim that is allowed for voting purposes shall be offered the right to subscribe for its Pro Rata share of the General Unsecured Subscription Stock, based on the total Claims (calculated in accordance with Section 9.8.a of the Plan) of such holder to the total Claims (calculated in accordance with Section 9.8.a of the Plan) in Classes USAI-9, Group-9, PSA-9, Piedmont-9 and Material Services-9, at the price of $16.50 per share. In the event that (1) all of the shares of General Unsecured Subscription Stock are not subscribed for in accordance with the terms of Sections 5.1.i, 5.2.j, 5.3.i, 5.4.i or 5.5.i, respectively, of the Plan, or (2) there exist any Unsubscribed Equity Offering Shares, each holder of an Allowed Class USAI-9 General Unsecured Claim shall be offered the right to subscribe for shares of the Over-Subscription Stock and/or Unsubscribed Equity Offering Shares, as the case may be, in accordance with the terms and conditions set forth in the Subscription Rights Form and the Rights Offering Registrations Statement. To exercise such rights, such holder shall indicate on its Subscription Rights Form the maximum number of shares of General Unsecured Subscription Stock and Unsubscribed Equity Offering Shares that such holder is willing to purchase, as set forth in more detail in the Subscription Rights Form and the Rights Offering Registration Statement. Such rights shall be nontransferable and elections to exercise such rights shall be irrevocable, and shall be accompanied by either full payment or a satisfactory guarantee of payment delivered by the Voting Deadline. The procedures for the allocation of and payment for General Unsecured Stock, Over-Subscription Stock and Unsubscribed Equity Offering Shares are set forth in the Rights Offering Registration Statement. The Debtors reserve the right, however, to determine not to proceed with the Rights Offering or to terminate it at any time. Accordingly, for purposes of voting on the Plan, holders of Claims in Class USAI-9 should assume that they will not receive the right to participate in the Rights Offering.

(viii) *Class USAI-10 (Interests in USAI)*

Subject to Section 7.11 of the Plan, on the Effective Date all Interests in USAI shall be Reinstated.

*(c) Potentially Unimpaired Classes of Claims against and Interests in Group*

(i) *Class Group-1 (Miscellaneous Secured Claims)*

Except as otherwise provided in and subject to Section 9.8 of the Plan, at the option of the Debtors each holder of an Allowed Miscellaneous Secured Claim in Group's Chapter 11 Case shall receive, in full satisfaction, settlement and release of and in exchange for such Allowed Miscellaneous Secured Claim, one of the following treatments: (i) the legal, equitable, and contractual rights of the Claimholder shall be Reinstated; (ii) Cash equal to the value of the Miscellaneous Secured Claimholder's interest in the property of the Estate that constitutes collateral for such Allowed Miscellaneous Secured Claim; (iii) the property of the Estate that constitutes collateral for such Allowed

Miscellaneous Secured Claim shall be conveyed to the holder of such Claim; (iv) a note secured by such Claimholder's collateral (or, if approved by the Bankruptcy Court, a portion of such collateral and/or substitute collateral), which note shall (1) have an original principal balance equal to the amount of such Claimholder's Allowed Secured Claim, determined in accordance with Section 506(a) of the Bankruptcy Code, and (2) have a term, interest rate, amortization schedule, and other provisions established by the Debtors, subject to approval by the Bankruptcy Court at the Confirmation Hearing, provided that (x) such terms shall be disclosed at or prior to the Confirmation Hearing, and (y) the terms of such note shall be such that the note has a present value equal to the amount of such Claimholder's Allowed Secured Claim, determined in accordance with Section 506(a) of the Bankruptcy Code, such that the note satisfies the requirements set forth in Section 1129(b)(2)(A)(i) of the Bankruptcy Code; (v) such other treatment determined by the Debtors and held by the Bankruptcy Court as constituting the indubitable equivalent of such Claimholder's Claim, in accordance with Section 1129(b)(2)(A)(iii) of the Bankruptcy Code; or (vi) such other treatment as to which Group (or Reorganized Group) and the holder of such Allowed Miscellaneous Secured Claim have agreed upon in writing. Group's failure to object to any such Miscellaneous Secured Claim shall be without prejudice to Reorganized Group's right to contest or otherwise defend against such Claim in the Bankruptcy Court or other appropriate non-bankruptcy forum (at the option of Group or Reorganized Group) when and if such Claim is sought to be enforced by the Class Group-1 Miscellaneous Secured Claimholder. Notwithstanding Section 1141(c) or any other provision of the Bankruptcy Code, unless the Bankruptcy Court orders otherwise, all prepetition liens on property of Group held by or on behalf of the Class Group-1 Miscellaneous Secured Claimholders with respect to such Claims shall survive the Effective Date and continue in accordance with the contractual terms of the underlying agreements with such Claimholders until, as to each such Claimholder, the Allowed Claims of such Class Group-1 Miscellaneous Secured Claimholder are satisfied in accordance with the terms of this Plan.

(ii) *Class Group-4 (Airbus Claims)*

In full satisfaction, settlement and release of and in exchange for the Airbus Claim, Group shall assume its existing aircraft purchase obligations with Airbus, as amended, and together with USAI and America West, shall consummate the transactions described in the term sheet attached as <u>Exhibit A</u> to the Plan.

(iii) *Class Group-6 (Aircraft Secured Claims)*

Except as otherwise provided in and subject to Section 9.8 of the Plan, on the first Periodic Distribution Date occurring after the later of (i) the date an Aircraft Secured Claim becomes an Allowed Aircraft Secured Claim, or (ii) the date an Aircraft Secured Claim becomes payable pursuant to any agreement between Group (or Reorganized Group) and the holder of such Aircraft Secured Claim, an Allowed Class Group-6 Aircraft Secured Claim either shall be Reinstated or the Claimholder shall receive, in full satisfaction, settlement, release and discharge of and in exchange for such Class Group-6 Aircraft Secured Claim, such treatment as to which Group (or Reorganized Group) and such Claimholder shall have agreed in writing.

*(d) Impaired Classes of Claims against and Interest in Group*

(i) *Class Group-2A (GECC Claims)*

In full satisfaction, settlement, discharge and release of and in exchange for its Claims against Group, GECC shall receive treatment in accordance with the GE Master MOU.

(ii) *Class Group-2B (GEAE Claims)*

In full satisfaction, settlement and release of and in exchange for its Claims against Group, GEAE shall receive treatment in accordance with the GE Master MOU.

(iii) *Class Group-3 (ATSB Loan Claims)*

In full satisfaction, settlement, release and discharge of and in exchange for their ATSB Loan Claims, the ATSB Lenders shall receive treatment as agreed by the parties or ordered by the Bankruptcy Court.

(iv) *Class Group-5 (Other Priority Claims)*

Except as otherwise provided in and subject to Section 9.8 of the Plan, on the first Periodic Distribution Date occurring after the later of (i) the date an Other Priority Claim becomes an Allowed Other Priority Claim, or (ii) the date an Other Priority Claim becomes payable pursuant to any agreement between Group (or Reorganized Group) and the holder of such Other Priority Claim, an Allowed Class Group-5 Other Priority Claimholder in Group's Chapter 11 Case shall receive, in full satisfaction, settlement, release and discharge of and in exchange for such Class Group-5 Other Priority Claim, (a) Cash equal to the amount of such Allowed Class Group-5 Other Priority Claim, or (b) such other treatment as to which Group (or Reorganized Group) and such Claimholder shall have agreed in writing.

(v) *Class Group-7 (PBGC Claims)*

In full satisfaction, settlement, release and discharge of and in exchange for the PBGC Claim, PBGC shall receive either (a) the same treatment that PBGC would receive if its claim were a single Class Group-9 General Unsecured Claim, (b) such other treatment as the Debtors or Reorganized Debtors and the PBGC shall have agreed upon in writing, provided that such other treatment shall be no less favorable to the Debtors and Reorganized Debtors than clause (a) above, or (c) as ordered by the Bankruptcy Court.

(vi) *Class Group-8 (General Unsecured Convenience Claims)*

On the first Periodic Distribution Date occurring after the later of (i) the date a General Unsecured Convenience Claim becomes an Allowed General Unsecured Convenience Claim, or (ii) the date an Allowed General Unsecured Convenience Claim becomes payable pursuant to any agreement between Group (or Reorganized Group) and the holder of such Allowed General Unsecured Convenience Claim, the holder of an Allowed Class Group-8 General Unsecured Convenience Claim in Group's Chapter 11 Case shall receive, in full satisfaction, settlement, release and discharge of and in exchange for such Allowed Class Group-8 General Unsecured Convenience Claim (and any and all other General Unsecured Convenience Claims or General Unsecured Claims of such Claimholder against any of the Debtors), Cash equal to (a) ten percent (10%) of the amount of such Allowed Claim if the amount of such Allowed Claim is less than or equal to $50,000, or (b) $5,000 if the amount of such Allowed Claim is greater than $50,000. Any Claimholder that receives General Unsecured Convenience Class treatment in accordance with Section 5.2(i) of the Plan waives any right such Claimholder might otherwise have to receive a distribution under any other section of the Plan on account of such General Unsecured Claim or General Unsecured Convenience Claim.

(vii) *Class Group-9 (General Unsecured Claims)*

Subject to Section 9.8 of the Plan, on the first Periodic Distribution Date occurring after the later of (i) the date a General Unsecured Claim becomes an Allowed General Unsecured Claim or (ii) the date a General Unsecured Claim becomes payable pursuant to any agreement between Group (or Reorganized Group) and the holder of such General Unsecured Claim, the Disbursing Agent shall deliver to such Allowed Class Group-9 General Unsecured Claimholder in Group's Chapter 11 Case, in full satisfaction, settlement, release and discharge of and in exchange for its Allowed General Unsecured Claim, such Claimholder's Pro Rata share of the Unsecured Creditors Stock.

In addition, pursuant to the Rights Offering Registration Statement, each holder of a Class Group-9 General Unsecured Claim that is allowed for voting purposes shall be offered the right to subscribe for its Pro Rata share of the General Unsecured Subscription Stock, based on the total Claims (calculated in accordance with Section 9.8.a of the Plan) of such holder to the total Claims (calculated in accordance with Section 9.8.a of the Plan) in Classes USAI-9, Group-9, PSA-9, Piedmont-9 and Material Services-9, at the price of $16.50 per share. In the event that (1) all of the shares of General Unsecured Subscription Stock are not subscribed for in accordance with the terms of Sections 5.1.i, 5.2.j, 5.3.i, 5.4.i or 5.5.i, respectively, of the Plan, or (2) there exist any Unsubscribed Equity Offering Shares, each holder of an Allowed Class Group-9 General Unsecured Claim shall be offered the right to subscribe for shares of the Over-Subscription Stock and/or Unsubscribed Equity Offering Shares, as the case may be, in accordance with the terms and conditions set forth in the Subscription Rights Form and the Rights Offering Registrations Statement. To exercise such rights, such holder shall indicate on its Subscription Rights Form the maximum number of shares of General Unsecured Subscription Stock and Unsubscribed Equity Offering Shares that such holder is willing to purchase, as set forth in more detail in the Subscription Rights Form and the Rights Offering Registration Statement. Such rights shall be nontransferable and elections to exercise such rights shall be irrevocable. The procedures for allocation of and payment for General Unsecured Stock, Over-Subscription Stock and Unsubscribed Equity Offering Shares are set forth in the Rights Offering Registration Statement. The Debtors reserve the right, however, to determine not to proceed with the Rights Offering or to terminate it at any time. Accordingly, for purposes of voting on the Plan, holders of Claims in Class Group-9 should assume that they will not receive the right to participate in the Rights Offering.

(viii) *Class Group-10 (Interests in Group)*

Class Group-10 Interests shall be cancelled and extinguished, and, holders of such Interests shall not be entitled to, and shall not, receive or retain any property or interest in property under the Plan on account of such Interests.

(ix) *Class Group-11 (Subordinated Securities Claims)*

Class Group-11 Subordinated Securities Claims in Group's Chapter 11 Case shall not be entitled to, and shall not, receive or retain any property or interest in property under the Plan on account of such Claims.

*(e) Potentially Unimpaired Classes of Claims against and Interests in PSA.*

(i) *Class PSA-1 (Miscellaneous Secured Claims)*

Except as otherwise provided in and subject to Section 9.8 of the Plan, at the option of the Debtors each holder of an Allowed Miscellaneous Secured Claim in PSA's Chapter 11 Case shall receive, in full satisfaction, settlement and release of and in exchange for such Allowed Miscellaneous Secured Claim, one of the following treatments: (i) the legal, equitable, and contractual rights of the Claimholder shall be Reinstated; (ii) Cash equal to the value of the Miscellaneous Secured Claimholder's interest in the property of the Estate that constitutes collateral for such Allowed Miscellaneous Secured Claim; (iii) the property of the Estate that constitutes collateral for such Allowed Miscellaneous Secured Claim shall be conveyed to the holder of such Claim; (iv) a note secured by such Claimholder's collateral (or, if approved by the Bankruptcy Court, a portion of such collateral and/or substitute collateral), which note shall (1) have an original principal balance equal to the amount of such Claimholder's Allowed Secured Claim, determined in accordance with Section 506(a) of the Bankruptcy Code, and (2) have a term, interest rate, amortization schedule, and other provisions established by the Debtors, subject to approval by the Bankruptcy Court at the Confirmation Hearing, provided that (x) such terms shall be disclosed at or prior to the Confirmation Hearing, and (y) the terms of such note shall be such that the note has a present value equal to the amount of such Claimholder's Allowed Secured Claim, determined in accordance with Section 506(a) of the Bankruptcy Code, such that the note satisfies the requirements set forth in Section 1129(b)(2)(A)(i) of the Bankruptcy Code; (v) such other treatment determined by the Debtors and held by the Bankruptcy Court as constituting the indubitable equivalent of such Claimholder's Claim, in accordance with Section 1129(b)(2)(A)(iii) of the Bankruptcy Code; or (vi) such other treatment as to which PSA (or Reorganized PSA) and the holder of such Allowed Miscellaneous Secured Claim have agreed upon in writing. PSA's failure to object to any such Miscellaneous Secured Claim shall be without prejudice to Reorganized PSA's right to contest or otherwise defend against such Claim in the Bankruptcy Court or other appropriate non-bankruptcy forum (at the option of PSA or Reorganized PSA) when and if such Claim is sought to be enforced by the Class PSA-1 Miscellaneous Secured Claimholder. Notwithstanding Section 1141(c) or any other provision of the Bankruptcy Code, unless the Bankruptcy Court orders otherwise, all prepetition liens on property of PSA held by or on behalf of the Class PSA-1 Miscellaneous Secured Claimholders with respect to such Claims shall survive the Effective Date and continue in accordance with the contractual terms of the underlying agreements with such Claimholders until, as to each such Claimholder, the Allowed Claims of such Class PSA-1 Miscellaneous Secured Claimholder are satisfied in accordance with the terms of this Plan.

(ii) *Class PSA-6 (Aircraft Secured Claims)*

Except as otherwise provided in and subject to Section 9.8 of the Plan, on the first Periodic Distribution Date occurring after the later of (i) the date an Aircraft Secured Claim becomes an Allowed Aircraft Secured Claim, or (ii) the date an Aircraft Secured Claim becomes payable pursuant to any agreement between PSA (or Reorganized PSA) and the holder of such Aircraft Secured Claim, an Allowed Class PSA-6 Aircraft Secured Claim either shall be Reinstated or the Claimholder shall receive, in full satisfaction, settlement, release and discharge of and in exchange for such Class PSA-6 Aircraft Secured Claim such treatment as to which PSA (or Reorganized USAI) and such Claimholder shall have agreed in writing.

*(f) Impaired Classes of Claims against and Interest in PSA.*

(i) *Class PSA-2A (GECC Claims)*

In full satisfaction, settlement, release and discharge of and in exchange for its Claims against PSA, GECC shall receive treatment in accordance with the GE Master MOU.

(ii) *Class PSA-2B (GEAE Claims)*

In full satisfaction, settlement and release of and in exchange for its Claims against PSA, GEAE shall receive treatment in accordance with the GE Master MOU.

(iii) *Class PSA-3 (ATSB Loan Claims)*

In full satisfaction, settlement, release and discharge of and in exchange for their ATSB Loan Claims, the ATSB Lenders shall receive treatment as agreed by the parties or ordered by the Bankruptcy Court.

(iv) *Class PSA-5 (Other Priority Claims)*

Except as otherwise provided in and subject to Section 9.8 of the Plan, on the first Periodic Distribution Date occurring after the later of (i) the date an Other Priority Claim becomes an Allowed Other Priority Claim, or (ii) the date an Other Priority Claim becomes payable pursuant to any agreement between PSA (or Reorganized PSA) and the holder of such Other Priority Claim, an Allowed Class PSA-5 Other Priority Claimholder in PSA's Chapter 11 Case shall receive, in full satisfaction, settlement, release and discharge of and in exchange for such Class PSA-5 Other Priority Claim, (a) Cash equal to the amount of such Allowed Class PSA-5 Other Priority Claim, or (b) such other treatment as to which PSA (or Reorganized PSA) and such Claimholder shall have agreed in writing.

(v) *Class PSA-7 (PBGC Claims)*

In full satisfaction, settlement, release and discharge of and in exchange for the PBGC Claim, PBGC shall receive either (a) the same treatment that PBGC would receive if its claim were a single Class Group-9 General Unsecured Claim, (b) such other treatment as the Debtors or Reorganized Debtors and the PBGC shall have agreed upon in writing, provided that such other treatment shall be no less favorable to the Debtors and Reorganized Debtors than clause (a) above, or (c) as ordered by the Bankruptcy Court.

(vi) *Class PSA-8 (General Unsecured Convenience Claims)*

On the first Periodic Distribution Date occurring after the later of (i) the date a General Unsecured Convenience Claim becomes an Allowed General Unsecured Convenience Claim, or (ii) the date an Allowed General Unsecured Convenience Claim becomes payable pursuant to any agreement between PSA (or Reorganized PSA) and the holder of such Allowed General Unsecured Convenience Claim, the holder of an Allowed Class PSA-8 General Unsecured Convenience Claim in PSA's Chapter 11 Case shall receive, in full satisfaction, settlement, release and discharge of and in exchange for such Allowed Class PSA-8 General Unsecured Convenience Claim (and any and all other General Unsecured Convenience Claims or General Unsecured Claims of such Claimholder against any of the Debtors), Cash equal to (a) ten percent (10%) of the amount of such Allowed Claim if the amount of such Allowed Claim is less than or equal to $50,000, or (b) $5,000 if the amount of such Allowed Claim is greater than $50,000. Any Claimholder that receives General Unsecured Convenience Class treatment in accordance with Section 5.3(h) of the Plan waives any right such Claimholder might otherwise have to receive a distribution under any other section of the Plan on account of such General Unsecured Claim or General Unsecured Convenience Claim.

(vii) *Class PSA-9 (General Unsecured Claims)*

Subject to Section 9.8 of the Plan, on the first Periodic Distribution Date occurring after the later of (i) the date a General Unsecured Claim becomes an Allowed General Unsecured Claim, or (ii) the date a General Unsecured Claim becomes payable pursuant to any agreement between PSA (or Reorganized PSA) and the holder of such General Unsecured Claim, the Disbursing Agent shall deliver to such Allowed Class PSA-9 General Unsecured Claimholder in PSA's Chapter 11 Case, in full satisfaction, settlement, release, and discharge of and in exchange for its Allowed General Unsecured Claim, such Claimholder's Pro Rata share of the Unsecured Creditors Stock.

In addition, pursuant to the Rights Offering Registration Statement, each holder of a Class PSA-9 General Unsecured Claim that is allowed for voting purposes shall be offered the right to subscribe for its Pro Rata share of the General Unsecured Subscription Stock, based on the total Claims (calculated in accordance with Section 9.8.a of the Plan) of such holder to the total Claims (calculated in accordance with Section 9.8.a of the Plan) of such holder to the total Allowed Claims in Classes USAI-9, Group-9, PSA-9, Piedmont-9 and Material Services-9, at the price of $16.50 per share. In the event that (1) all of the shares of General Unsecured Subscription Stock are not subscribed for in accordance with the terms of Sections 5.1.i, 5.2.j, 5.3.i, 5.4.i or 5.5.i, respectively, of the Plan, or (2) there exist any Unsubscribed Equity Offering Shares, each holder of an Allowed Class PSA-9 General Unsecured Claim shall be offered the right to subscribe for shares of the Over-Subscription Stock and/or Unsubscribed Equity Offering Shares, as the case may be, in accordance with the terms and conditions set forth in the Subscription Rights Form and the Rights Offering Registrations Statement. To exercise such rights, such holder shall indicate on its Subscription Rights Form the maximum number of shares of General Unsecured Subscription Stock and Unsubscribed Equity Offering Shares that such holder is willing to purchase, as set forth in more detail in the Subscription Rights Form and the Rights Offering Registration Statement. Such rights shall be nontransferable and elections to exercise such rights shall be irrevocable. The procedures for allocation of and payment for General Unsecured Stock, Over-Subscription Stock and Unsubscribed Equity Offering Shares are set forth in the Rights Offering Registration Statement. The Debtors reserve the right, however, to determine not to proceed with the Rights Offering or to terminate it at any time. Accordingly, for purposes of voting on the Plan, holders of Claims in Class PSA-9 should assume that they will <u>not</u> receive the right to participate in the Rights Offering.

(viii) *Class PSA-10 (Interests in PSA).*

Subject to Section 7.11 of the Plan, on the Effective Date, all Interests in PSA shall be Reinstated.

*(g) Unimpaired Classes of Claims against and Interests in Piedmont.*

(i) *Class Piedmont-1 (Miscellaneous Secured Claims)*

Except as otherwise provided in and subject to Section 9.8 of the Plan, at the option of the Debtors each holder of an Allowed Miscellaneous Secured Claim in Piedmont's Chapter 11 Case shall receive, in full satisfaction, settlement and release of and in exchange for such Allowed Miscellaneous Secured Claim, one of the following treatments: (i) the legal, equitable, and contractual rights of the Claimholder shall be Reinstated; (ii) Cash equal to the value of the Miscellaneous Secured Claimholder's interest in the property of the Estate that constitutes collateral for such Allowed Miscellaneous Secured Claim; (iii) the property of the Estate that constitutes collateral for such Allowed Miscellaneous Secured Claim shall be conveyed to the holder of such Claim; (iv) a note secured by such Claimholder's collateral (or, if approved by the Bankruptcy Court, a portion of such collateral and/or substitute collateral), which note shall (1) have an original principal balance equal to the amount of such Claimholder's Allowed Secured Claim, determined in accordance with Section 506(a) of the Bankruptcy Code, and (2) have a term, interest rate, amortization schedule, and other provisions established by the Debtors, subject to approval by the Bankruptcy Court at the Confirmation Hearing, provided that (x) such terms shall be disclosed at or prior to the Confirmation Hearing, and (y) the terms of such note shall be such that the note has a present value equal to the amount of such Claimholder's Allowed Secured Claim, determined in accordance with Section 506(a) of the Bankruptcy Code, such that the note satisfies the requirements set forth in Section 1129(b)(2)(A)(i) of the Bankruptcy Code; (v) such other treatment determined by the Debtors and held by the Bankruptcy Court as constituting the indubitable equivalent of such Claimholder's Claim, in accordance with Section 1129(b)(2)(A)(iii) of the Bankruptcy Code; or (vi) such other treatment as to which Piedmont (or Reorganized Piedmont) and the holder of such Allowed Miscellaneous Secured Claim have agreed upon in writing. Piedmont's failure to object to any such Miscellaneous Secured Claim shall be without prejudice to Reorganized Piedmont's right to contest or otherwise defend against such Claim in the Bankruptcy Court or other appropriate non-bankruptcy forum (at the option of Piedmont or Reorganized Piedmont) when and if such Claim is sought to be enforced by the Class Piedmont-1 Miscellaneous Secured Claimholder. Notwithstanding Section 1141(c) or any other provision of the Bankruptcy Code, unless the Bankruptcy Court orders otherwise, all prepetition liens on property of Piedmont held by or on behalf of the Class Piedmont-1 Miscellaneous Secured Claimholders with respect to such Claims shall survive the Effective Date and continue in accordance with the contractual terms of the underlying agreements with such Claimholders until, as to each such Claimholder, the Allowed Claims of such Class Piedmont-1 Miscellaneous Secured Claimholder are satisfied in accordance with the terms of this Plan.

