AMERICA WEST HOLDINGS CORPORATION

Annual Report 2001

AMERICA WEST HOLDINGS CORPORATION

America West Holdings Corporation is an aviation and travel services company. Wholly owned subsidiary, America West Airlines, is the nation's eighth largest carrier serving 88 destinations in the U.S., Canada and Mexico. The Leisure Company, also a wholly owned subsidiary, is one of the nation's largest tour packagers.

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"In memory of our colleagues, friends and fellow Americans on board American Airlines flights 11 and 77 and United Airlines flights 93 and 175 who lost their lives on September 11, 2001."

SELECTED CONSOLIDATED FINANCIAL DATA

The selected consolidated data presented below under the captions *"Consolidated Statements of Operations Data"* and *"Consolidated Balance Sheet Data"* as of and for the years ended December 31, 2001, 2000, 1999, 1998 and 1997 are derived from the audited consolidated financial statements of the Company. The selected consolidated data should be read in conjunction with the consolidated financial statements for the respective periods, the related notes and the reports of independent accountants.

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

	2001	2000	1999	1998	1997
Consolidated statements of operations data:					
Operating revenues	$ 2,065,913	$ 2,344,354	$ 2,210,884	$ 2,023,284	$ 1,874,956
Operating expenses (a)	2,380,498	2,356,991	2,006,333	1,814,221	1,713,130
Operating income (loss)	(314,585)	(12,637)	204,551	209,063	161,826
Income (loss) before income taxes (b)	(221,101)	24,743	206,150	194,346	140,001
Income taxes (benefit)	(73,230)	17,064	86,761	85,775	65,031
Net income (loss)	(147,871)	7,679	119,389	108,571	74,970
Earnings (loss) per share:					
Basic	(4.39)	0.22	3.17	2.58	1.68
Diluted	(4.39)	0.22	3.03	2.40	1.63
Shares used for computation:					
Basic	33,670	35,139	37,679	42,102	44,529
Diluted (c)	33,670	35,688	39,432	45,208	46,071
Consolidated balance sheet data (at end of period):					
Total assets	$ 1,570,909	$ 1,568,515	$ 1,507,154	$ 1,525,030	$ 1,546,791
Long-term debt, less current maturities (d)	222,955	145,578	155,168	207,906	272,760
Total stockholders' equity	522,343	677,073	714,169	669,458	683,570

a) Includes a $38.4 million special charge related to the earlier than planned return of seven leased aircraft and severance expenses following a reduction-in-force in 2001.

b) Includes federal government assistance of $108.2 million recognized as nonoperating income under the Air Transportation Safety and System Stabilization Act to offset direct and incremental losses incurred as a result of the September 11, 2001 terrorist attacks. See Note 3, *"Air Transportation Safety and System Stabilization Act"* and Note 14, *"Nonoperating Income (Expense) - Other, Net"* in Notes to Consolidated Financial Statements.

c) As compensation for various elements of AWA's restructuring plan, Holdings issued a warrant to purchase up to 18.8 million shares of its Class B common stock to the federal government and additional warrants to purchase up to 3.8 million shares of its Class B common stock to other loan participants, in each case at an exercise price of $3 per share and a term of ten years. The $104.5 million of convertible senior notes, discussed in note (d) below, are convertible after three years into Class B common stock at $12 per share. See Note 20, *"Subsequent Events - Government Guaranteed Loan"* in Notes to Consolidated Financial Statements.

d) In January 2002, AWA closed a $429 million government guaranteed loan. Holdings also issued approximately $104.5 million in convertible senior notes as partial compensation to aircraft lessors. After giving effect to these transactions, the Company has approximately $811.4 million of long-term debt, less current maturities. See Note 20, *"Subsequent Events - Government Guaranteed Loan"* in Notes to Consolidated Financial Statements.

Departures

The year 2001 was the most difficult in the history of the U.S. airline industry. During the first eight months of the year, a softening economy had already triggered an industry-wide recession. Business travel declined sharply as corporations tightened their belts, and airlines drastically lowered fares to fill the seats vacated by business customers. Already struggling under the weight of these adverse economic conditions, commercial aviation suffered an unprecedented and nearly catastrophic financial setback following Sept. 11, one of the darkest days in our nation's history.

Thus, an economic slump erupted into a full-blown financial crisis, and, by year-end, U.S. airlines had lost in excess of $7 billion, the largest collective annual loss ever. The turmoil that shook the airline industry in 2001 took a substantial toll on America West.

Remarkably, in spite of the tremendous challenges facing the industry throughout 2001, America West achieved a dramatic turnaround in operations that saw the airline become an industry leader in on-time performance, completion factor and baggage handling by the end of the year.

"The turmoil that shook the industry in 2001 took a substantial toll on America West."

Our 13,000 employees worked tirelessly in the first nine months of 2001 to restore reliability to America West, and in the aftermath of Sept. 11 remained steadfast in their commitment to maintain this momentum under almost impossible circumstances. We also completed a major financial restructuring that included more than $1 billion of financing and expense reductions.

As a result of the operational turnaround and financial restructuring, America West is now well positioned to emerge from these unprecedented times as an even stronger airline and to deliver significant long-term shareholder value.

Impact of Sept. 11, Financial Restructuring

Following the tragedies of Sept. 11, demand for air travel dropped precipitously, security and insurance costs increased dramatically and potential sources of financing evaporated. The very survival of a number of major airlines, including America West, was at stake, and the stability of an industry long seen as vital to our nation's economic health was in question.

Fortunately, Congress and President Bush had the foresight to act swiftly and passed the Air Transportation Safety and Stabilization Act. The

positive results of this courageous legislation were immediate, and, six months later, a measure of financial stability had been restored to the airline industry.

Under this legislation, America West received approval in January 2002 for approximately $380 million in federal loan guarantees, which allowed us to close a term loan in the amount of $429 million and triggered more than $600 million in contributions and concessions from aircraft lessors, suppliers and creditors.

As part of this financial restructuring, America West issued warrants to the U.S. government representing approximately one-third of the Company's common stock. The loan conditions also called for a commitment on the part of America West to control the growth of its labor costs over the course of its seven-year business plan.

The restructuring has resulted in America West having more cash on hand than at any time in its history, as well as a significant reduction in aircraft lease costs and financing needs going forward. This provides us with a tremendous opportunity to build upon the operational improvements realized over the past year and enhance service for our customers while increasing value for our shareholders.

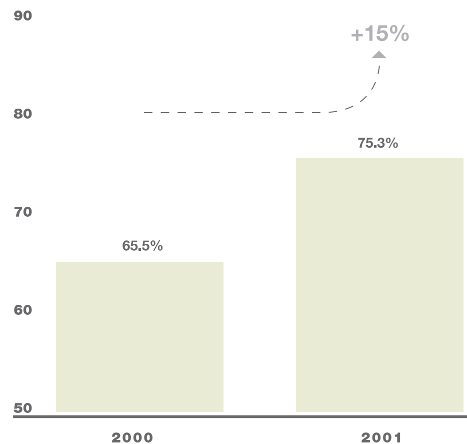
Operational Turnaround

The events of September 11 overshadowed a truly outstanding operational performance in 2001 that saw America West improve virtually every aspect of its reliability and customer service. The airline recorded year-over-year improvements in every statistical category measured by the U.S. Department of Transportation. Flight cancellations were cut by half. On-time performance improved dramatically – and we not only ended 2001 as the on-time leader among all major airlines for the peak travel month of December, but we also kicked off 2002 with top rankings in January and February.

"Our employees pulled together to achieve a remarkable operational turnaround during 2001 and, against great odds, maintained this tremendous progress in the aftermath of Sept. 11 and into 2002."

Spurred by these widespread improvements, public perception of America West steadily rose throughout the year as seen in an overwhelmingly favorable consumer response. Customer complaints recorded by the D.O.T. declined by more than 50 percent in 2001. The airline achieved record passenger load factors for the year, and we continued

ON-TIME PERFORMANCE *2001*



to rank among the industry leaders in this category in early 2002.

I'm convinced that the fact that America West's operations continued to run smoothly in the aftermath of Sept. 11 was a major factor in our receiving the federal loan guarantees, and our employees deserve enormous credit for their loyalty, professionalism and dedication during this critical period.