(ii) *Class Piedmont-6 (Aircraft Secured Claims)*

Except as otherwise provided in and subject to Section 9.8 of the Plan, on the first Periodic Distribution Date occurring after the later of (i) the date an Aircraft Secured Claim becomes an Allowed Aircraft Secured Claim, or (ii) the date an Aircraft Secured Claim becomes payable pursuant to any agreement between Piedmont (or Reorganized Piedmont) and the holder of such Aircraft Secured Claim, an Allowed Class Piedmont -6 Aircraft Secured Claim either shall be Reinstated or the Claimholder shall receive, in full satisfaction, settlement, release and discharge of and in exchange for such Class Piedmont -6 Aircraft Secured Claim such treatment as to which Piedmont (or Reorganized Piedmont) and such Claimholder shall have agreed in writing.

*(h) Impaired Classes of Claims against and Interest in Piedmont.*

(i) *Class Piedmont-2A (GECC Claims)*

In full satisfaction, settlement, release and discharge of and in exchange for its Claims against Piedmont, GECC shall receive treatment in accordance with the GE Master MOU.

(ii) *Class Piedmont-2B (GEAE Claims)*

In full satisfaction, settlement and release of and in exchange for its Claims against Piedmont, GEAE shall receive treatment in accordance with the GE Master MOU.

(iii) *Class Piedmont-3 (ATSB Loan Claims)*

In full satisfaction, settlement, release and discharge of and in exchange for their ATSB Loan Claims, the ATSB Lenders shall receive treatment as agreed by the parties or ordered by the Bankruptcy Court.

(iv) *Class Piedmont-5 (Other Priority Claims)*

Except as otherwise provided in and subject to Section 9.8 of the Plan, on the first Periodic Distribution Date occurring after the later of (i) the date an Other Priority Claim becomes an Allowed Other Priority Claims, or (ii) the date an Other Priority Claim becomes payable pursuant to any agreement between Piedmont (or Reorganized Piedmont) and the holder of such Other Priority Claim, an Allowed Class Piedmont-5 Other Priority Claimholder in Piedmont's Chapter 11 Case shall receive, in full satisfaction, settlement, release and discharge of and in exchange for such Class Piedmont-5 Other Priority Claim, (a) Cash equal to the amount of such Allowed Class Piedmont-5 Other Priority Claims, or (b) such other treatment as to which Piedmont (or Reorganized Piedmont) and such Claimholder shall have agreed in writing.

(v) *Class Piedmont-7 (PBGC Claims)*

In full satisfaction, settlement, release and discharge of and in exchange for the PBGC Claim, PBGC shall receive either (a) the same treatment that PBGC would receive if its claim were a single Class Group-9 General Unsecured Claim, (b) such other treatment as the Debtors or Reorganized Debtors and the PBGC shall have agreed upon in writing, provided that such other treatment shall be no less favorable to the Debtors and Reorganized Debtors than clause (a) above, or (c) as ordered by the Bankruptcy Court.

(vi) *Class Piedmont-8 (General Unsecured Convenience Claims)*

On the first Periodic Distribution Date occurring after the later of (i) the date a General Unsecured Convenience Claim becomes an Allowed General Unsecured Convenience Claim, or (ii) the date an Allowed General Unsecured Convenience Claim becomes payable pursuant to any agreement between Piedmont (or Reorganized Piedmont) and the holder of such Allowed General Unsecured Convenience Claim, the holder of an Allowed Class Piedmont-8 General Unsecured Convenience Claim in Piedmont's Chapter 11 Case shall receive, in full satisfaction, settlement, release and discharge of and in exchange for such Allowed Class Piedmont-8 General Unsecured Convenience Claim (and any and all other General Unsecured Convenience Claims or General Unsecured Claims of such Claimholder against any of the Debtors), Cash equal to (a) ten percent (10%) of the amount of such Allowed Claim if the amount of such Allowed Claim is less than or equal to $50,000, or (b) $5,000 if the amount of such Allowed Claim is greater than $50,000. Any Claimholder that receives General Unsecured Convenience Class treatment in accordance with Section 5.4(h) of the Plan waives any right such Claimholder might otherwise have to receive a distribution under any other section of the Plan on account of such General Unsecured Claim or General Unsecured Convenience Claim.

(vii) *Class Piedmont-9 (General Unsecured Claims)*

Subject to Section 9.8 of the Plan, on the first Periodic Distribution Date occurring after the later of (i) the date a General Unsecured Claim becomes an Allowed General Unsecured Claim or (ii) the date a General Unsecured Claim becomes payable pursuant to any agreement between Piedmont (or Reorganized Piedmont) and the holder of such General Unsecured Claim, the Disbursing Agent shall deliver to such Allowed Class Piedmont-9 General Unsecured Claimholder in Piedmont's Chapter 11 Case, in full satisfaction, settlement, release, and discharge of and in exchange for its Allowed General Unsecured Claim, such Claimholder's Pro Rata share of the Unsecured Creditors Stock.

In addition, pursuant to the Rights Offering Registration Statement, each holder of a Class Piedmont-9 General Unsecured Claim that is allowed for voting purposes shall be offered the right to subscribe for its Pro Rata share of the General Unsecured Subscription Stock, based on the total Claims (calculated in accordance with Section 9.8.a of the Plan) of such holder to the total Claims (calculated in accordance with Section 9.8.a of the Plan) in Classes USAI-9, Group-9, PSA-9, Piedmont-9 and Material Services-9, at the price of $16.50 per share. In the event that (1) all of the shares of General Unsecured Subscription Stock are not subscribed for in accordance with the terms of Sections 5.1.i, 5.2.j, 5.3.i, 5.4.i or 5.5.i, respectively, of the Plan, or (2) there exist any Unsubscribed Equity Offering Shares, each holder of an Allowed Class Piedmont-9 General Unsecured Claim shall be offered the right to subscribe for shares of the Over-Subscription Stock and/or Unsubscribed Equity Offering Shares, as the case may be, in accordance with the terms and conditions set forth in the Subscription Rights Form and the Rights Offering Registrations Statement. To exercise such rights, such holder shall indicate on its Subscription Rights Form the maximum number of shares of General Unsecured Subscription Stock and Unsubscribed Equity Offering Shares that such holder is willing to purchase, as set forth in more detail in the Subscription Rights Form and the Rights Offering Registration Statement. Such rights shall be nontransferable and elections to exercise such rights shall be irrevocable. The procedures for allocation of and payment for General Unsecured Stock, Over-Subscription Stock and Unsubscribed Equity Offering Shares are set forth in the Rights Offering Registration Statement. The Debtors reserve the right, however, to determine not to proceed with the Rights Offering or to terminate it at any time. Accordingly, for purposes of voting on the Plan, holders of Claims in Class Piedmont-9 should assume that they will not receive the right to participate in the Rights Offering.

(viii) *Class Piedmont-10 (Interests in Piedmont).*

Subject to Section 7.11 of the Plan, on the Effective Date, all Interests in Piedmont shall be Reinstated.

*(i) Unimpaired Classes of Claims against and Interests in Material Services.*

(i) *Class Material Services-1 (Miscellaneous Secured Claims)*

Except as otherwise provided in and subject to Section 9.8 of the Plan, at the option of the Debtors each holder of an Allowed Miscellaneous Secured Claim in Material Services' Chapter 11 Case shall receive, in full satisfaction, settlement and release of and in exchange for such Allowed Miscellaneous Secured Claim, one of the following treatments: (i) the legal, equitable, and contractual rights of the Claimholder shall be Reinstated; (ii) Cash equal to the value of the Miscellaneous Secured Claimholder's interest in the property of the Estate that constitutes collateral for such Allowed Miscellaneous Secured Claim; (iii) the property of the Estate that constitutes collateral for such Allowed Miscellaneous Secured Claim shall be conveyed to the holder of such Claim; (iv) a note secured by such Claimholder's collateral (or, if approved by the Bankruptcy Court, a portion of such collateral and/or substitute collateral), which note shall (1) have an original principal balance equal to the amount of such Claimholder's Allowed Secured Claim, determined in accordance with Section 506(a) of the Bankruptcy Code, and (2) have a term, interest rate, amortization schedule, and other provisions established by the Debtors, subject to approval by the Bankruptcy Court at the Confirmation Hearing, provided that (x) such terms shall be disclosed at or prior to the Confirmation Hearing, and (y) the terms of such note shall be such that the note has a present value equal to the amount of such Claimholder's Allowed Secured Claim, determined in accordance with Section 506(a) of the Bankruptcy Code, such that the note satisfies the requirements set forth in Section 1129(b)(2)(A)(i) of the Bankruptcy Code; (v) such other treatment determined by the Debtors and held by the Bankruptcy Court as constituting the indubitable equivalent of such Claimholder's Claim, in accordance with Section 1129(b)(2)(A)(iii) of the Bankruptcy Code; or (vi) such other treatment as to which Material Services (or Reorganized Material Services) and the holder of such Allowed Miscellaneous Secured Claim have agreed upon in writing. Material Services failure to object to any such Miscellaneous Secured Claim shall be without prejudice to Reorganized Material Services right to contest or otherwise defend against such Claim in the Bankruptcy Court or other appropriate non-bankruptcy forum (at the option of Material Services or Reorganized Material Services) when and if such Claim is sought to be enforced by the Class Material Services-1 Miscellaneous Secured Claimholder. Notwithstanding Section 1141(c) or any other provision of the Bankruptcy Code, unless the Bankruptcy Court orders otherwise, all prepetition liens on property of Material Services held by or on behalf of the Class Material Services-1 Miscellaneous Secured Claimholders with respect to such Claims shall survive the Effective Date and continue in accordance with the contractual terms of the underlying agreements with such Claimholders until, as to each such Claimholder, the Allowed Claims of such Class Material Services-1 Miscellaneous Secured Claimholder are satisfied in accordance with the terms of this Plan.

(ii) *Class Material Services-6 (Aircraft Secured Claims)*

Except as otherwise provided in and subject to Section 9.8 of the Plan, on the first Periodic Distribution Date occurring after the later of (i) the date an Aircraft Secured Claim becomes an Allowed Aircraft Secured Claim, or (ii) the date an Aircraft Secured Claim becomes payable pursuant to any agreement between Material Services (or Reorganized Material Services) and the holder of such Aircraft Secured Claim, an Allowed Class Material Services -6 Aircraft Secured Claim either shall be Reinstated or the Claimholder shall receive, in full satisfaction, settlement, release and discharge of and in exchange for such Class Material Services -6 Aircraft Secured Claim such treatment as to which Material Services (or Reorganized Piedmont) and such Claimholder shall have agreed in writing.

*(j) Impaired Classes of Claims against and Interest in Material Services.*

(i) *Class Material Services-2A (GECC Claims)*

In full satisfaction, settlement, release and discharge of and in exchange for its Claims against Material Services, GECC shall receive treatment in accordance with the GE Master MOU.

(ii) *Class Material Services-2B (GEAE Claims)*

In full satisfaction, settlement and release of and in exchange for its Claims against Material Services, GEAE shall receive treatment in accordance with the GE Master MOU.

(iii) *Class Material Services-3 (ATSB Loan Claims)*

In full satisfaction, settlement, release and discharge of and in exchange for their ATSB Loan Claims, the ATSB Lenders shall receive treatment as agreed by the parties or ordered by the Bankruptcy Court.

(iv) *Class Material Services-5 (Other Priority Claims)*

Except as otherwise provided in and subject to Section 9.8 of the Plan, on the first Periodic Distribution Date occurring after the later of (i) the date an Other Priority Claim becomes an Allowed Other Priority Claim, or (ii) the date an Other Priority Claim becomes payable pursuant to any agreement between Material Services (or Reorganized Material Services) and the holder of such Other Priority Claim, an Allowed Class Material Services-5 Other Priority Claimholder in Material Services'

Chapter 11 Case shall receive, in full satisfaction, settlement, release and discharge of and in exchange for such Class Material Services-5 Other Priority Claim, (a) Cash equal to the amount of such Allowed Class Material Services-5 Other Priority Claim, or (b) such other treatment as to which Material Services (or Reorganized Material Services) and such Claimholder shall have agreed in writing.

(v) *Class Material Services-7 (PBGC Claims)*

In full satisfaction, settlement, release and discharge of and in exchange for the PBGC Claim, PBGC shall receive either (a) the same treatment that PBGC would receive if its claim were a single Class Group-9 General Unsecured Claim, (b) such other treatment as the Debtors or Reorganized Debtors and the PBGC shall have agreed upon in writing, provided that such other treatment shall be no less favorable to the Debtors and Reorganized Debtors than clause (a) above, or (c) as ordered by the Bankruptcy Court.

(vi) *Class Material Services-8 (General Unsecured Convenience Claims)*

On the first Periodic Distribution Date occurring after the later of (i) the date a General Unsecured Convenience Claim becomes an Allowed General Unsecured Convenience Claim, or (ii) the date an Allowed General Unsecured Convenience Claim becomes payable pursuant to any agreement between Material Services (or Reorganized Material Services) and the holder of such Allowed General Unsecured Convenience Claim, the holder of an Allowed Class Material Services -8 General Unsecured Convenience Claim in Material Services' Chapter 11 Case shall receive, in full satisfaction, settlement, release and discharge of and in exchange for such Allowed Class Material Services -8 General Unsecured Convenience Claim (and any and all other General Unsecured Convenience Claims or General Unsecured Claims of such Claimholder against any of the Debtors), Cash equal to (a) ten percent (10%) of the amount of such Allowed Claim if the amount of such Allowed Claim is less than or equal to $50,000, or (b) $5,000 if the amount of such Allowed Claim is greater than $50,000. Any Claimholder that receives General Unsecured Convenience Class treatment in accordance with Section 5.5(h) of the Plan waives any right such Claimholder might otherwise have to receive a distribution under any other section of the Plan on account of such General Unsecured Claim or General Unsecured Convenience Claim.

(vii) *Class Material Services-9 (General Unsecured Claims)*

Subject to Section 9.8 of the Plan, on the first Periodic Distribution Date occurring after the later of (i) the date a General Unsecured Claim becomes an Allowed General Unsecured Claim, or (ii) the date a General Unsecured Claim becomes payable pursuant to any agreement between Material Services (or Reorganized Material Services) and the holder of such General Unsecured Claim, the Disbursing Agent shall deliver to such Allowed Class Material Services-9 General Unsecured Claimholder in Material Services' Chapter 11 Case, in full satisfaction, settlement, release, and discharge of and in exchange for its Allowed General Unsecured Claim, such Claimholder's Pro Rata share of the Unsecured Creditors Stock. The Debtors reserve the right, however, to determine not to proceed with the Rights Offering or to terminate it at any time.

In addition, pursuant to the Rights Offering Registration Statement, each holder of a Class Material Services-9 General Unsecured Claim that is allowed for voting purposes shall be offered the right to subscribe for its Pro Rata share of the General Unsecured Subscription Stock, based on the total Claims (calculated in accordance with Section 9.8.a of the Plan) of such holder to the total Claims (calculated in accordance with Section 9.8.a of the Plan) in Classes USAI-9, Group-9, PSA-9, Piedmont-9 and Material Services-9, at the price of $16.50 per share. In the event that (1) all of the shares of General Unsecured Subscription Stock and Equity Subscription Stock are not subscribed for in accordance with the terms of Sections 5.1.i, 5.2.j, 5.3.i, 5.4.i or 5.5.i, respectively, of the Plan, or (2) there exist any Unsubscribed Equity Offering Shares, each holder of an Allowed Class Material Services-9 General Unsecured Claim shall be offered the right to subscribe for shares of the Over-Subscription Stock and/or Unsubscribed Equity Offering Shares, as the case may be, in accordance with the terms and conditions set forth in the Subscription Rights Form and the Rights Offering Registrations Statement. To exercise such rights, such holder shall indicate on its Subscription Rights Form the maximum number of shares of

General Unsecured Subscription Stock and Unsubscribed Equity Offering Shares that such holder is willing to purchase, as set forth in more detail in the Subscription Rights Form and the Rights Offering Registration Statement. Such rights shall be nontransferable and elections to exercise such rights shall be irrevocable. The procedures for allocation of and payment for General Unsecured Stock, Over-Subscription Stock and Unsubscribed Equity Offering Shares are set forth in the Rights Offering Registration Statement. Accordingly, for purposes of voting on the Plan, holders of Claims in Class Material Services-9 should assume that they will not receive the right to participate in the Rights Offering.

(viii) *Class Material Services-10 (Interests in Material Services).*

Subject to Section 7.11 of the Plan, on the Effective Date, all Interests in Material Services shall be Reinstated.

3. *Special Provision Regarding Intercompany Claims and Interests.*

All Intercompany Claims and Interests will be Reinstated on the Effective Date; provided, however, that notwithstanding the foregoing, the Debtors reserve the right to extinguish or cancel any Intercompany Claims or Interests, as applicable, as of or after the Effective Date, without further notice. No Debtor shall receive any distribution under the Plan on account of any Intercompany Claim.

**C. Means of Plan Implementation**

1. *The Merger.*

The Merger will be implemented in accordance with its terms. Consummation of the Merger, described in Section III, is central to implementation of the Plan.

2. *Plan Investors.*

Upon the terms and subject to the conditions set forth in the Investment Agreements, Reorganized Group shall issue, sell and deliver to the Plan Investors, and the Plan Investors have agreed to purchase from Reorganized Group, the number of shares of New Common Stock set forth for each of the Plan Investors on Exhibit R to the Plan, free and clear of all liens, for a purchase price which is also set forth on Exhibit R to the Plan, to be paid in Cash (or in the case of the Eastshore Financing Agreement, by conversion of the principal amount outstanding under the Eastshore Financing Agreement as set forth in Section 2.1 of the Plan). These new investments are an important part of the Plan because they will help provide the Reorganized Debtors the necessary liquidity to run their business operations going forward. New investments totaling at least $375 million are a condition to the Effective Date of the Plan and to consummation of the Merger pursuant to the Merger Agreement.

3. *Continued Corporate Existence.*

Each of the Debtors will continue to exist after the Effective Date as a separate corporate entity, with all of the powers of a corporation under applicable law in the jurisdiction in which each applicable Debtor is incorporated and pursuant to the respective certificate of incorporation and bylaws in effect prior to the Effective Date, except to the extent such Certificate of Incorporation and Bylaws are amended pursuant to the Plan.

4. *Directors and Officers of Reorganized Group.*

The senior officers of Reorganized Group after the Effective Date shall be as set forth on Exhibit Q to the Plan. On the Effective Date, the term of the current members of the board of directors of Group will expire. The initial board of directors of Reorganized Group will consist of 13 individuals composed as follows: (i) two of the directors will be designated by Group to an initial one-year term; (ii) two of the directors will be designated by America West to an initial one-year term; (iii) one of the directors will be designated by Group to an initial two-year term; (iv) three of the directors will be designated by America West to an initial two-year term; in each case of (i), (ii), (iii) and (iv), all of whom will be Independent Directors; (iv) one of the directors will be W. Douglas Parker, Chief Executive Officer of America West, who will also serve as Chairman of the Board, appointed to an initial three-year term; (v) one of the directors will be Bruce Lakefield, President and Chief Executive Officer of Group and USAI, who will also serve as Vice Chairman of the Board, appointed to an initial three-year term; and (vi) three directors will be appointed by certain Plan Investors to initial three-year terms pursuant to the terms of their respective Investment Agreements and the Stockholders Agreement.

America West, the Plan Investors and any other Persons designating board members shall provide to Group written notice of the identities of such members on a date that is not less than ten (10) days prior to the Confirmation Hearing, and Group will file with the Bankruptcy Court written notice of the identities of all of the initial board members of Reorganized Group on a date that is not less than five (5) days prior to the Confirmation Hearing.

In the event of the death, disability, resignation or removal of a member of the board of directors of Reorganized Group, a replacement for such director shall be designated as set forth in the Certificate of Incorporation and Bylaws of Reorganized Group and the Stockholders Agreement.

*5. Directors and Officers of Debtors Other Than Reorganized Group.*

The identities of senior officers and members of the boards of directors of each of the Reorganized Debtors other than Reorganized Group shall be filed with the Bankruptcy Court no later than five (5) days prior to the Confirmation Hearing; provided, however, that the Debtors reserve the right to replace such individuals on or after the Effective Date without notice.

*6. Employment, Retirement, Indemnification and Other Agreements and Incentive Compensation Programs.*

Subject to Section 8.1.b of the Plan, employment, retirement, indemnification, benefit, incentive and compensation programs and other agreements with the Debtors' respective active directors, officers and employees who will continue in such capacities (or similar capacities) immediately after the Effective Date, as the same may be modified or amended, will remain in place after the Effective Date; provided, however, that pursuant to the Management Compensation Plan, there will be reserved for certain members of management, directors and other employees of the Reorganized Group and its affiliates a certain number of shares of New Common Stock, and other securities all as more fully stated on Exhibit L to the Plan, which contains a summary of the Management Compensation Plan.

*7. Continuation of Retiree Benefits.*

Following the Effective Date, the payment of all retiree benefits (as defined in Section 1114(a) of the Bankruptcy Code) for current retirees as defined by the 1114 Orders (as defined below) shall continue, but only at the levels and under the conditions and for the duration established by: (A) the Consent Order Approving Agreement to Modify Certain Retiree Benefits, entered on January 11, 2005 (including Exhibit B to the January 5, 2005 Consent Motion to Approve Agreement to Modify Certain Retiree Benefits) (Docket No. 1579), (B) the October 26, 2004 Consent Order Approving Modifications to Debtors' Collective Bargaining Agreements With Certain Groups Within the Transport Workers Union (Docket No. 588), and (C) the January 11, 2005 Consent Order Approving Agreement With the International Association of Machinists and Aerospace Workers to Modify Certain Retiree Health Benefits (including Exhibit B to the January 7, 2005 Consent Motion to Approve Agreement with the International Association of Machinists and Aerospace Workers to Modify Certain Retiree Health Benefits) (Docket No. 1580) (collectively, the "1114 Orders").