2002: A Year of Rebuilding

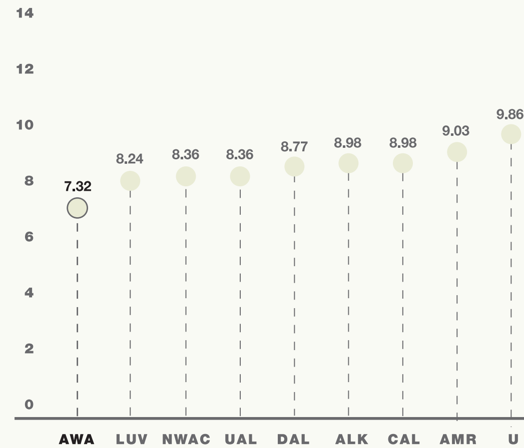
Although the long-term outlook for the U.S. airline industry is generally optimistic, a full recovery will take time. Challenges in the year ahead include a still sluggish U.S. economy, the impact on customer service of additional security measures and pressure on costs from factors such as heightened security, insurance and fuel prices.

We at America West view 2002 as an important rebuilding year – rebuilding our business traffic, restoring our flight schedule, renewing our commitment to customer service while providing enhanced security, and, most importantly, beginning the financial restoration of our Company.

To meet these needs, we have established five key imperatives for 2002:

Continue to run a safe, reliable airline. Upholding America West's industry-leading safety record is our number one priority. The gains achieved in our operations over the past two years have raised America West to the ranks of the industry leaders and significantly improved consumer perception of our airline. As passenger traffic continues to return, maintaining high levels of safety and operational reliability will serve us well in earning the trust and loyalty of the traveling public.

REVENUE PER AVAILABLE SEAT MILE *2001*
Major Airlines



Source: companies' 10Q filings and earnings releases

"Although the long-term outlook for the U.S. airline industry is generally optimistic, a full recovery will take time."

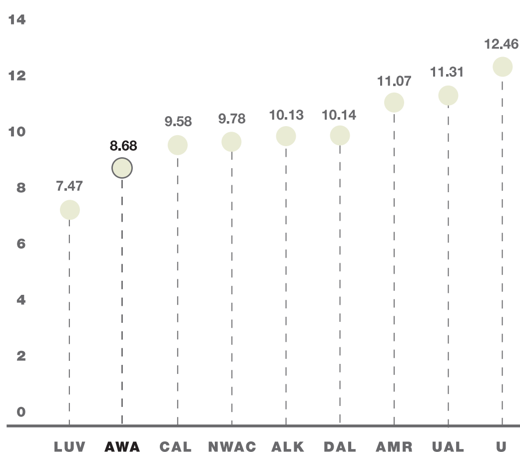
Continue to improve customer service. Having made great strides in improving the airline's reliability, our company-wide focus on customer service will be intensified as we endeavor to strengthen our customer base and attract new customers through initiatives such as enhanced automation, streamlined security and expanded customer service training for our front-line employees.

Also important to our customers is restoring flying. Shortly after Sept. 11, America West, like most major airlines, reduced flying by approximately 20 percent in response to a decrease in demand for air

travel. By the end of the first quarter of 2002, our airline will have reinstated about half of the flights it suspended in the aftermath of Sept. 11, and our goal is to have the schedule back to full strength by the end of the year.

"For much of the airline industry, re-establishing economic stability will be the theme for 2002. The emphasis for America West will be on remaining diligent on costs while enhancing unit revenues."

Grow our unit revenue at a rate faster than the industry. Getting business travelers back onboard will be a priority for America West as we work to improve unit revenue. In March 2002, the airline introduced a revolutionary flexible pricing structure that features significantly lower unrestricted fares. This simplified fare structure is primarily designed to attract business traffic by reducing business fares and eliminating traditional Saturday night stay requirements.



Source: companies' 10Q filings and earnings releases. Excludes special charges.

Begin the financial restoration of the Company. For much of the airline industry, re-establishing economic stability will be the theme for 2002. The emphasis for America West will be on remaining diligent on costs while enhancing unit revenues. We'll be working to strengthen the Company's balance sheet and improve its credit rating with a goal of returning to sustainable profitability in 2003 and increasing long-term shareholder value.

Continue to foster teamwork. Our employees pulled together to achieve a remarkable operational turnaround during 2001 and, against great odds, maintained this tremendous progress in the aftermath of Sept.11 and into 2002. Our goal is to continue to improve morale through open communications and preserve the spirit of teamwork that has led to this success.

Positioned for Future Growth

With restored financial stability, revitalized operations, the competitive advantage of having the lowest cost structure of all major hub-and-spoke airlines and hubs in the fast-growing markets of Phoenix and Las Vegas, America West is well positioned for growth once conditions improve.