Benefits for future retirees, as defined by the 1114 Orders and the CBA Orders (as defined below), are to be provided as established by the collective bargaining agreements entered into by the unions and approved by the Court in: (A) the January 11, 2005 Order Approving Debtors' Entry Into Collective Bargaining Agreement with the Association of Flight Attendants-CWA, AFL-CIO (Docket No. 1581), (B) the January 6, 2005 Consent Order Approving Modifications to Debtors' Collective Bargaining Agreement with the Communications Workers of America (Docket No. 1549), (C) the October 26, 2004 Consent Order Approving Modifications to the Debtors' Collective Bargaining Agreement with the Air Line Pilots Association International (Docket No. 587), (D) the October 26, 2004 Consent Order Approving Modifications to Debtors' Collective Bargaining Agreements With Certain Groups Within the Transport Workers Union (Docket No. 588), and (E) the January 27, 2005 Order Approving Debtors' Entry into Collective Bargaining Agreements with the International Association of Machinists and Aerospace Workers (Docket No. 1753).

In the event that, after the Effective Date, the Reorganized Debtors suffer extreme hardship that poses an immediate threat of liquidation, the Reorganized Debtors, with prior notice to the individual members who now constitute the Section 1114 Committee, to the extent USAI's Vice President of Human Resources is provided with the current address of such individuals, may institute proceedings in any court of competent jurisdiction to effectuate such changes as such court finds are necessary to avoid liquidation of the Reorganized Debtors, and the Confirmation Order shall so provide.

*8. Certificate of Incorporation and Bylaws.*

The Certificates of Incorporation and Bylaws of the Debtors will be amended as may be required in order that they are consistent with the provisions of the Investment Agreement, the Merger Agreement, the Stockholder Agreement, the Plan and the Bankruptcy Code. The Certificate of Incorporation of Reorganized Group will be amended to, among other purposes, (a) authorize two hundred million (200,000,000) shares of New Common Stock, and (b) pursuant to Section 1123(a)(6) of the Bankruptcy Code, add (i) a provision prohibiting the issuance of non-voting equity securities to the extent required by law and (ii) if applicable, a provision setting forth an appropriate distribution of voting power among classes of equity securities possessing voting power. The restated Certificates of Incorporation of each of the Reorganized Debtors are attached to the Plan as Exhibits E-1 through E-5. The restated Bylaws of each of the Reorganized Debtors are attached to the Plan as Exhibits D-1 through D-5. Any modification to the Certificate of Incorporation or the Bylaws of any of the Reorganized Debtors as originally filed may be filed after the Confirmation Date and may become effective on or prior to the Effective Date.

*9. Corporate Action.*

Each of the matters provided for under the Plan involving the corporate structure of the Debtors or corporate action to be taken by or required of the Debtors will, as of the Effective Date, be deemed to have occurred and be effective as provided herein, and will be authorized, approved and, to the extent taken prior to the Effective Date, ratified in all respects without any requirement of further action by stockholders, creditors or directors of the Debtors.

*10. Issuance of New Securities.*

*(a) New Common Stock*

On or before the Distribution Date, Reorganized Group will issue the New Common Stock for distribution in accordance with the schedule attached to the Plan as Exhibit R.

*(b) Rights Offering*

On or as soon as practicable after the Effective Date, Reorganized Group shall issue for Cash up to 9,090,909 shares of New Common Stock at a price of $16.50 per share pursuant to the Rights Offering. The Debtors reserve the right, however, to determine not to proceed with the Rights Offering or to terminate it at any time. Accordingly, for purposes of voting on the Plan, holders of Claims in Class-9 should assume that they will not receive the right to participate in the Rights Offering.

*(c) Stockholders Agreement*

On the Effective Date, Reorganized Group, the Plan Investors and the other parties thereto shall enter into the Stockholders Agreement.

*(d) Listing on Securities Exchange or Quotation System*

Reorganized Group will list the New Common Stock on the New York Stock Exchange or for quotation on the NASDAQ National Market System. Persons receiving distributions of New Common Stock, by accepting such distributions, will have agreed to cooperate with Reorganized Group's commercially reasonable requests to assist Reorganized Group in its efforts to list the New Common Stock on the New York Stock Exchange or the NASDAQ National Market System, as the case may be.

*(e) New Convertible Note*

On the Effective Date, Reorganized USAI shall issue to GECC, or an Affiliate of GECC as designated by GECC, the New Convertible Note.

*11. Reinstatement of Common Stock of Reorganized Debtors Other Than Reorganized Group.*

The common stock of the Reorganized Debtors (other than Reorganized Group) shall be Reinstated in exchange for Reorganized Group's agreement to distribute certain New Common Stock to the General Unsecured Claimholders of the Debtors other than Group in accordance with the terms of the Plan and to provide management services to such other Reorganized Debtors, and to use its funds and assets, to the extent provided for in the Plan, to satisfy certain obligations of such other Reorganized Debtors.

*12. Preservation of Causes of Action.*

In accordance with Section 1123(b)(3) of the Bankruptcy Code and except as otherwise provided in the Plan, the Reorganized Debtors and any successors will retain and may (but are not required to) enforce all Retained Actions, a non exclusive list of which is attached as Exhibit O to the Plan, and all other similar claims. The Debtors, or the Reorganized Debtors, in consultation with America West will determine whether to bring, settle, release, compromise or enforce such rights (or decline to do any of the foregoing), and will not be required to seek further approval of the Bankruptcy Court for such action.

*13. Cancellation of Existing Equity Securities and Agreements.*

On the Effective Date, except as otherwise specifically provided for in the Plan or the Confirmation Order, including, without limitation, with respect to the Aircraft Equipment, on the earlier of the date of entry into a new or amended lease or return of the Aircraft Equipment, (a) the Existing Equity Securities and any other note, bond, indenture, pass through trust agreement, pass through trust certificate, equipment trust certificate guarantee or other instrument or document directly or indirectly evidencing or creating any indebtedness or obligation of or ownership interest in the Debtors, except such notes, other instruments or documents evidencing indebtedness or obligations of the Debtors that are Reinstated under the Plan, will be cancelled solely as to the Debtors, and the Debtors shall not have any continuing obligations thereunder and (b) the obligations of, Claims against, and/or Interests in the Debtors under, relating, or pertaining to any agreements, indentures, certificates of designation, bylaws, or certificate or articles of incorporation or similar documents governing the Existing Equity Securities and any other note, bond, indenture or other instrument or document evidencing or creating any indebtedness or obligation of the Debtors, except such agreements or notes or other instruments evidencing indebtedness or obligations of the Debtors that are Reinstated under the Plan, as the case may be, will be released and discharged;

provided, however, that, notwithstanding the release and discharge of Claims against Debtors, to the extent required by applicable nonbankruptcy law in order to permit foreclosure, (1) each such Claim shall not be discharged, and may be asserted, solely against any applicable insurance or Aircraft Equipment or other collateral (other than property of the Reorganized Debtors) securing such Claim or against a non-Debtor party liable thereon and may be credit bid in any foreclosure action with respect to such Aircraft Equipment to the extent permissible under applicable nonbankruptcy law, and (2) the applicable Debtor may be named as a nominal party, without recourse, solely to the extent required by applicable nonbankruptcy law in a foreclosure or other enforcement action with respect to the Aircraft Equipment securing such Claim; provided, however, that any such foreclosure or exercise of related remedies permitted by the Plan must be subject in all respects to the new or amended leases, which shall survive and be fully enforceable notwithstanding such foreclosure or other exercise of related remedies permitted by the Plan; provided, further, that any such foreclosure or other remedies shall not be exercised in a fashion that would result in the lease being terminated or extinguished or in the applicable Reorganized Debtor being deprived of any of the intended benefits of the lease; provided, further, that any such agreement that governs the rights of the Claimholder will continue in effect solely for purposes of (i) allowing an indenture trustee, an agent or a servicer (each hereinafter referred to as a "Servicer") to make the distributions to be made on account of such Claims under the Plan as provided in Article IX of the Plan, (ii) permitting such Servicer to maintain any rights or liens it may have against property other than the Reorganized Debtors' property for fees, costs, and expenses under such Indenture or other agreement, and (iii) governing the rights and obligations of non-Debtor parties to such agreements, vis-à-vis each other; provided, further, that the preceding proviso will not affect the discharge of Claims against or Interests in the Debtors under the Bankruptcy Code, the Confirmation Order, or the Plan, or result in any expense or liability to the Reorganized Debtors. The Reorganized Debtors will not have any obligations to any Servicer (or to any Disbursing Agent replacing such Servicer) for any fees, costs, or expenses except as expressly provided in Section 9.5 of the Plan; provided, however, that nothing herein will preclude any Servicer (or any Disbursing Agent replacing such Servicer) from being paid or reimbursed for prepetition or postpetition fees, costs, and expenses from the distributions being made by such Servicer (or any Disbursing Agent replacing such Servicer) pursuant to such agreement in accordance with the provisions set forth therein, all without application to or approval by the Bankruptcy Court with respect to agreements regarding Aircraft Equipment.

*14. Exclusivity Period.*

The Debtors will retain the exclusive right to amend or modify the Plan, and to solicit acceptances of any amendments to or modifications of the Plan, through and until the Effective Date; provided, however, that nothing contained in Section 7.14 or any other provision of the Plan shall impair America West's rights under the Merger Agreement, any Plan Investor's rights under the Investment Agreement to which it is a party, the ATSB Lenders' rights under the ATSB Loan, or GEAE's and GECC's rights under the GE Master MOU.

*15. Effectuating Documents; Further Transactions.*

Each of (a) the President and Chief Executive Officer, (b) the Executive Vice President - Finance and Chief Financial Officer and (c) the Executive Vice President - Corporate Affairs and General Counsel of Group, or their respective designees, are authorized to execute, deliver, file, or record such contracts, instruments, releases, indentures and other agreements or documents, and take such actions as may be necessary or appropriate to effectuate and further evidence the terms and conditions of the Plan. The secretary or assistant secretary of each of the Debtors will be authorized to certify or attest to any of the foregoing actions.

*16. Exemption From Certain Transfer Taxes and Recording Fees.*

Pursuant to Section 1146(c) of the Bankruptcy Code, any transfers from a Debtor to a Reorganized Debtor or to any other Person or entity pursuant to the Plan or pursuant to any agreement contemplated by or entered into in connection with this Plan regarding the transfer of title to or ownership of any of the Debtors' aircraft, in the United States will not be subject to any document recording tax, stamp tax, conveyance fee, intangibles or similar tax, mortgage tax, stamp act, real estate transfer tax, mortgage recording tax, Uniform Commercial Code filing or recording fee, FAA filing or recording fee or other similar tax or governmental assessment, and the Confirmation Order will direct the appropriate state or local governmental officials or agents to forego the collection of any such tax or governmental assessment and to accept for filing and recordation any of the foregoing instruments or other documents without the payment of any such tax or governmental assessment.

*17. Postpetition Aircraft Obligation.*

The Postpetition Aircraft Obligations will become obligations of the Reorganized Debtors or their successors, if applicable, on the Effective Date. The foregoing sentence will be specifically limited with respect to each Postpetition Aircraft Obligation by the express terms of the agreement pursuant to which such Postpetition Aircraft Obligation arises and nothing contained in the Plan, the Disclosure Statement or the Confirmation Order will be deemed to limit or otherwise affect the terms thereof.

*18. Alliance Agreements.*

Reorganized Group and certain Affiliates of Air Canada will enter into the agreements and other arrangements described in the term sheet attached to the Plan as Exhibit S.

*19. Profit Sharing.*

Reorganized USAI shall provide Profit Sharing after the Effective Date, in accordance with the terms set forth on Exhibit T to the Plan.

*20. Issuance of New Common Stock to ALPA.*

On the Effective Date, Reorganized Group shall issue to ALPA the ALPA Shares in accordance with the terms of the Assumed Modified CBA between USAI and ALPA.

## D. Distributions

*1. Time of Distributions.*

Except as otherwise provided for in the Plan or ordered by the Bankruptcy Court, distributions under the Plan shall be made on a Periodic Distribution Date.

*2. No Interest on Claims.*

Unless otherwise specifically provided for in the Plan, the Confirmation Order, the ATSB Cash Collateral Order or a postpetition agreement in writing between the Debtors and a Claimholder, postpetition interest shall not accrue or be paid on Claims, and no Claimholder shall be entitled to interest accruing on or after the Petition Date on any Claim. Additionally, and without limiting the foregoing, interest shall not accrue or be paid on any Disputed Claim in respect of the period from the Effective Date to the date a final distribution is made when and if such Disputed Claim becomes an Allowed Claim.

*3. Disbursing Agent.*

The Disbursing Agent shall make all distributions required under the Plan except with respect to a holder of a Claim whose distribution is governed by an agreement and is administered by a Servicer, which distributions shall be deposited with the appropriate Servicer, who shall deliver such distributions to the holders of Claims in accordance with the provisions of the Plan and the terms of the governing agreement; provided, however, that if any such Servicer is unable to make such distributions, the Disbursing Agent, with the cooperation of such Servicer, shall make such distributions.

*4. Surrender of Securities or Instruments.*

On or before the Distribution Date, or as soon as practicable thereafter, each holder of an instrument evidencing a Claim (a "Certificate") shall surrender such Certificate to the Disbursing Agent, or, with respect to indebtedness that is governed by an agreement and administered by a Servicer, the respective Servicer, and such Certificate shall be cancelled solely with respect to the Debtors and such cancellation shall not alter the obligations or rights of any non-Debtor third parties vis-à-vis one another to such instruments; provided, however, that Section 9.4 of the Plan shall not apply to any Claims Reinstated pursuant to the terms of the Plan. No distribution of property hereunder shall be made to or on behalf of any such holder unless and until such Certificate is received by the Disbursing Agent or the respective Servicer or the unavailability of such Certificate is reasonably established to the satisfaction of the Disbursing Agent or the respective Servicer. Any holder who fails to surrender or cause to be surrendered such Certificate, or fails to execute and deliver an affidavit of loss and indemnity reasonably satisfactory to the Disbursing Agent or the respective Servicer prior to the second anniversary of the Effective Date, shall be deemed to have forfeited all rights and Claims in respect of such Certificate and shall not participate in any distribution hereunder, and all property in respect of such forfeited distribution, including any dividends or interest attributable thereto, shall revert to the Reorganized Debtors notwithstanding any federal or state escheat laws to the contrary.

*5. Services of Indenture Trustees, Agents and Servicers.*

The services, with respect to consummation of the Plan, of Servicers under the relevant agreements that govern the rights of Claimholders shall be as set forth in Section 7.13 of the Plan, and the Reorganized Debtors shall reimburse any Servicer for reasonable and necessary services performed by it (including reasonable attorneys' fees) as contemplated by, and in accordance with, the Plan, without the need for the filing of an application with, or approval by, the Bankruptcy Court.

*6. Claims Administration Responsibility.*

The Reorganized Debtors will retain sole responsibility for administering, disputing, objecting to, compromising, or otherwise resolving and making distributions (if any) with respect to all Claims against and Interests in the Debtors.

Unless otherwise extended by the Bankruptcy Court, any objections to Claims shall be served and filed on or before the Claims Objection Deadline. Notwithstanding any authority to the contrary, an objection to a Claim shall be deemed properly served on the Claimholder if the Debtors or the Reorganized Debtors effect service in any of the following manners: (i) in accordance with Federal Rule of Civil Procedure 4, as modified and made applicable by Bankruptcy Rule 7004; (ii) to the extent counsel for a Claimholder is unknown, by first class mail, postage prepaid, on the signatory on the proof of claim or interest or other representative identified on the proof of claim or any attachment thereto; or (iii) by first class mail, postage prepaid, on any counsel that has appeared on the Claimholder's behalf in the Chapter 11 Cases. Additionally, nothing contained in Section 11.2 of the Plan constitutes or should be deemed a waiver of any right, claim or Cause of Action that the Debtors or Reorganized Debtors may have against any Person in connection with or arising out of any Claim or Claims, including, without limitation, any rights under Section 157(b) of title 28 of the United States Code.

*7. Delivery of Distributions.*

Distributions to Allowed Claimholders shall be made by the Disbursing Agent or the appropriate Servicer: (a) at the addresses set forth on the proofs of claim filed by such Claimholders (or at the last known addresses of such Claimholders if no proof of claim is filed or if the Debtors have been notified in writing of a change of address), (b) at the addresses set forth in any written notices of address changes delivered to the Disbursing Agent after the date of any related proof of claim, (c) at the addresses reflected in the Schedules if no proof of claim has been filed and the Disbursing Agent has not received a written notice of a change of address, or (d) in the case of a Claimholder whose Claim is governed by an agreement and administered by a Servicer, at the addresses contained in the official records of such Servicer. If any

Claimholder's distribution is returned as undeliverable, no further distributions to such Claimholder shall be made unless and until the Disbursing Agent or the appropriate Servicer is notified of such Claimholder's then-current address, at which time all missed distributions shall be made to such Claimholder without interest. Amounts in respect of undeliverable distributions shall be returned to the Reorganized Debtors until such distributions are claimed. All funds or other undeliverable distributions returned to the Reorganized Debtors and not claimed within six months of return shall be distributed to the other creditors of the Class of which the Claimholder to whom the distribution was originally made is a member in accordance with the provisions of the Plan applicable to distributions to that Class. If, at the conclusion of distributions to a particular Class under the Plan and after consultation with the Post-Effective Date Committee (solely with respect to General Unsecured Claims), the Reorganized Debtors reasonably determine that any remaining New Common Stock or Cash allocated for such class is immaterial and would thus be too impractical to distribute or would be of no benefit to its respective distributees, any such remaining New Common Stock or Cash will revert to Reorganized Group. Upon such reversion, the claim of any Claimholder or their successors with respect to such property shall be discharged and forever barred notwithstanding any federal or state escheat laws to the contrary.

*8. Procedures for Voting, Treating and Resolving Disputed and Contingent Claims.*

*(a) Voting and Other Rights of Holders of Disputed Claims*

Pursuant to Bankruptcy Rule 3018, a Disputed Claim will not be counted for voting purposes or for any election to subscribe for General Unsecured Subscription Stock or Unsubscribed Equity Offering Shares in accordance with Sections 5.1, 5.2, 5.3, 5.4 and 5.5 of the Plan to the extent it is disputed, unless an order of the Bankruptcy court is entered after notice and a hearing temporarily allowing the Disputed Claim for voting purposes under Bankruptcy Rules 3018. Such disallowance for voting purposes is without prejudice to the claimant's right to seek to have its Disputed Claim allowed for purposes of distributions under this Plan; provided, however, that any elections pursuant to Sections 5.1, 5.2, 5.3, 5.4 and 5.5 shall be limited to the amounts of such holder's Claim in accordance with Bankruptcy Rule 3018.

*(b) No Distributions Pending Allowance*

No payments or distributions will be made with respect to all or any portion of a Disputed Claim unless and until all objections to such Disputed Claim have been settled or withdrawn or have been determined by a Final Order, and the Disputed Claim has become an Allowed Claim. All objections to Claims must be filed on or before the Claims Objection Deadline. All Claims of each individual agency of the United States, to the extent payable in Cash hereunder, shall be paid in accordance with the terms of this Plan as soon as all of the Claims of that individual agency against a particular Debtor are either Allowed or Disallowed.

*(c) Distribution Reserve*

The Disbursing Agent will create a separate Distribution Reserve from the property to be distributed to holders of General Unsecured Claims in the Chapter 11 Cases. The amount of New Common Stock withheld as a part of the Distribution Reserve shall be equal to the number of shares the Reorganized Debtors reasonably determine is necessary to satisfy the distributions required to be made to the holders of General Unsecured Claims in the Chapter 11 Cases, when the allowance or disallowance of each Disputed Claim is ultimately determined. The Disbursing Agent, the Debtors, or the Reorganized Debtors may request estimation for any Disputed Claim that is contingent or unliquidated (but is not required to do so). The Disbursing Agent also shall place in the Distribution Reserve any dividends, payments, or other distributions made on account of, as well as any obligations arising from, the property initially withheld in the Distribution Reserve, to the extent that such property continues to be withheld in the Distribution Reserve at the time such distributions are made or such obligations arise. The Claimholder shall not be entitled to receive or recover any amount in excess of the amount provided in the Distribution Reserve to pay such Claim. Nothing in the Plan or Disclosure Statement will be deemed to entitle the Claimholder of a Disputed Claim to postpetition interest on such Claim.

*(d) Distributions After Allowance*

Payments and distributions from the Distribution Reserve to each respective Claimholder on account of a Disputed Claim, to the extent that it ultimately becomes an Allowed Claim, will be made in accordance with provisions of the Plan that govern distributions to such Claimholders. On the first Periodic Distribution Date following the date when a Disputed Claim becomes an undisputed, noncontingent and liquidated Claim, the Disbursing Agent will distribute to the Claimholder any Cash, New Common Stock or other property from the Distribution Reserve that would have been distributed on the dates distributions were previously made to Claimholders had such Allowed Claim been an Allowed Claim on such dates. After a Final Order has been entered, or other final resolution has been reached with respect to all Disputed Claims, any remaining Cash, New Common Stock or other property held in the Distribution Reserve will be distributed Pro Rata to Allowed General Unsecured Claimholders in accordance with the other provisions of the Plan. Subject to Section 9.2 of the Plan, all distributions made under Section 9.8.c of the Plan on account of an Allowed Claim will be made together with any dividends, payments, or other distributions made on account of, as well as any obligations arising from, the distributed property as if such Allowed Claim had been an Allowed Claim on the dates distributions were previously made to Allowed Claimholders included in the applicable class.

The Disbursing Agent shall be deemed to have voted any New Common Stock held in the Distribution Reserve in the same proportion as all shares of New Common Stock that are not held in the Distribution Reserve. The Servicers shall be deemed to have voted any New Common Stock held by such Servicer in the same proportion as shares previously disbursed by such Servicer or, if not shares have been previously disbursed by such Servicer, then in the same proportion as all shares of New Common Stock that are not held in the Distribution Reserve.

*(e) De Minimis Distributions*

Neither the Distribution Agent nor any Servicer shall have any obligation to make a distribution on account of an Allowed Claim from any Distribution Reserve or otherwise if (i) the aggregate amount of all distributions authorized to be made from such Distribution Reserve or otherwise on the Periodic Distribution Date in question is or has a value less than $250,000.00, or (ii) if the amount to be distributed to the specific holder of the Allowed Claim on the particular Periodic Distribution Date does not constitute a final distribution to such holder and is or has a value less than $100.00.

*9. Fractional Securities; Fractional Dollars*

Any other provision of the Plan notwithstanding, payments of fractions of shares of New Common Stock will not be made and shall be rounded (up or down) to the nearest whole number, with fractions equal to or less than one-half (½) being rounded down. Any other provision of the Plan notwithstanding, neither the Reorganized Debtors nor the Disbursing Agent or Servicer shall be required to make distributions or payments of fractions of dollars. Whenever any payment of a fraction of a dollar under the Plan would otherwise be called for, the actual payment shall reflect a rounding of such fraction to the nearest whole dollar (up or down), with half dollars or less being rounded down.

*10. Allowance and Payment of Certain Administrative Claims.*

*(a) Professional Claims*

Under the Plan, all final requests for payment of Professional Claims must be filed no later than sixty (60) days after the Effective Date. After notice and a hearing in accordance with the procedures established by the Bankruptcy Code and prior orders of the Bankruptcy Court, the allowed amounts of such Professional Claims shall be determined by the Bankruptcy Court. All Ordinary Course Professionals shall file final requests for payment, which shall be served and reviewed in accordance with paragraphs 5 and 6 of the Ordinary Course Professional Order, provided, however, that in the event that there is an objection that cannot be resolved, such Ordinary Course Professional shall have thirty (30) days from receipt of such objection to file a request for payment of the disputed portion of its Ordinary Course Professional Claim.

Subject to the Holdback Amount, on the Effective Date, the Debtors or Reorganized Debtors shall pay all amounts owing to Professionals and Ordinary Course Professionals for all outstanding amounts payable relating to prior periods through the Effective Date. In order to receive payment on the Effective Date for unbilled fees and expenses incurred through such date, the Professionals and Ordinary Course Professionals shall estimate fees and expenses due for periods that have not been billed as of the Effective Date and shall deliver such estimate to the Debtors, counsel for the Debtors, and the Creditors' Committee. Within forty-five (45) days after the Effective Date, a Professional or Ordinary Course Professional receiving payment for the estimated period shall submit a detailed invoice covering such period in the manner and providing the detail as set forth in the Professional Fee Order or the Ordinary Course Professional Order, as applicable. Should the estimated payment received by any Professional or Ordinary Course Professional exceed the actual fees and expenses for such period, this excess amount will be credited against the Holdback Amount for Professionals, or if the award of the Holdback Amount is insufficient and for Ordinary Course Professionals, the excess amount shall be disgorged by such Professional or Ordinary Course Professional.

Upon the Effective Date, any requirement that Professionals or Ordinary Course Professionals comply with Sections 327 through 331 of the Bankruptcy Code in seeking retention or compensation for services rendered after such date will terminate, and the Reorganized Debtors will employ and pay Professionals and Ordinary Course Professionals in the ordinary course of business.

*(b) Substantial Contribution Compensation and Expenses Bar Date*

Any Person who requests compensation or expense reimbursement for making a substantial contribution in the Chapter 11 Cases pursuant to Sections 503(b)(3), (4), and (5) of the Bankruptcy Code must file an application with the clerk of the Bankruptcy Court, on or before the forty-fifth (45th) day after the Effective Date (the "503 Deadline"), and serve such application on counsel for the Reorganized Debtors and the Post-Effective Date Committee, and as may otherwise be required by the Bankruptcy Court or the Bankruptcy Code or the Bankruptcy Rules on or before the 503 Deadline, or be forever barred from seeking such compensation or expense reimbursement.

*(c) Other Administrative Claims*

All other requests for payment of an Administrative Claim (other than as set forth in Sections 10.1 and 10.2 of the Plan and subject to the final sentence of Section 10.3 of the Plan) must be filed, in substantially the form of the Administrative Claim Request Form attached to the Plan as Exhibit V, with the Claims Agent and served on counsel for the Reorganized Debtors and the Post-Effective Date Committee, and as may otherwise be required by the Bankruptcy Court or the Bankruptcy Code or the Bankruptcy Rules, by the Administrative Claims Bar Date applicable to such Administrative Claim. Any request for payment of an Administrative Claim pursuant to Section 10.3 of the Plan that is not timely filed and served shall be disallowed automatically without the need for any objection from the Debtors or the Reorganized Debtors. The Reorganized Debtors may settle an Administrative Claim without further Bankruptcy Court approval. Unless the Debtors or the Reorganized Debtors object to an Administrative Claim by the date set forth by the Bankruptcy Court in its order establishing the Administrative Claims Bar Date applicable to such Administrative Claim as the deadline for any such objections, such Administrative Claim shall be deemed allowed in the amount requested. In the event that the Debtors or the Reorganized Debtors object to an Administrative Claim, the Bankruptcy Court shall determine the allowed amount of such Administrative Claim. Notwithstanding the foregoing, no request for payment of an Administrative Claim need be filed with respect to an Administrative Claim which (i) is for goods or services (including wages, salaries, commissions, and trade payables) paid or payable by the Debtors in the ordinary course of business, (ii) previously has been Allowed by Final Order of the Bankruptcy Court, (iii) are for break-up fees or expense reimbursements approved as provided for in the Procedures Order, or (iv) the Debtors have agreed that no request is required.

## E. Executory Contracts

### *1. Interline Agreements.*

Each Interline Agreement to which any of the Debtors are a party shall be deemed automatically assumed in accordance with the provisions and requirements of Sections 365 and 1123 of the Bankruptcy Code as of the Effective Date, unless such Interline Agreement (i) shall have been previously rejected by the Debtors by order of the Bankruptcy Court, (ii) is the subject of a motion to reject pending on or before the Effective Date, (iii) is listed on the schedule of rejected Interline Agreements annexed to the Plan as Exhibit U-l, or (iv) is otherwise rejected pursuant to the terms of the Plan. Entry of the Confirmation Order by the Bankruptcy Court shall constitute approval of such assumptions and rejections pursuant to Sections 365 and 1123 of the Bankruptcy Code. Each Interline Agreement assumed pursuant to Section 8.1.a of the Plan shall vest in and be fully enforceable by the applicable Reorganized Debtor in accordance with its terms, except as modified by the provisions of the Plan, or any order of the Bankruptcy Court authorizing or providing for its assumption or applicable federal law. The Debtors reserve the right to file a motion on or before the Confirmation Date to assume or reject any Interline Agreement.

### *2. Employee-Related Agreements.*

Each Employee-Related Agreement as to which any of the Debtors is a party shall be deemed automatically assumed in accordance with the provisions and requirements of Sections 365 and 1123 of the Bankruptcy Code as of the Effective Date, unless such Employee-Related Agreement: (i) shall have been previously rejected by the Debtors by order of the Bankruptcy Court; (ii) is the subject of a motion to reject pending on or before the Effective Date; (iii) is listed on the schedule of rejected Employee-Related Agreements annexed to the Plan as Exhibit U-2; or (iv) is otherwise rejected pursuant to the terms of the Plan. Entry of the Confirmation Order by the Bankruptcy Court shall constitute approval of the assumptions and rejections contemplated hereby pursuant to Sections 365 and 1123 of the Bankruptcy Code. Notwithstanding the foregoing, (x) the collective bargaining agreements that existed as of the Petition Date between USAI and IAMAW and between USAI and AFA have been rejected pursuant to Section 1113 of the Bankruptcy Code and the Postpetition CBAs have been entered into between these parties, and (y) the Assumed Modified CBAs and the Assumed Other CBAs shall be deemed assumed in accordance with the provisions and requirements of Section 1123 of the Bankruptcy Code as of the Effective Date. After the Effective Date, the Assumed Modified CBAs and Assumed Other CBAs, and the Postpetition CBAs shall remain in effect according to their terms. The assumption of the Assumed Modified CBAs and the Assumed Other CBAs and entry into the Postpetition CBAs shall be in full satisfaction of all Claims and Interests of any non-debtor person or entity (or any such person or entity's predecessor or successor) arising under or relating to any collective bargaining agreements to which the Debtors are party. Upon the Effective Date, all proofs of claim filed by the Debtors' unions will be deemed withdrawn. Each Employee-Related Agreement assumed pursuant to Section 8.1.b of the Plan and each of the Postpetition CBAs shall vest in and be fully enforceable by the applicable Reorganized Debtor in accordance with its terms, except as modified by the provisions of the Plan, or any order of the Bankruptcy Court authorizing or providing for its assumption or applicable federal law. Subject to the terms of the Assumed Modified CBAs, Assumed Other CBAs and the Postpetition CBAs, the Debtors reserve the right to file a motion on or before the Confirmation Date to assume or reject any Employee-Related Agreement.

### *3. Other Executory Contracts and Unexpired Leases.*

Each Other Executory Contract and Unexpired Lease as to which any of the Debtors is a party shall be deemed automatically rejected in accordance with the provisions and requirements of Sections 365 and 1123 of the Bankruptcy Code as of the Effective Date, unless such Other Executory Contract or Unexpired Lease: (i) shall have been previously assumed by the Debtors by order of the Bankruptcy Court, (ii) is the subject of a motion to assume pending on or before the Effective Date, (iii) is listed on the schedule of assumed other Executory Contracts and Unexpired Leases annexed to the Plan as Exhibit U-3, or (iv) is otherwise assumed pursuant to the terms of the Plan, including, without limitation, those Executory Contracts and Unexpired Leases described in the GE Master MOU that are not rejected in accordance with or as contemplated by the terms and provisions of the GE Master MOU. Entry of the

Confirmation Order by the Bankruptcy Court shall constitute approval of the assumptions and rejections described herein pursuant to Sections 365 and 1123 of the Bankruptcy Code. Each Other Executory Contract or Unexpired Lease assumed pursuant to Section 8.1.b of the Plan shall vest in and be fully enforceable by the applicable Reorganized Debtor in accordance with its terms, except as modified by the provisions of the Plan, or any order of the Bankruptcy Court authorizing or providing for its assumption or applicable federal law. The Debtors reserve the right to file a motion on or before the Confirmation Date to assume or reject any Other Executory Contract or Unexpired Lease. The effective date of rejection for executory contracts or unexpired leases set forth above may be later than the Effective Date of the Plan; provided, however, that the Debtors shall provide notice of the effective date of rejection to the applicable counterparty. Notwithstanding anything to the contrary contained in Section 8.1.c of the Plan, the IP Agreements, the IP Contracts (each as defined in the General Notes to Exhibit U-3 of the Plan) and the insurance policies (as described in the General Notes to Exhibit U-3 of the Plan) to which the Debtors are a party shall be deemed automatically assumed in accordance with the provisions and requirements of Sections 365 and 1123 of the Bankruptcy Code as of the Effective Date unless such an agreement (i) shall have been previously rejected by the Debtors by order of the Bankruptcy Court, (ii) is the subject of a motion to reject pending on or before the Effective Date, or (iii) is otherwise rejected pursuant to the terms of the Plan; provided, however, that neither the exclusion nor inclusion of a contract or lease by the Debtors on Exhibit U-3 of the Plan, nor anything contained herein, shall constitute an admission by the Debtors that any such lease or contract is an unexpired lease or executory contract or that any Debtor, or its respective Affiliates, has any liability thereunder.

*4. Intercompany Executory Contracts and Unexpired Leases.*

Except as otherwise provided in Section 8.1.d of the Plan, each Intercompany Executory Contract and Intercompany Unexpired Lease to which the Debtors are a party shall be deemed automatically assumed in accordance with the provisions and requirements of Sections 365 and 1123 of the Bankruptcy Code as of the Effective Date, unless such Intercompany Executory Contract or Intercompany Unexpired Lease: (i) shall have been previously rejected by the Debtors by order of the Bankruptcy Court, (ii) is the subject of a motion to reject pending on or before the Effective Date, (iii) is listed on the schedule of rejected Intercompany Executory Contracts and Intercompany Unexpired Leases annexed to the Plan as Exhibit U-4, or (iv) is otherwise rejected pursuant to the terms of the Plan. Entry of the Confirmation Order by the Bankruptcy Court shall constitute approval of such assumptions and rejections pursuant to Sections 365 and 1123 of the Bankruptcy Code. Each Intercompany Executory Contract and Intercompany Unexpired Lease assumed pursuant to Section 8.1.d of the Plan shall vest in and be fully enforceable by the applicable Reorganized Debtor in accordance with its terms, except as modified by the provisions of the Plan, or any order of the Bankruptcy Court authorizing or providing for its assumption or applicable federal law. The Debtors reserve the right to file a motion on or before the Confirmation Date to assume or reject any Intercompany Executory Contract or Intercompany Unexpired Lease.

*5. Real Property Agreements.*

Each executory contract and unexpired lease, whether such executory contract or unexpired lease is an Interline Agreement, Employee-Related Agreement, Intercompany Executory Contract, Intercompany Unexpired Lease, or Other Executory Contract or Unexpired Lease that is assumed and relates to the use, ability to acquire, or occupancy of real property shall include (a) all modifications, amendments, supplements, restatements, or other agreements made directly or indirectly by any agreement, instrument, or other document that in any manner affect such executory contract or unexpired lease, and (b) all executory contracts or unexpired leases appurtenant to the premises, including all easements, licenses, permits, rights, privileges, immunities, options, rights of first refusal, powers, uses, reciprocal easement agreements, and any other interests in real estate or rights in rem related to such premises, unless any of the foregoing agreements has been rejected pursuant to a Final Order of the Bankruptcy Court or is otherwise rejected as a part of the Plan.

*6. Jet Service Agreement.*

After the Effective Date, Reorganized USAI shall continue to honor, perform under and be bound by the Air Wisconsin Jet Service Agreement dated February 18, 2005, as amended, by and between USAI and Air Wisconsin Airlines Corporation.

*7. Rejected Contracts and Leases.*

Except with respect to executory contracts and unexpired leases that have previously been rejected or are the subject of a motion to reject filed, or a notice of rejection served, pursuant to order of the Bankruptcy Court, on or before the Effective Date, all Interline Agreements set forth on Exhibit U-1 to the Plan and all Intercompany Executory Contracts and Intercompany Unexpired Leases set forth on Exhibit U-4 to the Plan shall be deemed automatically rejected as of the Effective Date or such earlier date as the Debtors may have unequivocally terminated their performance under such lease or contract; provided, however, that neither the exclusion nor inclusion of a contract or lease by the Debtors on any Exhibit to the Plan, nor anything contained herein, shall constitute an admission by the Debtors that any such lease or contract is an unexpired lease or executory contract or that any Debtor, or its respective Affiliates, has any liability thereunder. The Confirmation Order shall constitute an order of the Bankruptcy Court approving the assumptions and rejections contemplated herein, pursuant to Sections 365 and 1123 of the Bankruptcy Code. The Debtors, with the consent of America West, reserve the right to (a) file a motion on or before the Confirmation Date (i) to reject any Interline Agreement not listed on Exhibit U-l to the Plan, (ii) to assume any Employee-Related Agreement listed on Exhibit U-2 to the Plan, (iii) to reject any Other Executory Contract or Unexpired Lease listed on Exhibit U-3 to the Plan, (iv) to reject any Intercompany Executory Contract or Intercompany Unexpired Lease not listed on Exhibit U-4 to the Plan, or (v) to reject any Interline Agreement, Employee-Related Agreement, Other Executory Contract or Unexpired Lease, Intercompany Executory Contract or Intercompany Unexpired Lease that previously has not been rejected by order of the Bankruptcy Court, and (b) modify or supplement Exhibit U-1, Exhibit U-2, Exhibit U-3, or Exhibit U-4 to the Plan at any time prior to the Effective Date, including, without limitation, the right to (i) add any Interline Agreement to, or delete any Interline Agreement from, Exhibit U-l to the Plan, (ii) to add any Employee-Related Agreement to, or delete any Employee-Related Agreement from, Exhibit U-2 to the Plan, (iii) to add any Other Executory Contract or Unexpired Lease to, or delete any Other Executory Contract or Unexpired Lease from, Exhibit U-3 to the Plan, or (iv) to add any Intercompany Executory Contract or Intercompany Unexpired Lease to, or delete any Intercompany Executory Contract or Intercompany Unexpired Lease from, Exhibit U-4 to the Plan. The effective date of rejection for executory contracts or unexpired leases set forth above may be later than the Effective Date of the Plan, provided, that the Debtors shall provide notice of the effective date of rejection to the applicable counterparty.

*8. Payments Related to Assumption of Executory Contracts and Unexpired Leases.*

The provisions (if any) of each Interline Agreement, Employee-Related Agreement or Other Executory Contract or Unexpired Lease to be assumed under the Plan which are or may be in default shall be satisfied solely by such cure, if any, as may be required by Section 365(b) of the Bankruptcy Code, on terms agreed to by the parties or as ordered by the Bankruptcy Court. In the event of a dispute regarding (a) the nature or the amount of any cure, (b) the ability of the Reorganized Debtors or any assignee to provide "adequate assurance of future performance" (within the meaning of Section 365 of the Bankruptcy Code) under the contract or lease to be assumed, or (c) any other matter pertaining to assumption, any required cure shall occur on the terms agreed by the parties or ordered by the Bankruptcy Court, following the entry of a Final Order resolving the dispute and approving the assumption and, as the case may be, assignment. The provisions (if any) of each Intercompany Executory Contract and Intercompany Unexpired Lease to be assumed under the Plan which are or may be in default shall be satisfied in a manner to be agreed to by the relevant Debtors and/or Airways Assurance.

*9. Rejection Damages Bar Date.*

If the rejection by the Debtors (pursuant to the Plan or otherwise) of an Interline Agreement, Employee-Related Agreement, Other Executory Contract or Unexpired Lease, Intercompany Executory

Contract or Intercompany Unexpired Lease results in a Claim, then such Claim shall be forever barred and shall not be enforceable against either the Debtors or the Reorganized Debtors or their properties unless a proof of claim is filed with the Claims Agent and served upon counsel to the Reorganized Debtors and the Creditors' Committee or the Post-Effective Date Committee, as applicable, within thirty (30) days after service of the earlier of (a) notice of the Confirmation Order, or (b) other notice that the executory contract or unexpired lease has been rejected; provided, however, that the foregoing requirement to file a proof of claim shall not be applicable to any such Claim that was previously allowed by Final Order of the Bankruptcy Court. The Plan provides that under no circumstances shall any rejection damage Claim be asserted against America West or any Plan Investor or any of their respective assets or properties. Notwithstanding anything herein, no rejection damage claim shall be allowed as a result of the rejection of any collective bargaining agreement pursuant to Section 1113 of the Bankruptcy Code.

## F. Miscellaneous Matters

### *1. Revesting of Assets.*

Except as otherwise explicitly provided in the Plan, including, without limitation, Section 9.6 of the Plan, on the Effective Date all property comprising the Estates (including Retained Actions, but excluding property that has been abandoned pursuant to an order of the Bankruptcy Court) shall revest in each of the Debtors that owned such property or interest in property as of the Effective Date, free and clear of all Claims, liens, charges, encumbrances, rights and Interests of creditors and equity security holders (other than as expressly provided herein).

### *2. Discharge of the Debtors.*

Pursuant to Section 1141(d) of the Bankruptcy Code, except as otherwise specifically provided in the Plan or in the Confirmation Order, the distributions and rights that are provided in the Plan shall be in complete satisfaction, discharge, and release, effective as of the Confirmation Date (but subject to the occurrence of the Effective Date), of any and all Claims and Causes of Action, whether known or unknown, against, liabilities of, liens on, obligations of, rights against, and Interests in the Debtors or any of their assets or properties, regardless of whether any property shall have been distributed or retained pursuant to the Plan on account of such Claims, rights, and Interests, including, but not limited to, demands and liabilities that arose before the Confirmation Date, any liability (including withdrawal liability) to the extent such Claims relate to services performed by employees of the Debtors prior to the Petition Date and that arise from a termination of employment or a termination of any employee or retiree benefit program regardless of whether such termination occurred prior to or after the Confirmation Date, and all debts of the kind specified in Sections 502(g), 502(h) or 502(i) of the Bankruptcy Code, in each case whether or not (a) a proof of claim or interest based upon such debt, right, or Interest is filed or deemed filed under Section 501 of the Bankruptcy Code, (b) a Claim or Interest based upon such debt, right, or Interest is allowed under Section 502 of the Bankruptcy Code, or (c) the holder of such a Claim, right or Interest accepted the Plan. The Confirmation Order shall be a judicial determination of the discharge of all liabilities of and interests in the Debtors, subject to the Effective Date occurring. Solely with respect to the United States, the discharge provisions set forth in Section 11.2 of the Plan shall not operate to expand the Debtors' discharge rights beyond those established by the Bankruptcy Code unless otherwise agreed in writing by the United States and the Debtors or the Reorganized Debtors, as the case may be. The discharge provisions set forth in Section 11.2 of the Plan are not intended and shall not be construed, to bar the United States from pursuing any police or regulatory action against the Debtors to the extent excepted from the automatic stay provisions of Section 362 of the Bankruptcy Code; provided, however, that nothing in this sentence is intended to permit the United States to assert any claim for the payment of money for acts or omissions occurring prior to the Confirmation Date.

### *3. Compromises and Settlements.*

Pursuant to Bankruptcy Rule 9019(a), without further order of the Bankruptcy Court, the Debtors may, after consultation with America West, compromise and settle various (a) Claims against them and (b) Causes of Action that they have against other Persons. The Debtors expressly reserve the right to compromise and settle Claims against them and claims that they may have against other Persons up to and including the Effective Date. After the Effective Date, such right shall pass to the Reorganized Debtors as contemplated in Section 11.1 of the Plan.

*4. Release of Certain Parties.*

Pursuant to Section 1123(b)(3) of the Bankruptcy Code, effective as of the Effective Date, each Debtor, in its individual capacity and as a debtor-in-possession, for and on behalf of its Estate, shall release and discharge and be deemed to have released and discharged all Released Parties for and from any and all Causes of Action existing as of the Effective Date in any manner arising from, based on or relating to, in whole or in part, the Debtors, the subject matter of, or the transactions or events giving rise to, any Claim or Interest that is treated in the Plan, the business or contractual arrangements between any Debtor or any Released Party, the restructuring of Claims and Interests prior to or in the Chapter 11 Cases, or any act, omission, occurrence or event in any manner related to any such Claims, Interests, restructuring or the Chapter 11 Cases. The Released Parties include, collectively, (i) all officers of each of the Debtors, all members of the boards of directors of each of the Debtors, and all employees of each of the Debtors, in each case, as of the date of the commencement of the hearing on approval of this Disclosure Statement; (ii) the Creditors' Committee and all members of the Creditors' Committee in such capacity; (iii) the Retiree Committee and all members of the Retiree Committee in such capacity; (iv) the Plan Investors; (v) America West; (vi) the Debtors; (vii) the ATSB Lenders, solely in such capacities; (viii) GECC and GEAE; and (ix) with respect to each of the foregoing Persons, such Person's affiliates, principals, employees, agents, officers, directors, financial advisors, attorneys and other professionals, in their capacities as such. Notwithstanding the foregoing, nothing in the Plan releases or shall be deemed to release any of the Debtors, America West, or the Plan Investors or any of their respective Affiliates from any of their obligations under the Investment Agreement, the Merger Agreement, or any other agreement, document or instrument entered into, executed or delivered pursuant thereto or in connection therewith.

No provision of the Plan or of the Confirmation Order, including, without limitation, any release or exculpation provision, shall modify, release or otherwise limit the liability of any Person not specifically released under the Plan, including, without limitation, any Person that is a co-obligor or joint tortfeasor of a Released Party or that otherwise is liable under theories of vicarious or other derivative liability.

The Reorganized Debtors and any newly-formed entities that will be continuing the Debtors' businesses after the Effective Date shall be bound, to the same extent the Debtors are bound, by all of the releases set forth above.