As normal levels of service are re-established, we expect to return to prudent, market-driven growth with a primary focus on our Phoenix hub, which remains undersized relative to its potential. Strategic

growth will be achieved through the continued development of our mainline system, the expansion of America West Express regional jet service and alliances with other airlines.

While we are excited about our long-term growth prospects, we are in the near-term more strongly focused on our financial restoration. Growth will be prudently managed and strategically considered. The Company's expected growth in 2002 is a modest one to two percent.

"America West enters 2002 under the guidance of a new leadership team that is excited about the airline's recent progress and its prospects for the future."

Executive Transition

On August 31, Bill Franke retired as chairman and chief executive of America West. We owe Bill an enormous debt of gratitude for his leadership over the past nine years. During his tenure, America West developed effective new business strategies, redefined its competitive position as an industry low-cost leader and grew profitably. His contributions will benefit the Company for years to come. Thanks, Bill, from all of us.

As part of this executive transition, the Company also restructured its senior management team by assigning additional responsibility to several of the key executives who have helped direct the strategic growth and operational turnaround of America West. As part of this restructuring, Bernard L. Han was elected executive vice president and chief financial officer; Stephen L. Johnson was elected executive vice president, corporate; J. Scott Kirby was named executive vice president of sales and marketing; and Jeffrey D. McClelland was promoted to executive vice president of operations. This is an extremely talented group of executives, and America West is well served by their collective energy, intellect and commitment.

America West enters 2002 under the guidance of a new leadership team that is excited about the airline's recent progress and its prospects for the future. We recognize the challenges that lie ahead but take great confidence in the accomplishments of our 13,000 employees in the face of adversity in 2001. America West is an incredible airline with exceptional people.

Thanks to you, our shareholders, for your continued support.

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

AMERICA WEST

America West's commitment to take care of its customers is the foundation of an outstanding operational performance that's winning widespread praise while positioning the airline for long-term success. In 2001, America West's 13,000 dedicated employees engineered a dramatic turnaround that saw the carrier improve every facet of its operations while

maintaining its industry-leading safety record. An extensive self-improvement program has encompassed a wide range of enhancements, ranging from major initiatives such as hiring more frontline customer service employees and aircraft maintenance technicians to less visible details such as creating proactive procedures for re-accommodating passengers who miss their connections.

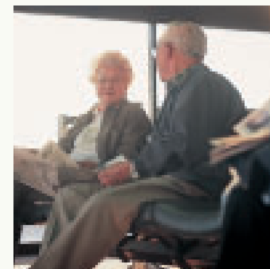
As a result of these exhaustive efforts, significant progress has been made in America West's overall customer service and reliability. For the full year 2001, America West's on-time performance improved to 74.8 percent from 65.5 percent in 2000. Not only did the airline end 2001 on a high note as the on-time leader among all major carriers for the peak travel

> **"We are building a winning airline by taking care of our customers."**
>
> *- The America West Purpose*

month of December, it carried this momentum into the new year by topping the on-time rankings again in January and February of 2002. In addition, flight cancellations dropped to 2.1 percent in 2001 compared to 4.3 percent the previous year. Baggage handling improved by 36 percent year-over-year. And travelers have taken notice of these improvements, as customer complaints decreased by more than 50 percent for the year while customer compliments continue to grow.

As the only major hub-and-spoke carrier to combine low costs with full service, America West brings value to the marketplace. The airline's low cost structure allows it to offer competitive fares that distinguish it from larger carriers with higher costs. And setting America West apart from other low-fare airlines is its full range of services, including advance seat assignments and First Class cabins.

America West customers enjoy a wide range of choices presented by a route system that comprises



nearly 90 popular destinations across North America. The airline's hub-and-spoke route system allows it to provide more nonstop flights than carriers operating point-to-point networks. Hubs in Phoenix, Las Vegas and Columbus, Ohio, feature modern, uncongested airports and support a balanced coast-to-coast route network.

Customers gain even greater access to a broader selection of destinations through America West's strategic alliances with other domestic and international carriers. These alliances expand America West's route system while attracting passenger traffic to its flights. A prime example is America West Express, created through alliances with two regional airlines, which connects the airline's hubs with key destinations throughout the western and eastern United States.