*5. Release by Holders of Claims and Interests.*

On the Effective Date each Person that votes to accept the Plan, to the fullest extent permissible under applicable law, as such law may be extended subsequent to the Effective Date, in consideration for the obligations of the Debtors and the Reorganized Debtors under the Plan and the Cash, New Common Stock and other contracts, instruments, releases, agreements or documents to be delivered in connection with the Plan (each such Person, a "Release Obligor"), shall have conclusively, absolutely, unconditionally, irrevocably and forever, released and discharged each Released Party from any Cause of Action existing as of the Effective Date arising from, based on or relating to, in whole or in part, the subject matter of, or the transaction or event giving rise to, the Claim or Interest of such Release Obligor, and any act, omission, occurrence or event in any manner related to such subject matter, transaction or obligation; provided, however, that (i) Section 11.5 shall not release any Released Party from (A) any obligations with respect to or in connection with the treatment of Claims as provided under the Plan, or (B) any Cause of Action existing as of the Effective Date based on the Internal Revenue Code or other domestic state, city or municipal tax code, the environmental laws of the United States or any domestic state, city or municipality, or any criminal laws of the United States or any domestic state, city or municipality,and (ii) nothing set forth in this Plan or Confirmation Order shall be construed to preclude the United States from pursuing any cause of action against any Released Party based upon any civil law of the United States. Notwithstanding the foregoing, nothing in Section 11.5 of the Plan is intended to permit the United States to assert any claim for the payment of money for acts or omissions occurring prior to the Confirmation Date.

*6. Setoffs.*

The Debtors may, but shall not be required to, set off against any Claim, and the payments or other distributions to be made pursuant to the Plan in respect of such Claim, claims of any nature whatsoever that the Debtors may have against such Claimholder; but neither the failure to do so nor the allowance of any Claim under the Plan shall constitute a waiver or release by the Debtors or the Reorganized Debtors of any such claim that the Debtors or the Reorganized Debtors may have against such Claimholder.

*7. Satisfaction of Subordination Rights.*

All Claims against the Debtors and all rights and claims between or among Claimholders relating in any manner whatsoever to distributions on account of Claims against the Debtors, based upon any subordination rights, whether asserted or unasserted, legal or equitable, shall be deemed satisfied by the distributions under the Plan to Claimholders having such subordination rights, and such subordination rights shall be deemed waived, released, discharged and terminated as of the Effective Date. Distributions to the various Classes of Claims under the Plan shall not be subject to levy, garnishment, attachment, or like legal process by any Claimholder by reason of any subordination rights or otherwise, so that each Claimholder shall have and receive the benefit of the distributions in the manner set forth in the Plan.

*8. Exculpation and Limitation of Liability.*

Except as otherwise specifically provided in the Plan, including Section 11.5, the Debtors, the Reorganized Debtors, the Creditors' Committee, the members of the Creditors' Committee in their capacities as such, the Retiree Committee, the members of the Retiree Committee in their capacities as such, America West, the Plan Investors, the ATSB Lenders (solely in such capacities), GECC and GEAE, any of such parties' respective present or former affiliates, members, officers, directors, employees, advisors, attorneys, representatives, financial advisors, investment bankers or agents and any of such parties' successors and assigns, shall not have or incur, and are hereby released from, any claim, obligation, Cause of Action, or liability to one another or to any Claimholder or Interestholder, or any other party-in-interest, or any of their respective agents, employees, representatives, financial advisors, attorneys or Affiliates, or any of their successors or assigns, for any act or omission in connection with, relating to, or arising out of the Debtors' Chapter 11 Cases, negotiation and filing of the Plan, filing the Chapter 11 Cases, the pursuit of confirmation of the Plan, the consummation of the Plan, the administration of the Plan or the property to be distributed under the Plan, except for their willful misconduct, recklessness or gross negligence and in all respects shall be entitled to reasonably rely upon the advice of counsel with respect to their duties and responsibilities under the Plan. Notwithstanding the foregoing, nothing in the Plan releases or shall be deemed to release the Debtors, the Reorganized Debtors, America West, the Plan Investors or their respective Affiliates from any of their obligations under the Investment Agreement, the Merger Agreement, or any other instrument, document, or agreement entered into, executed or delivered pursuant thereto or in connection therewith.

*9. Indemnification Obligations.*

Except as specifically provided in the Plan, in satisfaction and compromise of the Indemnitees' Indemnification Rights: (a) all Indemnification Rights, except (i) those based upon any act or omission arising out of or relating to any Indemnitee's service with, for, or on behalf of the Debtors on or after the Petition Date, (ii) those held by Persons who served during the Chapter 11 Cases as the Debtors' respective officers, directors, or employees and/or serve in such capacities (or similar capacities) after the Effective Date and (iii) indemnification obligations assumed pursuant to an order of the Bankruptcy Court (the "Continuing Indemnification Rights"), shall be released and discharged on and as of the Effective Date, provided that the Indemnification Rights excepted in subparts (i), (ii) and (iii) shall remain in full force and effect on and after the Effective Date and shall not be modified, reduced, discharged, or otherwise affected in any way by the Chapter 11 Cases; (b) the Debtors or the Reorganized Debtors, as the case may be, covenant to purchase and maintain director and officer insurance providing coverage for those Indemnitees currently covered by such policies for a period of two years after the Effective Date insuring such parties in respect of any claims, demands, suits, Causes of Action, or proceedings against such Persons based upon any act or omission related to such Person's service with, for, or on behalf of the Debtors in at least the scope and amount as currently maintained by the Debtors and in accordance with any further requirements of the Investment Agreements (the "Insurance Coverage"); (c) the insurers are authorized to pay any professional fees and expenses incurred in connection with any action relating to any Continuing Indemnification Rights; and (d) the Debtors or the Reorganized Debtors, as the case may be, hereby indemnify Indemnitees and agree to pay for any deductible or retention amount that may be payable in connection with any claim covered under either the foregoing Insurance Coverage or any prior similar policy.

*10. Injunction.*

The satisfaction, release, and discharge pursuant to Article XI of the Plan shall act as an injunction against any Person commencing or continuing any action, employment of process, or act to collect, offset, or recover any Claim or Cause of Action satisfied, released, or discharged under the Plan to the fullest extent authorized or provided by the Bankruptcy Code, including, without limitation, to the extent provided for or authorized by Sections 524 and 1141 thereof. Further, except as otherwise provided in the Plan or the Confirmation Order, as of the Confirmation Date, but subject to the occurrence of the Effective Date, all Persons who have held, hold or may hold Claims against or Interests in any of the Debtors or the Estates shall be, with respect to any such Claims or Interests, permanently enjoined from and after the Confirmation Date from: (i) commencing, conducting or continuing in any manner, directly or indirectly, any suit, action or other proceeding of any kind (including, without limitation, any proceeding in a judicial, arbitral, administrative or other forum) against or affecting the Debtors, the Estates or the Reorganized Debtors or any of their property, or any direct or indirect transferee of any property of, or direct or indirect successor in interest to, any of the foregoing Persons, or any property of any such transferee or successor; (ii) enforcing, levying, attaching (including, without limitation, any pre-judgment attachment), collecting or otherwise recovering by any manner or means, whether directly or indirectly, of any judgment, award, decree or order against the Debtors, the Estates or the Reorganized Debtors or any of their property, or any direct or indirect transferee of any property of, or direct or indirect successor in interest to, any of the foregoing Persons, or any property of any such transferee or successor; (iii) creating, perfecting or otherwise enforcing in any manner, directly or indirectly, any encumbrance of any kind against the Debtors, the Estates or the Reorganized Debtors or any of their property, or any direct or indirect transferee of any property of, or successor in interest to, any of the foregoing Persons; (iv) exercising any right of setoff, subrogation, or recoupment of any kind, directly or indirectly, against any obligation due the Debtors, the Estates or the Reorganized Debtors, or any direct or indirect transferee of any property of, or successor in interest to, any of the foregoing Persons; and (v) acting or proceeding in any manner, in any place whatsoever, that does not conform to or comply with the provisions of the Plan to the full extent permitted by applicable law. Notwithstanding the foregoing, nothing in the Plan shall enjoin or otherwise impair the United States' rights of setoff and/or recoupment unless otherwise agreed to in writing by the United States and the Debtors or Reorganized Debtors, as the case may be, or be construed to preclude the United States from pursuing any regulatory or police action against any Debtor, Reorganized Debtor, or any other party to the extent not prohibited by the automatic stay of Section 362 of the Bankruptcy Code or discharged or enjoined pursuant to Sections 524 or 1141(d) of the Bankruptcy Code or other applicable law.

*11. Avoidance Claims*

On the Effective Date, each of the Debtors shall be deemed to waive and release all Avoidance Claims.

*12. Committees.*

Dissolution of Committees. Effective on the Effective Date, the Creditors' Committee and any other committee appointed in the Chapter 11 Cases, including the Retiree Committee, shall dissolve automatically, whereupon its members, professionals, and agents shall be released from any further duties and responsibilities in the Chapter 11 Cases and under the Bankruptcy Code, except with respect to applications for Professional Claims or reimbursement of expenses incurred as a member of the Creditors'

Committee or the Retiree Committee and any motions or other actions seeking enforcement or implementation of the provisions of the Plan or the Confirmation Order or pending appeals of Orders entered in the Chapter 11 Cases.

Post-Effective Date Committee. On the Effective Date, there shall be formed a Post-Effective Date Committee (the "Post-Effective Date Committee") with its duties limited to: (a) overseeing the general unsecured claims reconciliation and settlement process conducted by or on behalf of the Reorganized Debtors; (b) formulating with the Reorganized Debtors appropriate procedures for the settlement of claims; (c) overseeing (i) the establishment (including the determination of the amount of New Common Stock to be withheld) and (ii) the maintenance of, the Distribution Reserve; (d) overseeing the distributions to the holders of General Unsecured Claims under the Plan; (e) appearing before and being heard by the Bankruptcy Court and other Courts of competent jurisdiction in connection with the above limited duties; and (f) such other matters as may be agreed upon between the Reorganized Debtors and the Post-Effective Date Committee or specified in the Plan. The Post-Effective Date Committee shall consist of not less than three nor more than five members to be appointed by the Creditors' Committee and may adopt by-laws governing its conduct. For so long as the claims reconciliation process shall continue, the Reorganized Debtors shall make regular reports to the Post-Effective Date Committee as and when the Reorganized Debtors and the Post-Effective Date Committee may reasonably agree upon. The Post-Effective Date Committee may employ, without further order of the Court, professionals to assist it in carrying out its duties as limited above, including any professionals retained in these Reorganization Cases, and the Reorganized Debtors shall pay the reasonable costs and expenses of the Post-Effective Date Committee, including reasonable professional fees, in the ordinary course without further order of the Court.

## IX. CERTAIN RISK FACTORS TO BE CONSIDERED

*In addition to the other information included in this Disclosure Statement, the holders of Claims against the Debtors should carefully consider the following risks before deciding whether to vote to accept or reject the Plan.*

### *Certain Bankruptcy Considerations.*

There is a risk that the Plan will not be confirmed. If the Plan is not confirmed and consummated, there can be no assurance that the Chapter 11 Cases will continue rather than be converted to a liquidation, or that any alternative plan of reorganization would be on terms as favorable to the Claimholders and Interestholders as the terms of the Plan. If a liquidation or protracted reorganization were to occur, there is a risk that there would be little, if any, value available for distribution to the holders of Claims and Interests. See Appendix B attached to this Disclosure Statement for a hypothetical liquidation analysis of each individual Debtor.

There can be no assurance that the estimated Claim amounts set forth herein are correct, and the actual allowed amounts of Claims may differ from the estimates. The estimated amounts are subject to certain risks, uncertainties and assumptions. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, the actual allowed amounts of Claims may vary from those estimated herein.

### *General Considerations; Purpose of the Plan.*

The formulation of a reorganization plan is the principal purpose of a Chapter 11 case. The Plan sets forth the means for satisfying the holders of Claims against and Interests in the Debtors. Certain Claims may receive partial distributions pursuant to the Plan, and in some instances, no distributions at all. See Section VIII.B, "Classification and Treatment of Claims and Interests," above. The recapitalization of the Debtors realizes the going concern value of the Debtors for their Claimholders. Moreover, reorganization of the Debtors' business and operations under the proposed Plan also avoids the potentially adverse impact of a liquidation on the Debtors' employees, and many of its customers, trade vendors, suppliers of goods and services and lessors.

***The Merger and the Plan are subject to the approval of the United States Bankruptcy Court.***

On September 12, 2004, the Debtors filed voluntary petitions for relief under Chapter 11 of the Bankruptcy Code in the Court. From the date of the filing of the petition, the Debtors have operated their business and managed their assets as debtors-in-possession, subject to the supervision of the Bankruptcy Court. The Merger is an integral part of the Plan. In order for the Merger to be completed, (i) the Plan must be confirmed by the Bankruptcy Court, and (ii) the other conditions specified in the Plan must be satisfied or waived. There can be no assurance that the Bankruptcy Court will approve the Merger or the Plan as submitted.

***Our business is dependent on the price and availability of aircraft fuel. Continued periods of historically high fuel costs, significant disruptions in the supply of aircraft fuel or significant further increases in fuel costs could have a significant negative impact on our operating results.***

Our operating results are significantly impacted by changes in the availability or price of aircraft fuel. Fuel prices increased substantially in 2004 compared with 2003 and have continued to increase in 2005. On a combined basis, our average fuel price per gallon rose 30% to approximately $1.17 as compared to an average price of $0.90 in 2003. Due to the competitive nature of the airline industry, we generally have not been able to increase our fares when fuel prices have risen in the past and we may not be able to do so in the future. Although we are currently able to obtain adequate supplies of aircraft fuel, it is impossible to predict the future availability or price of aircraft fuel. In addition, from time to time we enter into hedging arrangements to protect against rising fuel costs. Our ability to hedge in the future, however, may be limited.

***Reorganized Group may not perform as well financially as we expect following the Merger.***

In deciding to enter into the Merger Agreement, Group and America West considered the benefits of operating as a combined company, including, among others, an enhanced ability to compete in the airline industry and the fact that the proprietary brands of the combined company would permit Reorganized Group to further differentiate itself from other airline companies. The success of the Merger will depend, in part, on our ability to realize the anticipated revenue opportunities and cost savings from combining the businesses of the Debtors and America West. We have estimated that the combined companies expect to realize approximately $600 million in incremental operating cost and revenue synergies. We cannot assure you, however, that these synergies will be realized.

To realize the anticipated benefits from the Merger, we must successfully combine the businesses of the Debtors and America West in a manner that permits those costs savings and other synergies to be realized in a timely fashion. In addition, we must achieve these savings without adversely affecting revenues or suffering a business interruption. If we are not able to successfully achieve these objectives, the anticipated benefits of the Merger may not be realized fully or at all or may take longer to realize than expected. We cannot assure you that the Merger, even if achieved in an efficient, effective and timely manner, will result in combined results of operations and financial condition consistent with the pro forma condensed, combined financial data or superior to what America West and the Debtors could have achieved independently.

The Projections attached as Appendix C to this Disclosure Statement cover the Reorganized Debtors' operations on a consolidated basis through fiscal year _______, after giving effect to the Merger. These Projections are based on numerous assumptions including the timing, confirmation and consummation of the Plan in accordance with its terms, the anticipated future performance of the Reorganized Debtors, projected synergies resulting from the Merger, industry performance, general business and economic conditions and other matters, many of which are beyond the control of the Reorganized Debtors and some or all of which may not materialize. In addition, unanticipated events and circumstances occurring subsequent to the date that this Disclosure Statement was approved by the Bankruptcy Court may affect the actual financial results of the Reorganized Debtors' operations. These variations may be material and may adversely affect the ability of the Reorganized Debtors to make payments with respect to post-Effective Date indebtedness. Because the actual results achieved throughout the periods covered by the Projections may vary from the projected results and may affect the market prices of the New Common Stock, the Projections should not be relied upon as a guaranty, representation or other assurance of the actual results that will occur.

Except with respect to the Projections and except as otherwise specifically and expressly stated herein, this Disclosure Statement does not reflect any events that may occur subsequent to the date hereof and that may have a material impact on the information contained in this Disclosure Statement. Neither the Debtors nor the Reorganized Debtors intend to update the Projections; thus, the Projections will not reflect the impact of any subsequent events not already accounted for in the assumptions underlying the Projections.

***The Rights Offering may be Terminated***

The Debtors have reserved the right to not to proceed with the Rights Offering or to terminate it at any time.

***The integration of the Debtors and America West following the Merger will present significant challenges.***

The Debtors and America West have operated and, until the completion of the Merger, will continue to operate, independently. The Debtors and America West will face significant challenges in consolidating functions, integrating their organizations, procedures and operations in a timely and efficient manner and retaining key Debtor and America West personnel. The integration of the Debtors and America West will be costly, complex and time consuming, and the management of Reorganized Debtors and America West will have to devote substantial effort to such integration that could otherwise be spent on operational matters or other strategic opportunities.

We expect that the Merger will result in certain synergies, business opportunities and growth prospects. Reorganized Group, however, may never realize these expected synergies, business opportunities and growth prospects. Reorganized Group may experience increased competition that limits its ability to expand its business. We may not be able to capitalize on expected business opportunities, including retaining current customers. In addition, assumptions underlying estimates of expected cost savings and expected revenue synergies may be inaccurate, or general industry and business conditions may deteriorate. Furthermore, integrating operations will require significant efforts and expenses. Personnel may leave or may be terminated because of the Merger. Reorganized Group management may have its attention diverted from ongoing operations while trying to integrate.

***The Debtors continue to experience significant operating losses.***

Despite significant labor cost reductions and other cost savings achieved in the Prior Bankruptcy, the Debtors have continued to experience significant operating losses. Since early 2001, the U.S. airline industry's revenue performance has fallen short of what would have been expected based on historical growth trends. This shortfall has been caused by a number of factors, including rising fuel costs, as discussed above, and the factors discussed below.

The rapid growth of low-cost carriers has had a profound impact on industry revenues. Using the advantage of low unit costs, these carriers offer lower fares, particularly those targeted at business passengers, in order to shift demand from larger, more-established airlines. As a result of growth, these low-cost carriers now transport nearly 30% of all domestic U.S. passengers compared to less than 10% a decade ago. They now compete for, and thus influence industry pricing on, approximately 81% of all domestic U.S. passenger ticket sales compared to less than 20% a decade ago. As a result of their better financial performance they have access to capital to fund fleet growth. Low-cost carriers are expected to continue to increase their market share through pricing and growth.

The advent of Internet travel websites has lowered the cost to airlines of selling tickets. However, it has also had a large negative impact on airline revenues because travel consumers now have access to nearly perfect pricing information, and, as a result, have become more efficient at finding lower fare alternatives.

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

The business plan of Reorganized Group includes assumptions about labor costs going forward. Currently, the labor costs of both America West and the Debtors are very competitive and very similar; however, we cannot assure you that labor costs going forward will remain competitive, either because Reorganized Group's CBAs may become amendable or because competitors may significantly reduce their labor costs.

Approximately 80% of the employees within the Debtors and approximately 81% of the employees within America West are represented for collective bargaining purposes by labor unions. In the United States, these employees are organized into nine labor groups represented by five different unions at USAI, seven labor groups represented by four different unions at AWA; four labor groups represented by four different unions at Piedmont, and four labor groups represented by four different unions at PSA. There are additional unionized groups of USAI employees abroad.

Relations between air carriers and labor unions in the United States are governed by the Railway Labor Act (the "RLA"). Under the RLA, collective bargaining agreements generally contain "amendable dates" rather than expiration dates, and the RLA requires that a carrier maintain the existing terms and conditions of employment following the amendable date through a multi-stage and usually lengthy series of bargaining processes overseen by the National Mediation Board. This process continues until either the parties have reached agreement on a new collective bargaining agreement, or the parties have been released to "self-help" by the National Mediation Board. Although in most circumstances the RLA prohibits strikes, after release by the National Mediation Board carriers and unions are free to engage in self-help measures such as strikes and lock-outs. None of the USAI labor agreements become amendable until December 31, 2009. Of the America West labor agreements, three are currently amendable, a fourth becomes amendable soon and negotiations are proceeding with a fifth group for an initial collective bargaining agreement.

There is the potential for litigation to arise in the context of airline mergers. Unions may seek to delay or halt a transaction, may seek monetary damages, either in court or in grievance arbitration, may seek to compel airlines to engage in the bargaining processes where the airline believes it has no such obligation or may seek to assert rights to participate in corporate governance, including through board representation. There is a risk that one or more unions may pursue such judicial or arbitral avenues in the context of the Merger, and if successful, could delay or block the Merger or create additional costs that we did not anticipate.

There is also a risk that disgruntled employees, either with or without union involvement, could engage in illegal slow-downs, work stoppages, partial work stoppages, sick-outs or other action short of a full strike that could individually or collectively harm the operation of the airline and impair its financial performance.

***America West and the Debtors may be required to comply with material restrictions or conditions in order to obtain the regulatory approvals to complete the Merger and any delays in obtaining regulatory approvals will delay and may possibly prevent the Merger.***

The completion of the Merger is conditioned upon receiving approval from various federal, state and local regulatory authorities, including DOT, FAA, FCC and Department of Homeland Security and certain foreign regulatory authorities. America West and Group have not yet obtained all of the regulatory approvals required to complete the Merger.

While America West and Group have received clearance from the Department of Justice and expect to obtain the required regulatory approvals, America West and Group cannot be certain that all of the required air transportation and non-U.S. antitrust approvals may be obtained, nor can they be certain that the approvals will be obtained within the time contemplated by the Merger Agreement. A delay in obtaining the required approvals may delay and may possibly prevent the completion of the Merger.

***Fluctuations in interest rates could adversely affect our liquidity, operating expenses and results.***

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

***We rely heavily on automated systems to operate our business and any failure of these systems, or the failure to successfully integrate them following the Merger, could harm our business.***

We depend on automated systems to operate our business, including our computerized airline reservation systems, our flight operations systems, our telecommunication systems and our websites. Our website and reservation systems must be able to accommodate a high volume of traffic and deliver important flight information. Substantial or repeated website, reservations systems or telecommunication systems failures could reduce the attractiveness of our services and could cause our customers to purchase tickets from another airline. Furthermore, following the Merger, we must integrate the automated systems of America West and the Debtors. Any disruption in these systems could result in the loss of important data, increase our expenses and generally harm our business.

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

Our reliance upon others to provide essential services on behalf of our operations may result in the relative inability to control the efficiency and timeliness of contract services. We have entered into agreements with contractors to provide various facilities and services required for our operations, including aircraft maintenance, ground facilities and baggage handling. It is likely that similar agreements will be entered into in any new markets we decide to serve. All of these agreements are subject to termination after notice. Any material problems with the efficiency and timeliness of contract services could have a material adverse effect on our business, financial condition and results of operations.

***The travel industry, materially adversely affected by the September 11, 2001 terrorist attacks, continues to face on-going security concerns and cost burdens associated with security.***

The attacks of September 11, 2001 materially impacted and continue to impact air travel. In November 2001, the President signed into law the Aviation and Transportation Security Act, (the "Aviation Security Act"). This law federalized substantially all aspects of civil aviation security, creating a new Transportation Security Administration. Under the Aviation Security Act, substantially all security screeners at airports are now federal employees and significant other elements of airline and airport security are now overseen and performed by federal employees, including federal security managers, federal law enforcement officers, federal air marshals and federal security screeners. Among other matters, the law mandates improved flight deck security, deployment of federal air marshals onboard flights, improved airport perimeter access security, airline crew security training, enhanced security screening of passengers, baggage, cargo, mail, employees and vendors, enhanced training and qualifications of security screening personnel, additional provision of passenger data to U.S. Customs and enhanced background checks. These increased security procedures introduced at airports since the attacks have increased costs to airlines. We would also be materially impacted in the event of further terrorist attacks or perceived terrorist threats.

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

The terrorist attacks of September 11, 2001 led to a significant increase in insurance premiums and a decrease in the insurance coverage available to commercial airline carriers. Accordingly, our insurance costs increased significantly and our ability to continue to obtain insurance even at current prices remains uncertain. Group has obtained this insurance through a special program administered by the FAA resulting in lower premiums than if it had obtained this insurance in the commercial insurance market. If the federal insurance program terminates, we would likely face a material increase in the cost of war risk insurance. Because of competitive pressures in our industry, our ability to pass additional insurance costs to passengers is limited. As a result, further increases in insurance costs or reductions in available insurance coverage could harm our earnings.

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

Airlines are subject to extensive regulatory requirements. In the last several years, Congress has passed laws and the FAA has issued a number of maintenance directives and other regulations. These requirements impose substantial costs on airlines.

Additional laws, regulations, taxes and airport rates and charges have been proposed from time to time that could significantly increase the cost of airline operations or reduce revenues. The ability of U.S. carriers to operate international routes is subject to change because the applicable arrangements between the U.S. and foreign governments may be amended from time to time, or because appropriate slots or facilities may not be available. We cannot assure you that laws or regulations enacted in the future will not adversely affect our operating costs.

***A small number of shareholders will beneficially own a substantial amount of New Common Stock.***

Immediately following the effectiveness of the Merger and the Plan, a significant portion of the New Common Stock will be beneficially owned by a relatively small number of Plan Investors. As a result, until these stockholders sell a substantial portion of their shares, they will have a greater percentage vote in matters that may be presented for a vote to stockholders than most other stockholders. This may make it more difficult for other stockholders to influence the votes on matters that may come before the stockholders of Reorganized Group.

***The Merger is subject to certain closing conditions that, if not satisfied or waived, will result in the Merger not being completed, which may adversely affect Reorganized Group's financial results and operations and the market price of the New Common Stock.***

Although America West and Group have agreed to use their reasonable best efforts to complete the merger, we cannot assure you that the Merger will be completed. The Merger is subject to various conditions to closing, including, but not limited to, (a) receipt of the required approval of the stockholders of America West, (b) receipt by Group of new equity investments of not less than $375 million and (c) approval by the Bankruptcy Court of the Plan in form reasonably acceptable to America West and Group. If any condition to the Merger is not satisfied or, if permissible, waived, the Merger will not be completed.

America West and the Debtors have incurred and will continue to incur substantial costs in connection with the proposed Merger. These costs are primarily associated with the fees of attorneys, accountants and financial advisors. In addition, America West and the Debtors have diverted significant management resources in an effort to complete the Merger and each is subject to restrictions contained in the Merger Agreement on the conduct of its business. If the Merger is not completed, the Debtors and America West will have incurred significant costs, including the diversion of management resources, for which they will have received little or no benefit. Also, if the Merger is not completed under certain circumstances specified in the Merger Agreement, Group may be required to pay America West a termination fee of $15 million or, alternatively, America West may be required to pay Group a termination fee of $15 million.

***The use of America West's and Group's respective pre-merger NOLs and certain other tax attributes may be limited following the Merger.***

Although Reorganized Group is the same legal entity as Group and will continue as the publicly traded parent entity, each of America West and Group will undergo an "ownership change," as defined in Internal Revenue Code Section 382, in connection with the Merger and the proposed Rights Offering. When such an ownership change occurs, Section 382 limits the companies' future ability to utilize any net operating losses, or NOLs, generated before the ownership change and certain subsequently recognized "built-in" losses and deductions, if any, existing as of the date of the ownership change. The companies' ability to utilize new NOLs arising after the ownership change would not be affected. An ownership change generally occurs if certain persons or groups increase their aggregate ownership percentage in a corporation's stock by more than 50 percentage points in the shorter of any three-year period or the period since the last ownership change.

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

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

***Certain liabilities will not be fully extinguished as a result of confirmation of the plan of reorganization.***

While a significant amount of Group’s current liabilities will be subject to discharge as a result of these Chapter 11 Cases, a large number of Group obligations may remain in effect following the Merger. Various agreements and liabilities will remain in place, including secured financings, aircraft agreements, certain environmental liabilities, leases and other contracts that, even if modified during the Chapter 11 Cases, will still subject Reorganized Group to substantial obligations and liabilities.

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

We have a significant amount of fixed obligations, including debt, aircraft leases and financings, aircraft purchase commitments, leases of airport and other facilities and other cash obligations. As a result of the substantial fixed costs associated with these obligations:

- A decrease in revenues would result in a disproportionately greater percentage decrease in earnings.

- We may not have sufficient liquidity to fund all of these fixed costs if our revenues decline or costs increase.

- We may have to use our working capital to fund these fixed costs instead of funding general corporate requirements, including capital expenditures.

- We may not have sufficient liquidity to respond to competitive developments and adverse economic conditions.

Our obligations also impair our ability to obtain additional financing, if needed, and our flexibility in the conduct of our business. Our existing indebtedness is secured by substantially all of our assets, leaving us with limited collateral for additional financing.

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

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

We expect that Reorganized Group will operate primarily through primary hubs in Charlotte, Philadelphia, Phoenix and Las Vegas. A majority of our flights will either originate or fly into one of these hubs. A significant interruption or disruption in service at one of our hubs could result in the cancellation or delay of a significant portion of our flights and, as a result, could have a severe impact on our business, operations and financial performance.

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

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

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

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

***Employee benefit plans represent significant continuing costs to the sponsoring employers.***

America West and the subsidiaries of Group sponsor employee benefit plans and arrangements that provide retirement, medical, disability, and other benefits to our employees and participating retirees. Many of the benefits provided under these plans are mandated under various collective bargaining agreements, while others are provided on a voluntary basis as a means to recruit and retain valuable employees.

While Group recently terminated certain defined benefit pension plans, the benefit obligations associated with the remaining employee benefit plans represent a substantial continuing cost to the sponsors. In addition, many of these employee benefit plans are subject to federal laws such as the Employee Retirement Income Security Act of 1974 and the Internal Revenue Code, and must be maintained accordingly. Continued compliance with these rules is necessary, as even unintentional failures to comply can result in significant fines and penalties. Employee benefit plans in general also are increasingly the subject of protracted litigation, especially following significant plan design changes. Certain of the plans sponsored by the subsidiaries of Group have undergone several changes in connection with the Chapter 11 Cases.

***Certain provisions of the certificate of incorporation and bylaws of Reorganized Group will make it difficult for stockholders to change the composition of our board of directors and may discourage takeover attempts that some of our stockholders may consider beneficial.***

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

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

These provisions are not intended to prevent a takeover, but are intended to protect and maximize the value of Reorganized Group's stockholders' interests. While these provisions have the effect of encouraging persons seeking to acquire control of our company to negotiate with our board of directors, they could enable our board of directors to prevent a transaction that some, or a majority, of our stockholders might believe to be in their best interests and, in that case, may prevent or discourage attempts to remove and replace incumbent directors. In addition, Reorganized Group will be subject to the provisions of Section 203 of the Delaware General Corporation Law, which prohibits business combinations with interested stockholders. Interested stockholders do not include stockholders whose acquisition of Reorganized Group's securities is pre-approved by the board of directors under Section 203.

# X. RESALE OF SECURITIES RECEIVED UNDER THE PLAN

## A. Issuance of New Equity

Except for persons or entities, such as the Plan Investors, who could be Affiliates of Reorganized Group following consummation of the Plan, Reorganized Group does not believe that registration under the Securities Act or comparable state laws is required with respect to the New Common Stock to be distributed to holders of Claims. Reorganized Group does, however, intend to list the New Common Stock on a national securities exchange or for quotation on a United States automated inter-dealer quotation system. The shares of New Common Stock being issued to the holders of Claims in the Rights Offering will be registered under the Securities Act pursuant to the Rights Offering Registration Statement.

Section 1145(a)(1) of the Bankruptcy Code exempts the offer and sale of securities under a plan of reorganization from registration under Section 5 of the Securities Act and state laws if three principal requirements are satisfied: (i) the securities must be offered and sold under a plan of reorganization and must be securities of the debtor, of an affiliate participating in joint plan with the debtor, or of a successor to the debtor under the plan; (ii) the recipients of the securities must hold claims against or interests in the debtor; and (iii) the securities must be issued in exchange (or principally in exchange) for the recipient's claim against or interest in the debtor. The Debtors believe that the issuance of the New Common Stock under the Plan to Claimholders satisfies the requirements of Section 1145(a)(1) of the Bankruptcy Code and is, therefore, exempt from registration under the Securities Act and state securities laws. The Debtors further believe that (a) the offer and sale of New Common Stock to the Plan Investors are exempt from registration requirements pursuant to Section 4(2) of the Securities Act and, to the extent that such New Common Stock is issued in exchange for the Eastshore Financing Agreement Claim, pursuant to Section 1145(a)(1) of the Bankruptcy Code, and (b) the issuance of the New Convertible Note to GECC is exempt from registration requirements pursuant to Section 4(2) of the Securities Act (and, as to GECC, pursuant to section 1145(a)(1) of the Bankruptcy Code), and (c) the New Common Stock to be issued pursuant to the

Management Compensation Plan will be the subject of registration pursuant to Form S-8 or exempt from, or not subject to, the registration requirements of the Securities Act.

### B. Subsequent Transfers of New Equity

To the extent that the New Common Stock is issued under the Plan and is covered by Section 1145(a)(1) and (2) of the Bankruptcy Code, it may be resold by the holders thereof without registration unless, as more fully described below, the holder is an "underwriter" with respect to such securities. Generally, Section 1145(b)(l) of the Bankruptcy Code defines an "underwriter" as any person who:

(i) purchases a claim against, an interest in, or a claim for an administrative expense against the debtor, if such purchase is with a view to distributing any security received in exchange for such a claim or interest;

(ii) offers to sell securities offered under a plan for the holders of such securities;

(iii) offers to buy such securities from the holders of such securities, if the offer to buy is:

(A) with a view to distributing such securities; and

(B) under an agreement made in connection with the plan, the consummation of the plan, or with the offer or sale of securities under the plan; or

(iv) is an "issuer" with respect to the securities, as the term "issuer" is defined in Section 2(11) of the Securities Act.

Under Section 2(11) of the Securities Act, an "issuer" includes any person directly or indirectly controlling or controlled by the issuer, or any person under direct or indirect common control of the issuer.

To the extent that Persons who receive New Common Stock pursuant to the Plan are deemed to be "underwriters" as defined in Section 1145(b) of the Bankruptcy Code, resales by such Persons would not be exempted by Section 1145 of the Bankruptcy Code from registration under the Securities Act or other applicable law. Such Persons would, however, be permitted to sell such New Common Stock or other securities without registration if they are able to comply with the provisions of Rule 144 under the Securities Act. These rules permit the public sale of securities received by such Person if current information regarding the issuer is publicly available and if volume limitations and certain other conditions are met.

Whether or not any particular person would be deemed to be an "underwriter" with respect to the New Common Stock or other security to be issued pursuant to the Plan would depend upon various facts and circumstances applicable to that person. Accordingly, the Debtors express no view as to whether any particular Person receiving New Common Stock or other securities under the Plan would be an "underwriter" with respect to such New Common Stock or other securities.

Given the complex and subjective nature of the question of whether a particular holder may be an underwriter, the Debtors make no representation concerning the right of any Person to trade in the New Common Stock or other securities. The Debtors recommend that potential recipients of the New Common Stock or other securities consult their own counsel concerning whether they may freely trade New Common Stock or other securities without compliance with the Securities Act, the Exchange Act or similar state and federal laws.

## XI. CERTAIN UNITED STATES FEDERAL INCOME TAX CONSEQUENCES OF THE PLAN

A summary description of certain material United States federal income tax consequences of the Plan is provided below. This description is for informational purposes only and, due to a lack of definitive judicial or administrative authority or interpretation, substantial uncertainties exist with respect to various tax consequences of the Plan as discussed herein. Only the principal United States federal income tax consequences of the Plan to the Debtors and to holders of Claims who are entitled to vote or to accept or reject the Plan are described below. No opinion of counsel has been sought or obtained with respect to any tax consequences of the Plan. No rulings or determinations of the Internal Revenue Service (the "IRS") or any other tax authorities have been sought or obtained with respect to any tax consequences of the Plan, and the discussion below is not binding upon the IRS or such other authorities. No representations are being made regarding the particular tax consequences of the confirmation and consummation of the Plan to the Debtors or any holder of a Claim. No assurance can be given that the IRS would not assert, or that a court would not sustain, a different position from any discussed herein.

The discussion of United States federal income tax consequences below is based on the Internal Revenue Code of 1986, as amended (the "Tax Code"), Treasury Regulations, judicial authorities, published positions of the IRS and other applicable authorities, all as in effect on the date of this document and all of which are subject to change or differing interpretations (possibly with retroactive effect).

The following discussion does not address foreign, state or local tax consequences of the Plan, nor does it purport to address the United States federal income tax consequences of the Plan to special classes of taxpayers (e.g., banks and certain other financial institutions, insurance companies, tax-exempt organizations, governmental entities, persons that are, or hold their Claims through, pass-through entities, persons whose functional currency is not the United States dollar, foreign persons, dealers in securities or foreign currency, employees, persons who received their Claims pursuant to the exercise of an employee stock option or otherwise as compensation and persons holding Claims that are a hedge against, or that are hedged against, currency risk or that are part of a straddle, constructive sale or conversion transaction). Furthermore, the following discussion does not address United States federal taxes other than income taxes.

EACH HOLDER IS STRONGLY URGED TO CONSULT ITS OWN TAX ADVISOR REGARDING THE UNITED STATES FEDERAL, STATE, AND LOCAL AND ANY FOREIGN TAX CONSEQUENCES OF THE TRANSACTIONS DESCRIBED HEREIN AND IN THE PLAN.

### A. United States Federal Income Tax Consequences to the Debtors

#### *1. Cancellation of Indebtedness Income.*

Upon implementation of the Plan, the amount of the Debtors' aggregate outstanding indebtedness will be reduced substantially. In general, the discharge of a debt obligation in exchange for an amount of cash and other property having a fair market value (or, in the case of a new debt instrument, an "issue price") less than the "adjusted issue price" of the debt gives rise to cancellation of indebtedness ("COD") income to the debtor, unless the payment of the debt obligation would have given rise to a deduction for federal income tax purposes. However, COD income is not taxable to the debtor if the debt discharge occurs in a Title 11 bankruptcy case. Rather, under the Tax Code, such COD income instead will reduce certain of the Debtors' tax attributes, generally in the following order: (a) net operating losses ("NOLs") and NOL carryforwards; (b) general business credit carryforwards; (c) minimum tax credit carryforwards; (d) capital loss carryforwards; (e) the tax basis of the Debtors' depreciable and nondepreciable assets (but not below the amount of its liabilities immediately after the discharge); and (f) foreign tax credit carryforwards. The reduction in tax attributes occurs only after the tax for the year of the debt discharge has been determined (i.e., such attributes may be available to offset taxable income that accrues between the date of discharge and the end of the Debtors' tax year). Any excess COD income over the amount of available tax attributes is not subject to United States federal income tax and has no other United States federal income tax impact.

Because some of the Debtors' outstanding indebtedness will be satisfied in exchange for New Common Stock under the Plan, the amount of COD income, and accordingly the amount of tax attributes required to be reduced, will depend in part on the fair market value of the New Common Stock. These values cannot be known with certainty until after the Effective Date. Thus, although it is expected that the Debtors may be required to reduce their tax attributes, the exact amount of such reduction cannot be predicted.

### 2. *Disposition of Aircraft.*

The Debtors are in negotiations with certain aircraft lessors and/or mortgagees with respect to the disposition or use of such aircraft. The Debtors anticipate that, on the disposition of certain aircraft, they will recognize gain that is taxable as ordinary income for United States federal income tax purposes. The Debtors expect to offset any such taxable income with pre-Effective Date NOLs prior to any reduction of such NOLs by COD income that is realized.

### 3. *Net Operating Losses—Section 382.*

The Debtors anticipate that they will experience an "ownership change" (within the meaning of Tax Code Section 382) on the Effective Date as a result of the cancellation of current equity holders' interests in Group and the issuance of equity to certain Claimholders and others pursuant to the Plan. As a result, the Debtors' ability to use any pre-Effective Date NOLs and capital loss carryovers to offset their income in any post-Effective Date taxable year (and in the portion of the taxable year of the ownership change following the Effective Date) to which such a carryover is made generally (subject to various exceptions and adjustments, some of which are described below) will be limited to the sum of (a) a regular annual limitation (prorated for the portion of the taxable year of the ownership change following the Effective Date), (b) the amount of the "recognized built-in gain" for the year which does not exceed the excess of their "net unrealized built-in gain" over previously recognized built-in gains (as the quoted terms are defined in Tax Code Section 382(h)), and (c) any carryforward of unused amounts described in (a) and (b) from prior years. Tax Code Section 382 may also limit the Debtors' ability to use "net unrealized built-in losses," if any, to offset future taxable income. It is uncertain whether the Debtors will have any such "net unrealized built-in losses." Moreover, the Debtors' loss carryovers will be subject to further limitations if the Debtors experience additional future ownership changes or if they do not continue their business enterprise for at least two years following the Effective Date. The Debtors do not expect to have any meaningful pre-Effective Date NOLs or capital loss carryovers following the Effective Date.

The operation and effect of Tax Code Section 382 will be materially different from that just described if the Debtors are subject to the special rules for corporations in bankruptcy provided in Tax Code Section 382(l)(5). In that case, the Debtors' ability to utilize their pre-Effective Date NOLs would not be limited as described in the preceding paragraph. However, several other limitations would apply to the Debtors under Tax Code Section 382(l)(5), including (a) the Debtors' NOLs would be calculated without taking into account deductions for interest paid or accrued in the portion of the current tax year ending on the Effective Date and all other tax years ending during the three-year period prior to the current tax year with respect to the Claims that are exchanged for New Common Stock pursuant to the Plan, and (b) if the Debtors undergo another ownership change within two years after the Effective Date, the Debtors' Tax Code Section 382 limitation with respect to that ownership change will be zero.

It is uncertain whether the provisions of Tax Code Section 382(l)(5) would apply to the ownership change that is expected to occur as a result of the confirmation of the Plan. However, under Tax Code Section 382(l)(5)(H), the Debtors may elect not to have the special rules of Tax Code Section 382(l)(5) apply (in which case the Tax Code Section 382 rules, described above, generally will apply). The Debtors have not yet determined whether they would elect to have the Tax Code Section 382(l)(5) rules apply to the ownership change arising from the consummation of the Plan (assuming Tax Code Section 382(l)(5) would otherwise apply).

Because the Plan Investors will hold significant equity positions in Reorganized Group following the consummation of the Plan, if one or more Plan Investors dispose of all or a significant amount of such positions after the Effective Date, it could cause Reorganized Group to undergo an ownership change. This would generally limit (or possibly eliminate) Reorganized Group's ability to use NOLs and other tax attributes.

## B. United States Federal Income Tax Consequences to Claimholders of the Debtors and Interestholders of Group

The following discusses certain United States federal income tax consequences of the transactions contemplated by the Plan to Claimholders that are "United States holders," as defined below. The United States federal income tax consequences to Claimholders (including the character, timing and amount of income, gain or loss recognized) will depend upon, among other things, (1) whether the Claim and the consideration received in respect thereof are "securities" for United States federal income tax purposes; (2) the manner in which a holder acquired a Claim; (3) the length of time the Claim has been held; (4) whether the Claim was acquired at a discount; (5) whether the holder has taken a bad debt deduction with respect to the Claim (or any portion thereof) in the current or prior years; (6) whether the holder has previously included in its taxable income accrued but unpaid interest with respect to the Claim; (7) the holder's method of tax accounting; and (8) whether the Claim is an installment obligation for United States federal income tax purposes. Therefore, Claimholders should consult their own tax advisors for information that may be relevant to their particular situations and circumstances and the particular tax consequences to them of the transactions contemplated by the Plan. This discussion assumes that the Claimholder has not taken a bad debt deduction with respect to a Claim (or any portion thereof) in the current or any prior year and such Claim did not become completely or partially worthless in a prior taxable year. Moreover, the Debtors intend to claim deductions to the extent they are permitted to deduct any amounts they pay in Cash, stock, or other property pursuant to the Plan.

For purposes of the following discussion, a "United States holder" is a Claimholder that is (1) a citizen or individual resident of the United States, (2) a partnership or corporation created or organized in the United States or under the laws of the United States or any political subdivision thereof, (3) an estate the income of which is subject to United States federal income taxation regardless of its source, or (4) a trust if (a) a court within the United States is able to exercise primary supervision over the administration of the trust and one or more United States fiduciaries have the authority to control all substantial decisions of the trust or (b) the trust was in existence on August 20, 1996 and properly elected to be treated as a United States person.

### *1. Holders of Other Priority Claims.*

A holder of an Other Priority Claim that receives Cash or other property in discharge of its Claim pursuant to the Plan will recognize income, gain or loss for United States federal income tax purposes in an amount equal to the difference between (1) Cash and the fair market value on the Effective Date of any property received by such holder in respect of its Claim, and (2) the holder's adjusted tax basis in the Claim. The character of such gain or loss as capital gain or loss or as ordinary income or loss will be determined by a number of factors, including the tax status of the holder, the nature of the Claim in such holder's hands, whether the Claim constitutes a capital asset in the hands of the holder, whether the Claim was purchased at a discount, and whether and to what extent the holder has previously claimed a bad debt deduction with respect to its Claim. A holder's adjusted tax basis in property received in exchange for its Claim will generally be equal to the fair market value of such property on the Effective Date. The holding period for any such property will begin on the day after the Effective Date.

#### *(a) Accrued Interest*

Under the Plan, some property may be distributed or deemed distributed to certain Claimholders with respect to their Claims for accrued interest. Holders of Claims for accrued interest that previously have not included such accrued interest in taxable income will be required to recognize ordinary income equal to the fair market value of the property received with respect to such Claims for accrued interest. Holders of Claims for accrued interest that have included such accrued interest in taxable income generally may take an ordinary deduction to the extent that such Claim is not fully satisfied under the Plan (after allocating the distribution between principal and accrued interest), even if the underlying Claim is held as a capital asset. The adjusted tax basis of the property received in exchange for Claims for accrued interest will equal the fair market value of such property on the Effective Date, and the holding period for the property received in exchange for such Claims will begin on the day after the Effective Date. The extent to which consideration distributable under the Plan is allocable to interest is not clear. Claimholders are advised to consult their own tax advisors to determine the amount, if any, of consideration received under the Plan that is allocable to interest.

*(b) Market Discount*

The market discount provisions of the Tax Code may apply to holders of certain Claims. In general, a debt obligation other than a debt obligation with a fixed maturity of one year or less that is acquired by a holder in the secondary market (or, in certain circumstances, upon original issuance) is a "market discount bond" as to that holder if its stated redemption price at maturity (or, in the case of a debt obligation having original issue discount, the revised issue price) exceeds the adjusted tax basis of the bond in the holder's hands immediately after its acquisition. However, a debt obligation will not be a "market discount bond" if such excess is less than a statutory de minimis amount. Gain recognized by a creditor with respect to a "market discount bond" will generally be treated as ordinary interest income to the extent of the market discount accrued on such bond during the creditor's period of ownership, unless the creditor elected to include accrued market discount in taxable income currently. A holder of a market discount bond may be required under the market discount rules of the Tax Code to defer deduction of all or a portion of the interest on indebtedness incurred or maintained to acquire or carry the bond. In such circumstances, such holder may be allowed to deduct such interest, in whole or in part, on the disposition of such bond.

*2. Holders of Miscellaneous Secured Claims.*

A holder whose Miscellaneous Secured Claim is Reinstated pursuant to the Plan will not realize gain or loss unless either (i) such holder is treated as having received interest, damages or other income in connection with the Reinstatement, or (ii) such Reinstatement is considered a "significant modification" of the Claim. A holder who receives Cash or other property in exchange for its Miscellaneous Secured Claim pursuant to the Plan will generally recognize income, gain or loss for United States federal income tax purposes in an amount equal to the difference between (1) the amount of Cash or fair market value of the other property received in exchange for its Claim, and (2) the Claimholder's adjusted tax basis in its Claim. The character of such gain or loss as capital gain or loss or as ordinary income or loss will be determined by a number of factors, including the tax status of the holder, the nature of the Claim in such holder's hands, whether the Claim constitutes a capital asset in the hands of the holder, whether the Claim was purchased at a discount, and whether and to what extent the holder has previously claimed a bad debt deduction with respect to its Claim. The United States federal income tax consequences of the receipt of Cash or other property allocable to accrued interest may be relevant and are summarized above in Section XI.B.1.a. In addition, the market discount provisions summarized above in Section XI.B.1.b may also apply.

*3. Holders of Aircraft Secured Claims.*

The holders of Aircraft Secured Claims may recognize income, gain or loss for United States federal income tax purposes with respect to the discharge of their Claims, depending on whether their Claims are Reinstated or, if not Reinstated, on the outcome of their negotiations with the Debtors. A holder whose Aircraft Secured Claim is Reinstated pursuant to the Plan will not realize income, gain or loss unless either (i) such holder is treated as having received interest, damages or other income in connection with the Reinstatement, or (ii) such Reinstatement is considered a "significant modification" of the Claim. A holder who receives Cash or other property in exchange for its Aircraft Secured Claim pursuant to the Plan will generally recognize income, gain or loss for United States federal income tax purposes in an amount equal to the difference between (1) the amount of Cash or fair market value of the other property received in exchange for its Claim, and (2) the Claimholder's adjusted tax basis in its Claim. The character of such gain or loss as capital gain or loss or as ordinary income or loss will be determined by a number of factors, including the tax status of the holder, the nature of the Claim in such holder's hands, whether the Claim constitutes a capital asset in the hands of the holder, whether the Claim was purchased at a discount, and whether and to what extent the holder has previously claimed a bad debt deduction with respect to its Claim. The United States federal income tax consequences of the receipt of Cash or other property allocable to accrued interest may be relevant and are summarized above in Section XI.B.1.a. In addition, the market discount provisions summarized above in Section XI.B.1.b may also apply.

### 4. *Holders of General Unsecured Convenience Claims.*

A holder of General Unsecured Convenience Claims that receives Cash in discharge of its Claim pursuant to the Plan will generally recognize income, gain or loss for United States federal income tax purposes in an amount equal to the difference between (1) the amount of Cash received in exchange for its Claim, and (2) the Claimholder's adjusted tax basis in its Claim. The character of such gain or loss as capital gain or loss or as ordinary income or loss will be determined by a number of factors, including the tax status of the holder, the nature of the Claim in such holder's hands, whether the Claim constitutes a capital asset in the hands of the holder, whether the Claim was purchased at a discount, and whether and to what extent the holder has previously claimed a bad debt deduction with respect to its Claim. The United States federal income tax consequences of the receipt of Cash or other property allocable to accrued interest may be relevant and are summarized above in Section XI.B.1.a. In addition, the market discount provisions summarized above in Section XI.B.1.b may also apply.

### 5. *Holders of General Unsecured Claims.*

#### (a) *Holders of General Unsecured Claims of Group*

Pursuant to the Plan, Group will issue Unsecured Creditors Stock and permit holders of Allowed General Unsecured Claims to elect to participate in the Rights Offering to the holders of General Unsecured Claims of Group to discharge such Claims. The United States federal income tax consequences arising from the Plan to holders of General Unsecured Claims will vary depending upon, among other things, whether such Claims constitute "securities" for United States federal income tax purposes. The determination of whether a debt instrument constitutes a "security" depends upon an evaluation of the nature of the debt instrument. Generally, corporate debt instruments with maturities when issued of less than five years are not considered securities, and corporate debt instruments with maturities when issued of ten years or more are considered securities. Each holder is urged to consult its tax advisor regarding the status of its Claim.

If such Claims of Group constitute "securities" for United States federal income tax purposes, the exchange of such Claims for Unsecured Creditors Stock and rights should constitute a "recapitalization" for United States federal income tax purposes. As a result, except as discussed below with respect to Claims for accrued interest and accrued market discount, a holder of such Claims of Group should recognize gain, but not loss, with respect to each Claim surrendered in an amount equal to the lesser of (1) the amount of gain realized (i.e., the excess of the fair market value of any property received by such holder in respect of its Claim over the adjusted tax basis of such Claim), excluding the rights and any such property received in respect of a Claim for accrued interest that had not been included in income, and (2) the "boot" (as defined below) received by such holder in respect of its Claim (other than with respect to any Claim for such accrued interest). A holder should be treated as receiving "boot" to the extent of the fair market value of any property other than shares of Unsecured Creditors Stock or rights received by the holder. Any such gain recognized will generally be treated as capital gain if the Claim of Group is a capital asset in the hands of the Claimholder. In addition, a holder's aggregate adjusted tax basis in the Unsecured Creditors Stock and rights (other than the Unsecured Creditors Stock and rights received for accrued interest) should be equal to the aggregate adjusted tax basis in the Claims exchanged therefor (exclusive of any basis in such Claim attributable to accrued interest), decreased by the amount of the boot received, and increased by any gain recognized, and such holder's holding period for the Unsecured Creditors Stock and rights (other than Unsecured Creditors Stock and rights received for accrued interest) will include the holding period of the Claims of Group exchanged therefor, provided that such Claims are held as capital assets on the Effective Date. A holder's adjusted tax basis in boot received, if any, will equal the fair market value of such boot on the Effective Date, and the holder's holding period in such boot will begin on the day after the Effective Date.

In addition, as is discussed in Section XI.B.l.a. above, holders of General Unsecured Claims of Group will recognize ordinary income to the extent that the consideration they receive in discharge of their Claims is treated as received in satisfaction of accrued and unpaid interest with respect to such Claims. Moreover, under the market discount rules discussed in Section XI.B.1.b. above, any accrued but unrecognized market discount with respect to Claims generally will be treated as ordinary income to the extent of the gain recognized in connection with the recapitalization described above. Any remaining accrued but unrecognized market discount generally will be treated as ordinary income to the extent of the gain recognized upon the subsequent disposition of Unsecured Creditors Stock received in exchange for the Claim. The treatment of accrued market discount in a nonrecognition transaction is, however, subject to the issuance of Treasury regulations that have not yet been promulgated. In the absence of such regulations, the application of the market discount rules in the present transaction is uncertain. If a holder of a Claim was required under the market discount rules of the Tax Code to defer its deduction of all or a portion of the interest on indebtedness, if any, incurred or maintained to acquire or carry the Claim, continued deferral of the deduction for interest on such indebtedness may be required. Any such deferred interest expense would be attributed to the Unsecured Creditors Stock received in exchange for the Claim, and would be treated as interest paid or accrued in the year in which the shares of Unsecured Creditors Stock are disposed.

If such General Unsecured Claims of Group do not constitute “securities” for United States federal income tax purposes, the exchange of such Claims for Unsecured Creditors Stock and rights should constitute a taxable exchange for United States federal income tax purposes. As a result, a United States Claimholder would generally recognize income, gain or loss for United States federal income tax purposes in an amount equal to the difference between (1) the fair market value on the Effective Date of the Unsecured Creditors Stock and rights received in exchange for its Claim, and (2) the Claimholder’s adjusted tax basis in its Claim. The character of such gain or loss as capital gain or loss or as ordinary income or loss will be determined by a number of factors, including the tax status of the holder, the nature of the Claim in such holder’s hands, whether the Claim constitutes a capital asset in the hands of the holder, whether the Claim was purchased at a discount, and whether and to what extent the holder has previously claimed a bad debt deduction with respect to its Claim. Any such gain recognized would generally be treated as ordinary income to the extent that the Unsecured Creditors Stock and rights are received in respect of accrued but unpaid interest or accrued market discount that, in either case, have not been previously taken into account under the Claimholder’s method of accounting. See Sections XI.B.1.a and XI.B.1.b above. A Claimholder recognizing a loss as a result of the Plan may be entitled to a bad debt deduction, either in the taxable year of the Effective Date or a prior taxable year. A Claimholder’s aggregate tax basis in the Unsecured Creditors Stock and rights received in exchange for its Claims would generally be equal to the aggregate fair market value of such stock and warrants on the Effective Date. Any gain or loss would be long-term gain or loss if the Claimholder’s holding period for its Claims was more than one year on the Effective Date. The holding period for Unsecured Creditors Stock and rights received pursuant to the Plan would begin on the day after the Effective Date.

A holder will not recognize gain or loss upon the exercise of the rights. The basis of the New Common Stock acquired through a holder’s exercise of the rights will be equal to the sum of (i) the price paid for the New Common Stock acquired by exercise of the rights and (ii) the holder’s basis in the rights. The holding period for the New Common Stock acquired through the exercise of the rights will begin on the date the rights are exercised. If a holder allows the rights to expire (i.e., the holder does not exercise the rights), then such holder will recognize a loss equal to the amount of the holder’s basis in the rights. If the rights are held as a capital asset, the loss will be a capital loss.

*(b) Holders of General Unsecured Claims of USAI, PSA, Piedmont and Material Services*

Pursuant to the Plan, Group will issue Unsecured Creditors Stock and rights to the holders of General Unsecured Claims of USAI, PSA, Piedmont, and Material Services to discharge such General Unsecured Claims. For United States federal income tax purposes, the exchange of such Claims for Unsecured Creditors Stock and rights should constitute a taxable exchange for United States federal income tax purposes. As a result, a United States Claimholder would generally recognize income, gain or loss for United States federal income tax purposes in an amount equal to the difference between (1) the fair market value on the Effective Date of the Unsecured Creditors Stock and rights received in exchange for its Claim, and (2) the Claimholder's adjusted tax basis in its Claim. The character of such gain or loss as capital gain or loss or as ordinary income or loss will be determined by a number of factors, including the tax status of the holder, the nature of the Claim in such holder's hands, whether the Claim constitutes a capital asset in the hands of the holder, whether the Claim was purchased at a discount, and whether and to what extent the holder has previously claimed a bad debt deduction with respect to its Claim. Any such gain recognized would generally be treated as ordinary income to the extent that the Unsecured Creditors Stock are received in respect of accrued but unpaid interest or accrued market discount that, in either case, have not been previously taken into account under the Claimholder's method of accounting. See Sections XI.B.1.a and XI.B.1.b above. A Claimholder recognizing a loss as a result of the Plan may be entitled to a bad debt deduction, either in the taxable year of the Effective Date or a prior taxable year. A Claimholder's aggregate tax basis in the Unsecured Creditors Stock and rights received in exchange for its Claims would generally be equal to the aggregate fair market value of such stock and warrants on the Effective Date. Any gain or loss would be long-term gain or loss if the Claimholder's holding period for its Claims was more than one year on the Effective Date. The holding period for Unsecured Creditors Stock and rights received pursuant to the Plan would begin on the day after the Effective Date.

*6. GECC Claims, GEAE Claims, ATSB Loan Claims, Airbus Claim and PBGC Claims.*

The tax consequences of the Plan to the holders of the claims referenced above are not discussed herein, and such holders should consult their own tax advisor regarding the tax consequences to them of the receipt of cash or property in exchange for their claims.

*7. Holders of Subordinated Securities Claims.*

A holder who holds Subordinated Securities Claims of Group will generally recognize a loss for United States federal income tax purposes in an amount equal to the holder's adjusted tax basis in its Subordinated Securities Claims cancelled under the Plan. The character of such gain or loss as capital gain or loss or as ordinary income or loss will be determined by a number of factors, including the tax status of the holder, the nature of the Claim in such holder's hands, whether the Claim constitutes a capital asset in the hands of the holder, whether the Claim was purchased at a discount, and whether and to what extent the holder has previously claimed a bad debt deduction with respect to its Claim.

*8. Existing Interestholders.*

An existing Interestholder who holds existing common stock of Group will generally recognize a loss for United States federal income tax purposes in an amount equal to the stockholder's adjusted tax basis in its existing common stock of Group cancelled under the Plan. The character of such loss as capital loss or as ordinary loss will be determined by a number of factors, including the tax status of the holder and whether the Interestholder holds its common stock of Group as a capital asset.

*9. Other Claimholders.*

To the extent certain holders of Claims reach an agreement with the Debtors to have their Claims satisfied, settled, released, exchanged or otherwise discharged in a manner other than as discussed above, such holders should consult with their own tax advisors regarding the tax consequences to them of such treatment.

*10. Information Reporting and Backup Withholding.*

Certain payments, including payments in respect of accrued interest or market discount, are generally subject to information reporting by the payor to the IRS. Moreover, such reportable payments are subject to backup withholding under certain circumstances. Under the Tax Code's backup withholding rules, a United States holder may be subject to backup withholding at the applicable rate with respect to certain distributions or payments pursuant to the Plan, unless the holder (a) comes within certain exempt categories (which generally include corporations) and, when required, demonstrates this fact, or (b) provides a correct United States taxpayer identification number and certifies under penalty of perjury that the holder is a U.S. person, the taxpayer identification number is correct and that the holder is not subject to backup withholding because of a failure to report all dividend and interest income.

Backup withholding is not an additional tax. Amounts withheld under the backup withholding rules may be credited against a holder's United States federal income tax liability, and a holder may obtain a refund of any excess amounts withheld under the backup withholding rules by filing an appropriate claim for refund with the IRS.

### C. Importance of Obtaining Professional Tax Assistance

THE FOREGOING DISCUSSION IS INTENDED ONLY AS A SUMMARY OF CERTAIN UNITED STATES FEDERAL INCOME TAX CONSEQUENCES OF THE PLAN AND IS NOT A SUBSTITUTE FOR CAREFUL TAX PLANNING WITH A TAX PROFESSIONAL. THE ABOVE DISCUSSION IS FOR INFORMATIONAL PURPOSES ONLY AND IS NOT TAX ADVICE. THE TAX CONSEQUENCES ARE IN MANY CASES UNCERTAIN AND MAY VARY DEPENDING ON A CLAIMHOLDER'S PARTICULAR CIRCUMSTANCES. ACCORDINGLY, CLAIMHOLDERS ARE STRONGLY URGED TO CONSULT THEIR TAX ADVISORS ABOUT THE UNITED STATES FEDERAL, STATE, AND LOCAL, AND APPLICABLE FOREIGN INCOME AND OTHER TAX CONSEQUENCES OF THE PLAN, INCLUDING WITH RESPECT TO TAX REPORTING AND RECORD KEEPING REQUIREMENTS.

## XII. FEASIBILITY OF THE PLAN, ACCEPTANCE OF THE PLAN AND THE BEST INTERESTS TEST

### A. Feasibility of the Plan

To confirm the Plan, the Bankruptcy Court must find that confirmation of the Plan is not likely to be followed by the liquidation or the need for further financial reorganization of the Debtors. This requirement is imposed by Section 1129(a)(11) of the Bankruptcy Code and is referred to as the "feasibility" requirement. The Debtors believe that they will be able to timely perform all obligations described in the Plan and, therefore, that the Plan is feasible.

To demonstrate the feasibility of the Plan, the Debtors have prepared financial Projections for fiscal years ________ through ________, as set forth in Appendix C attached to this Disclosure Statement. These Projections take into account the Merger. The Projections indicate that the Reorganized Debtors should have sufficient cash flow to pay and service their debt obligations, and to handle their operations. Accordingly, the Debtors believe that the Plan satisfies the feasibility requirement of Section 1129(a)(11) of the Bankruptcy Code. As noted in the Projections, however, the Debtors caution that no representations can be made as to the accuracy of the Projections or as to the Reorganized Debtors' ability to achieve the projected results. Many of the assumptions upon which the Projections are based are subject to uncertainties outside the control of the Reorganized Debtors. Some assumptions inevitably will not materialize, and events and circumstances occurring after the date on which the Projections were prepared may be different from those assumed or may be unanticipated, and may adversely affect the Reorganized Debtors' financial results. Therefore, the actual results may vary from the projected results and the variations may be material and adverse. See Section IX, "Certain Risk Factors to Be Considered," for a discussion of certain risk factors that may affect financial feasibility of the Plan.

THE PROJECTIONS WERE NOT PREPARED WITH A VIEW TOWARD COMPLIANCE WITH THE GUIDELINES ESTABLISHED BY THE AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS, THE PRACTICES RECOGNIZED TO BE IN ACCORDANCE WITH GENERALLY ACCEPTED ACCOUNTING PRINCIPLES, OR THE RULES AND REGULATIONS OF THE SECURITIES AND EXCHANGE COMMISSION REGARDING PROJECTIONS.

FURTHERMORE, THE PROJECTIONS HAVE NOT BEEN AUDITED BY THE DEBTORS' INDEPENDENT ACCOUNTANTS. ALTHOUGH PRESENTED WITH NUMERICAL SPECIFICITY, THE PROJECTIONS ARE BASED UPON A VARIETY OF ASSUMPTIONS, SOME OF WHICH IN THE PAST HAVE NOT BEEN ACHIEVED AND WHICH MAY NOT BE REALIZED IN THE FUTURE, AND ARE SUBJECT TO SIGNIFICANT BUSINESS, ECONOMIC AND COMPETITIVE UNCERTAINTIES AND CONTINGENCIES, MANY OF WHICH ARE BEYOND THE CONTROL OF THE DEBTORS. CONSEQUENTLY, THE PROJECTIONS SHOULD NOT BE REGARDED AS A REPRESENTATION OR WARRANTY BY THE DEBTORS, OR ANY OTHER PERSON, THAT THE PROJECTIONS WILL BE REALIZED. ACTUAL RESULTS MAY VARY MATERIALLY FROM THOSE PRESENTED IN THE PROJECTIONS.

## B. Acceptance of the Plan

As a condition to confirmation, the Bankruptcy Code requires that each Class of Impaired Claims and Interests vote to accept the Plan, except under certain circumstances.

Section 1126(c) of the Bankruptcy Code defines acceptance of a plan by a class of impaired claims as acceptance by holders of at least two-thirds in dollar amount and more than one-half in number of claims in that class, but for that purpose counts only those who actually vote to accept or to reject the Plan. Thus, a Class of Claims will have voted to accept the Plan if two-thirds in amount actually voting and a majority in number actually voting cast their Ballots in favor of acceptance. Under Section 1126(d) of the Bankruptcy Code, a Class of Interests has accepted the Plan if holders of such Interests holding at least two-thirds in amount actually voting have voted to accept the Plan. Holders of claims or interests who fail to vote are not counted as either accepting or rejecting a plan.

## C. Best Interests Test

Even if a plan is accepted by each class of holders of claims and interests, the Bankruptcy Code requires a bankruptcy court to determine that the plan is in the "best interests" of all holders of claims and interests that are impaired by the plan and that have not accepted the plan. The "best interests" test, as set forth in Section 1129(a)(7) of the Bankruptcy Code, requires a bankruptcy court to find either that (i) all members of an impaired class of claims or interests have accepted the plan, or (ii) the plan will provide a member who has not accepted the plan with a recovery of property of a value, as of the effective date of the plan, that is not less than the amount that such holder would recover if the debtor were liquidated under Chapter 7 of the Bankruptcy Code.

To calculate the probable distribution to members of each impaired class of holders of claims and interests if the debtor were liquidated under Chapter 7, a bankruptcy court must first determine the aggregate dollar amount that would be generated from the debtor's assets if its Chapter 11 case were converted to a Chapter 7 case under the Bankruptcy Code. This "liquidation value" would consist primarily of the proceeds from a forced sale of the debtor's assets by a Chapter 7 trustee.

The amount of liquidation value available to unsecured creditors would be reduced by the costs of liquidation under Chapter 7 of the Bankruptcy Code, including the compensation of a trustee, as well as of counsel and other professionals retained by the trustee, asset disposition expenses, additional administrative claims and other wind-down expenses. The liquidation itself would trigger certain priority payments that otherwise would be due in the ordinary course of business. Those priority claims would be paid in full from the liquidation proceeds before the balance would be made available to pay general unsecured claims or to make any distribution in respect of equity interests. The liquidation also would prompt the rejection of a large number of executory contracts and thereby create a significantly higher number of unsecured claims.

Once the court ascertains the recoveries in liquidation of secured creditors and priority claimants, it must determine the probable distribution to general unsecured creditors and equity security holders from the remaining available proceeds in liquidation. If such probable distribution has a value greater than the distributions to be received by such creditors and equity security holders under a debtor's plan, then such plan is not in the best interests of creditors and equity security holders.

**D. Estimated Valuation of the Reorganized Debtors**

A copy of the reorganization valuation analysis is attached to this Disclosure Statement as Appendix D.

**E. Application of the Best Interests Test to the Liquidation Analysis and the Valuation of the Reorganized Debtors**

A liquidation analysis prepared with respect to each of the Debtors is attached as Appendix B to this Disclosure Statement. The Debtors believe that any liquidation analysis is uncertain. For example, the liquidation analysis necessarily contains an estimate of the amount of Claims which will ultimately become Allowed Claims. In preparing the liquidation analysis, the Debtors have projected an amount of Allowed Claims based upon a review of their scheduled claims. Additions were made to the scheduled claims to adjust for estimated claims related to postpetition obligations, pension liabilities and other employee-related obligations, post-retirement obligations and certain lease damage claims. No order or finding has been entered by the Bankruptcy Court estimating or otherwise fixing the amount of Claims at the projected amounts of Allowed Claims set forth in the liquidation analysis. The estimate of the amount of Allowed Claims set forth in the liquidation analysis should not be relied on for any other purpose, including, without limitation, any determination of the value of any distribution to be made on account of Allowed Claims and Interests under the Plan. In addition, as noted above, the valuation analysis of the Reorganized Debtors also contains numerous estimates and assumptions. For example, the value of the New Common Stock cannot be determined with precision due to the absence of a public market for the New Common Stock.

Notwithstanding the difficulties in quantifying recoveries to creditors with precision, the Debtors believe that, taking into account the liquidation analysis and the valuation analysis of the Reorganized Debtors, the Plan meets the "best interests" test of Section 1129(a)(7) of the Bankruptcy Code. The Debtors believe that the members of each impaired class will receive at least as much under the Plan as they would in a liquidation in a hypothetical Chapter 7 case. Creditors will receive a better recovery through the distributions contemplated by the Plan because the continued operation of the Debtors as going concerns rather than a forced liquidation will allow the realization of more value for the Debtors' assets. Moreover, many of the Debtors' employees, who in large number, will retain their jobs and most likely make few if any other claims against the Estates. Lastly, in the event of liquidation, the aggregate amount of unsecured claims would likely increase significantly, and such claims would be subordinated to priority claims that will be created. Also, a Chapter 7 liquidation would give rise to additional administrative claims. For example, employees would file claims for wages, pensions and other benefits, some of which would be entitled to priority. Landlords, aircraft lessors and mortgage holders would likely file large claims for both unsecured and administrative amounts. The resulting increase in both general unsecured and priority claims would decrease percentage recoveries to unsecured creditors of each of the Debtors. All of these factors lead to the conclusion that recoveries under the Plan would be at least as much, and in many cases significantly greater, than the recoveries available in a Chapter 7 liquidation.

**F. Confirmation Without Acceptance of All Impaired Classes: The 'Cramdown' Alternative**

Section 1129(b) of the Bankruptcy Code provides that a plan can be confirmed even if it has not been accepted by all impaired classes, as long as at least one impaired class of Claims has accepted it. The Court may confirm the Plan at the request of the Debtors notwithstanding the Plan's rejection (or deemed rejection) by impaired Classes as long as the Plan "does not discriminate unfairly" and is "fair and equitable" as to each impaired Class that has not accepted it. A plan does not discriminate unfairly within the meaning of the Bankruptcy Code if a dissenting class is treated equally with respect to other classes of equal rank.

A plan is fair and equitable as to a class of secured claims that rejects such plan if the plan provides (1)(a) that the holders of claims included in the rejecting class retain the liens securing those claims whether the property subject to those liens is retained by the debtor or transferred to another entity, to the extent of the allowed amount of such claims, and (b) that each holder of a claim of such class receives on account of that claim deferred cash payments totaling at least the allowed amount of that claim, of a value, as of the effective date of the plan, of at least the value of the holder's interest in the estate's interest in such property; (2) for the sale, subject to Section 363(k) of the Bankruptcy Code, of any property that is subject to the liens securing the claims included in the rejecting class, free and clear of the liens, with the liens to attach to the proceeds of the sale, and the treatment of the liens on proceeds under clause (1) or (2) of this paragraph; or (3) for the realization by such holders of the indubitable equivalent of such claims.

A plan is fair and equitable as to a class of unsecured claims which rejects a plan if the plan provides (1) for each holder of a claim included in the rejecting class to receive or retain on account of that claim property that has a value, as of the effective date of the plan, equal to the allowed amount of such claim, or (2) that the holder of any claim or interest that is junior to the claims of such rejecting class will not receive or retain on account of such junior claim or interest any property.

A plan is fair and equitable as to a class of equity interests that rejects a plan if the plan provides (1) that each holder of an interest included in the rejecting class receive or retain on account of that interest property that has a value, as of the effective date of the plan, equal to the greatest of the allowed amount of any fixed liquidation preference to which such holder is entitled, any fixed redemption price to which such holder is entitled, or the value of such interest, or (2) that the holder of any interest that is junior to the interest of such rejecting class will not receive or retain under the plan on account of such junior interest any property.

Because holders of Class Group-10 Interests, which includes all capital stock and warrants in Group, and Class Group-11 Claims, which include all subordinated securities claims against Group, are receiving no distribution on account of such Interests and Claims under the Plan, their votes are not being solicited and they are deemed to have rejected the Plan pursuant to Section 1126(g) of the Bankruptcy Code. Accordingly, the Debtors are seeking confirmation of the Plan pursuant to Section 1129(b) of the Bankruptcy Code with respect to such Classes and may seek confirmation pursuant thereto as to other Classes if such Classes vote to reject the Plan.

## G. Conditions to Confirmation and/or Consummation of the Plan

### *1. Conditions to Confirmation.*

The following are conditions precedent to confirmation of the Plan:

(a) the Bankruptcy Court shall have approved a Disclosure Statement with respect to the Plan in form and substance acceptable to the Debtors and America West, in their sole and absolute discretion, and reasonably acceptable to GECC; and

(b) each of the Plan and the Confirmation Order shall be in form and substance acceptable to the Debtors and America West, in their sole and absolute discretion, and reasonably acceptable to GECC.

### *2. Conditions to Consummation for All Debtors.*

The Effective Date shall occur on or prior to December 31, 2005, unless such date is extended by the Debtors. The following are conditions precedent to the occurrence of the Effective Date, each of which may be satisfied or waived in accordance with Section 12.3 of the Plan:

(a) the Bankruptcy Court shall have entered one or more orders (which may include the Confirmation Order) authorizing the assumption of unexpired leases and executory contracts by the Debtors as contemplated by Section 8.1 of the Plan;

(b) the Plan Investors shall have invested or committed to invest an aggregate of at least $375 million and such investments shall have been made;

(c) all conditions precedent to the funding under the Investment Agreement shall have been satisfied or waived in accordance with the terms thereof;

(d) all conditions precedent to consummation of the Merger, pursuant to the Merger Agreement, shall have occurred;

(e) the Confirmation Order shall have been entered by the Bankruptcy Court and shall remain unstayed;

(f) there shall not exist more than $10,000,000 of Administrative Claims (including contingent liabilities) arising out of or related to any compensation and benefit plan of the Debtors that is subject to Section 302 of ERISA or Section 412 of the Internal Revenue Code other than any claims relating to Amounts incurred in the ordinary course of business; and

(g) the Confirmation Date shall have occurred.

## H. Waiver of Conditions to Confirmation and/or Consummation of the Plan

The conditions set forth in Section 12.2 of the Plan may be waived by the Debtors, such waiver to be acceptable to America West, without any notice to parties-in-interest or the Bankruptcy Court and without a hearing. The failure to satisfy or waive any condition to the Confirmation Date or the Effective Date may be asserted by the Debtors in their sole discretion regardless of the circumstances giving rise to the failure of such condition to be satisfied (including any action or inaction by the Debtors in their sole discretion). The failure of the Debtors in their sole discretion to exercise any of the foregoing rights shall not be deemed a waiver of any other rights, and each such right shall be deemed an ongoing right, which may be asserted at any time.

## I. Retention of Jurisdiction

Pursuant to Sections 105(a) and 1142 of the Bankruptcy Code, the Bankruptcy Court shall have exclusive jurisdiction of all matters arising out of, and related to, the Chapter 11 Cases and the Plan, including, among others, the following matters:

(i) to hear and determine pending motions for (A) the assumption or rejection or (B) the assumption and assignment of executory contracts or unexpired leases to which the Debtors are a party or with respect to which the Debtors may be liable, and to hear and determine the allowance of Claims resulting therefrom including the amount of Cure, if any, required to be paid;

(ii) to adjudicate any and all adversary proceedings, applications, and contested matters that may be commenced or maintained pursuant to the Chapter 11 Cases or the Plan, proceedings to adjudicate the allowance of Disputed Claims and Disputed Interests, and all controversies and issues arising from or relating to any of the foregoing;

(iii) to adjudicate any and all disputes arising from or relating to the distribution or retention of the New Common Stock or other consideration under the Plan;

(iv) to ensure that distributions to Allowed Claimholders and Allowed Interestholders are accomplished as provided herein;

(v) to hear and determine any and all objections to the allowance of Claims and Interests and the estimation of Claims, both before and after the Confirmation Date, including any objections to the classification of any Claim or Interest, and to allow or disallow any Claim or Interest, in whole or in part;

(vi) to enter and implement such orders as may be appropriate if the Confirmation Order is for any reason stayed, revoked, modified, or vacated;

(vii) to issue orders in aid of execution, implementation, or consummation of the Plan;

(viii) to consider any modifications of the Plan, to cure any defect or omission, or to reconcile any inconsistency in any order of the Bankruptcy Court, including, without limitation, the Confirmation Order;

(ix) to hear and determine all applications for compensation and reimbursement of Professional Claims and Ordinary Course Professional Claims under the Plan or under Sections 330, 331, 503(b), 1103 and 1129(a)(4) of the Bankruptcy Code;

(x) to determine requests for the payment of Claims entitled to priority under Section 507(a)(1) of the Bankruptcy Code, including compensation of and reimbursement of expenses of parties entitled thereto;

(xi) to hear and determine disputes arising in connection with the interpretation, implementation, or enforcement of the Plan and/or the Confirmation Order, including, except as expressly set forth therein, disputes arising under agreements, documents, or instruments executed in connection with the Plan;

(xii) to hear and determine all suits or adversary proceedings to recover assets of the Debtors and property of their Estates, wherever located;

(xiii) to hear and determine any dispute arising under or in connection with the Investment Agreements, the Merger Agreement, or, except as expressly set forth therein, any instruments, documents or agreements executed or delivered pursuant thereto or in connection therewith or any dispute otherwise related to the transactions contemplated thereby;

(xiv) to hear and determine any disputes arising under or relating to the Bidding Procedures Motion or the Bidding Procedures Order;

(xv) to determine whether Debtors are in grave and imminent danger such that they will be forced to suspend, discontinue, or materially reduce their mainline flight operations, as compared to the operations as of the effective date of their section 1114 agreements with the IAMAW and the Retiree Committee, such that they may seek relief pursuant section 1114 in accordance with the Consent Order Approving Agreement to Modify Certain Retiree Benefits, entered on January 11, 2005 and the January 11, 2005 Consent Order Approving Agreement With the International Association of Machinists and Aerospace Workers to Modify Certain Retiree Health Benefits;

(xvi) to hear and determine matters concerning state, local, and federal taxes in accordance with Sections 346, 505 and 1146 of the Bankruptcy Code;

(xvii) to hear any other matter not inconsistent with the Bankruptcy Code;

(xviii) to hear and determine all disputes involving the existence, nature, or scope of the Debtors' discharge, including any dispute relating to any liability arising out of the termination of employment or the termination of any employee or retiree benefit program, regardless of whether such termination occurred prior to or after the Effective Date;

(xix) to enter a final decree closing the Chapter 11 Cases; and

(xx) to enforce all orders previously entered by the Bankruptcy Court.

Unless otherwise specifically provided herein or in a prior order of the Bankruptcy Court, the Bankruptcy Court shall have exclusive jurisdiction to hear and determine disputes concerning Claims, Interests and Retained Actions. Notwithstanding the foregoing, the Debtors and any party may agree in writing that the jurisdiction of the Bankruptcy Court, as delineated in Article XIII of the Plan, shall not be exclusive, but concurrent with other courts of competent jurisdiction.

## XIII. ALTERNATIVES TO CONFIRMATION AND CONSUMMATION OF THE PLAN

The Debtors believe that the Plan, including the Merger, affords holders of Claims the potential for the greatest realization on the Debtors' assets and, therefore, is in the best interests of such holders.

If the Plan is not confirmed, however, the theoretical alternatives include: (a) continuation of the pending Chapter 11 Cases; (b) an alternative plan or plans of reorganization; or (c) liquidation of the Debtors under Chapter 7 or Chapter 11 of the Bankruptcy Code.[5]

### A. Continuation of the Bankruptcy Case

If the Debtors remain in Chapter 11, they could continue to operate their businesses and manage their properties as debtors-in-possession, but they would remain subject to the restrictions imposed by the Bankruptcy Code. It is not clear whether the Debtors could survive as going concerns in protracted Chapter 11 Cases. The Debtors could have difficulty sustaining the high costs and the erosion of market confidence which may be caused if the Debtors remain Chapter 11 debtors-in-possession. In addition, the Debtors are currently operating through the continued use of cash collateral pursuant to the ATSB Cash Collateral Order. The ATSB Cash Collateral Order will expire no earlier than July 29, 2005 and it is unclear if the Debtors would be able to obtain authorization from the Court to continue using cash collateral thereafter, and the period of any such extension, if obtained.

### B. Alternative Plans of Reorganization

If the Plan is not confirmed, the Debtors, or, after the expiration of the Debtors' exclusive period in which to propose and solicit a reorganization plan, any other party in interest in the Chapter 11 Cases, could propose a different plan or plans. Such plans might involve either a reorganization and continuation of the Debtors' businesses, an alternative transaction to the Merger, or an orderly liquidation of its assets, or a combination of such alternatives. The Debtors worked to develop an alternative "stand alone" plan of reorganization pursuant to the Transformation Plan described in Section VII.C of this Disclosure Statement. As of the date of this Disclosure Statement, under the current revenue and fuel cost environment, there is no feasible alternative plan of reorganization that has been developed by the Debtors.

### C. Liquidation Under Chapter 7 or Chapter 11

If no plan is confirmed, the Debtors' Chapter 11 Cases may be converted to a case under Chapter 7 of the Bankruptcy Code. In a Chapter 7 case, a trustee or trustees would be appointed to liquidate the assets of the Debtors. It is impossible to predict precisely how the proceeds of the liquidation, if any, would be distributed to the respective holders of Claims against the Debtors.

However, the Debtors believe that creditors would lose the substantially higher going concern value if the Debtors were forced to liquidate. In addition, the Debtors believe that in liquidation under Chapter 7, before creditors received any distribution, additional administrative expenses involved in the appointment of a trustee or trustees and attorneys, accountants and other professionals to assist such trustees would cause a substantial diminution in the value of the Estates. The assets available for distribution to creditors would be reduced by such additional expenses and by Claims, some of which would be entitled to priority, which would arise by reason of the liquidation and from the rejection of leases and other executory contracts in connection with the cessation of operations and the failure to realize the greater going concern value of the Debtors' assets.

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[5] As provided in Section 14.5 of the Plan, the Debtors, with the consent of America West, reserve the right to revoke or withdraw the Plan, at any time prior to the Effective Date, either entirely or with respect to one or more of the Debtors. If the Plan is revoked or withdrawn with respect to fewer than all of the Debtors, such revocation or withdrawal shall not affect the enforceability of the Plan as it relates to the Debtors for which the Plan is not revoked.

The Debtors may also be liquidated pursuant to a Chapter 11 plan. In a liquidation under Chapter 11, the Debtors' assets could be sold in an orderly fashion, a process that may be conducted over a more extended period of time than in a liquidation under Chapter 7. Thus, a Chapter 11 liquidation might result in larger recoveries than a Chapter 7 liquidation, but the potential delay in distributions could result in lower present values received and higher administrative costs. Because a trustee is not required in a Chapter 11 case, expenses for professional fees could be lower than in a Chapter 7 case, in which a trustee must be appointed. Any distribution to the Claimholders and Interestholders under a Chapter 11 liquidation plan potentially may be delayed substantially.

The Debtors' liquidation analysis, prepared with its accountants and financial advisors, is premised upon a hypothetical liquidation in a Chapter 7 case and is attached as Appendix B to this Disclosure Statement. In the analysis, the Debtors have taken into account the nature, status, and underlying value of their assets, the ultimate realizable value of their assets, and the extent to which such assets are subject to liens and security interests.

The likely form of any liquidation would be the sale of individual assets. Based on this analysis, it is likely that a Chapter 7 liquidation of the Debtors' assets would produce less value for distribution to creditors than that recoverable in each instance under the Plan. In the opinion of the Debtors, the recoveries projected to be available in a Chapter 7 liquidation are not likely to afford holders of Claims and holders of Interests as great a realization potential as does the Plan.

## XIV. VOTING REQUIREMENTS

The Bankruptcy Court may confirm the Plan only if it determines that the Plan complies with the technical requirements of Chapter 11 of the Bankruptcy Code and that the disclosures by the Debtors concerning the Plan have been adequate and have included information concerning all payments made or promised by the Debtors in connection with the Plan and the Chapter 11 Cases. In addition, the Bankruptcy Court must determine that the Plan has been proposed in good faith and not by any means forbidden by law, and under Federal Rule of Bankruptcy Procedure 3020(b)(2), it may do so without receiving evidence if no objection is timely filed.

In particular, the Bankruptcy Code requires the Bankruptcy Court to find, among other things, that (a) the Plan has been accepted by the requisite votes of all Classes of impaired Claims and Interests unless approval will be sought under Section 1129(b) of the Bankruptcy Code in spite of the nonacceptance by one or more such Classes, (b) the Plan is "feasible," which means that there is a reasonable probability that the Debtors will be able to perform their obligations under the Plan and continue to operate their businesses without further financial reorganization or liquidation, and (c) the Plan is in the "best interests" of all Claimholders and Interestholders, which means that such holders will receive at least as much under the Plan as they would receive in a liquidation under Chapter 7 of the Bankruptcy Code. The Bankruptcy Court must find that all conditions mentioned above are met before it can confirm the Plan. Thus, even if all the Classes of impaired Claims against the Debtors accept the Plan by the requisite votes, the Bankruptcy Court must still make an independent finding that the Plan satisfies these requirements of the Bankruptcy Code, that the Plan is feasible, and that the Plan is in the best interests of the holders of Claims against and Interests in the Debtors.

### A. Parties in Interest Entitled to Vote

Under Section 1124 of the Bankruptcy Code, a class of claims or interests is deemed to be "impaired" under a plan unless (a) the plan leaves unaltered the legal, equitable, and contractual rights to which such claim or interest entitles the holder thereof or (b) notwithstanding any legal right to an accelerated payment of such claim or interest, the plan cures all existing defaults (other than defaults resulting from the occurrence of events of bankruptcy) and reinstates the maturity of such claim or interest as it existed before the default.

In general, a holder of a claim or interest may vote to accept or to reject a plan if (1) no party in interest has objected to such claim or interest, and (2) the claim or interest is impaired by the Plan. If the holder of an impaired claim or impaired interest will not receive any distribution under the plan in respect of such claim or interest, the Bankruptcy Code deems such holder to have rejected the plan and the plan proponent need not solicit such holder's vote. If the claim or interest is not impaired, the Bankruptcy Code deems that the holder of such claim or interest has accepted the plan and the plan proponent need not solicit such holder's vote.

Except for holders of Claims or Interests in Classes Group 10 and Group-11 (who are presumed to have rejected the Plan), the holder of a Claim that is or may be Impaired under the Plan is entitled to vote to accept or reject the Plan if (1) the Plan provides a distribution in respect of such Claim, and (2) (a) the Claim has been scheduled by the respective Debtor (and such Claim is not scheduled as disputed, contingent, or unliquidated), (b) such Claimholder has timely filed a Proof of Claim as to which no objection has been filed, or (c) such Claimholder has timely filed a motion pursuant to Federal Rule of Bankruptcy Procedure 3018(a) seeking temporary allowance of such Claim for voting purposes only and the Bankruptcy Court has ordered that such Claimholder may vote.

A vote may be disregarded if the Court determines, pursuant to Section 1126(e) of the Bankruptcy Code, that it was not solicited or procured in good faith or in accordance with the provisions of the Bankruptcy Code. The Solicitation Procedures Order also sets forth assumptions and procedures for tabulating Ballots, including Ballots that are not completed fully or correctly.

## B. Classes Impaired Under the Plan

### *1. Non- Voting Impaired Classes of Claims and Interests.*

Class Group-10 and Class Group-11 are not entitled to receive or retain any property under the Plan. Under Section 1126(g) of the Bankruptcy Code, Claimholders and Interestsholders in such Classes are deemed to reject the Plan, and the votes of such Claimholders and Interestsholders will not be solicited.

### *2. Potentially Impaired Classes of Claims and Interests.*

The Classes listed below may be Impaired by the Plan, depending upon their treatment. The Debtors intend to ask the Bankruptcy Court to determine at or before the Confirmation Hearing whether such Classes are Impaired or Unimpaired. Pending a decision by the Bankruptcy Court as to whether such Classes are Impaired, the holders of Claims in such Classes shall be permitted to vote to accept or reject the Plan. Any such Classes that are determined by the Bankruptcy Court to be Unimpaired shall be deemed, pursuant to Section 1126(1) of the Bankruptcy Code, to have accepted the Plan without regard to any actual votes that may have been cast.

| | | | | |
|---|---|---|---|---|
| USAI -1 | Group -1 | PSA-1 | Piedmont-1 | Material Services-1 |
| | Group-4 | | | |
| USAI -6 | Group-6 | PSA-6 | Piedmont-6 | Material Services-6 |

### *3. Presumed Acceptances by Certain Classes of Interests.*

Pursuant to the agreement of the Interestholders, holders of Interests in Classes USAI-10, Piedmont-10, PSA-10, and Material Services-10 are conclusively presumed to have accepted the Plan as such Interestsholders are proponents of this Plan, and the votes of such Interestsholders will not be solicited.

### *4. Voting Impaired Classes of Claims and Interests.*

All other Classes are Impaired under, and entitled to vote to accept or reject, the Plan.

# XV. CONCLUSION

## A. Hearing on and Objections to Confirmation

### *1. Confirmation Hearing.*

The hearing on confirmation of the Plan has been scheduled for ______________________, 2005 at ____ a.m. (prevailing Eastern time). Such hearing may be adjourned from time to time by announcing such adjournment in open court, all without further notice to parties in interest, and the Plan may be modified by the Debtors pursuant to Section 1127 of the Bankruptcy Code prior to, during, or as a result of that hearing, without further notice to parties in interest.

### *2. Date Set for Filing Objections to Confirmation of the Plan.*

The time by which all objections to confirmation of the Plan must be filed with the Court and received by the parties listed in the Confirmation Hearing Notice has been set for ___________________, 2005, at ______ p.m. (prevailing Eastern time). A copy of the Confirmation Hearing Notice is enclosed with this Disclosure Statement,

## B. Recommendation

The Plan provides for an equitable and early distribution to creditors of the Debtors, preserves the value of the business as a going concern, and preserves the jobs of employees. The Debtors believe that any alternative to confirmation of the Plan, such as liquidation or attempts by another party in interest to file a plan, could result in significant delays, litigation, and costs, as well as the loss of jobs by the employees. Moreover, the Debtors believe that their creditors will receive greater and earlier recoveries under the Plan than those that would be achieved in liquidation or under an alternative plan. FOR THESE REASONS, THE DEBTORS URGE YOU TO RETURN YOUR BALLOT ACCEPTING THE PLAN.

Dated: June 30, 2005

US Airways, Inc.
US Airways Group, Inc.
PSA Airlines, Inc.
Piedmont Airlines, Inc.
Material Services Company, Inc.

*Debtors and Debtors-in-Possession*

By: _/s/ Bruce R. Lakefield__________
Bruce R. Lakefield
President and Chief Executive Officer
USAI, Inc. and USAI Group, Inc.
and authorized signatory for each of the
other Debtors