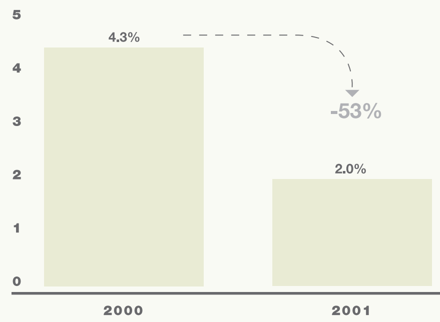
To improve the travel experience, America West offers a wide range of customer-friendly services and amenities. Customers can take advantage of conveniences such as electronic ticketing and real-time flight/gate information that's available online or via mobile communications devices. Online travel can be booked quickly and conveniently at www.americawest.com. FlightFund makes it easy for frequent flyers to earn free award travel to worldwide

destinations. The America West Club airport luxury lounges provide a quiet oasis where members can get some work done or just relax between flights. To help customers avoid long lines at the airport, the airline has introduced innovations such as "Qik Check-In" self-service kiosks and a mobile technology for checking in passengers that was undergoing a test phase in early 2002.

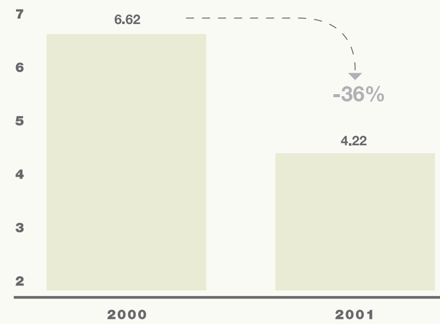
Convenience and value are the hallmark of the America West subsidiary called The Leisure Company. One of the leading tour-packaging companies in the nation, The Leisure Company specializes in comprehensive vacation packages to an impressive selection of popular vacation destinations. Its best-known brand is America West Vacations.

America West never stops seeking new and better ways to provide its customers with safe, convenient, reliable and affordable transportation. By taking care of its customers, America West is working to build a winning airline, a formidable competitor and a successful company.

CANCELLED FLIGHTS

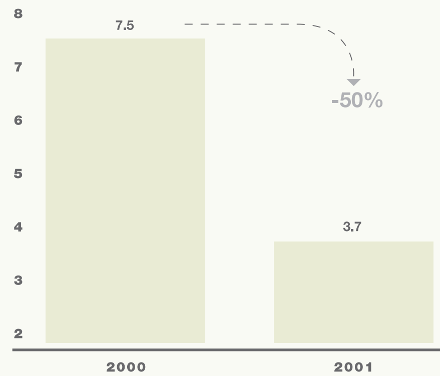


MISHANDLED BAGGAGE



Per 1,000 enplaned passengers

CUSTOMER COMPLAINTS



Per 100,000 enplaned passengers

BOARD OF DIRECTORS

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

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

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

Marie L. Knowles
Executive Vice President and Chief Financial Officer of Atlantic Richfield Company (retired).
Audit Committee (chair), Executive Committee and Finance Committee.

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

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

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

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

Jeffrey A. Shaw
Senior Partner, Texas Pacific Group, a private equity investment fund.
Finance Committee.

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

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

AMERICA WEST HOLDINGS CORPORATION OFFICERS

W. Douglas Parker
Chairman, President and Chief Executive Officer

Bernard L. Han
Executive Vice President and Chief Financial Officer

Stephen L. Johnson
Executive Vice President, Corporate

C.A. Howlett
Senior Vice President, Public Affairs

Patricia A. Penwell
Corporate Secretary

AMERICA WEST AIRLINES OFFICERS

W. Douglas Parker
Chairman, President and Chief Executive Officer

Bernard L. Han
Executive Vice President and Chief Financial Officer

Stephen L. Johnson
Executive Vice President, Corporate

J. Scott Kirby
Executive Vice President, Sales and Marketing

Jeffrey D. McClelland
Executive Vice President, Operations

Lonnie D. Bane
Sr. Vice President, Human Resources

Hal M. Heule
Sr. Vice President, Technical Operations

C.A. Howlett
Sr. Vice President, Public Affairs

Derek J. Kerr
Sr. Vice President, Financial Planning and Analysis

Anthony V. Mulé
Sr. Vice President, Customer Service

Joseph C. Beery
Vice President and Chief Information Officer

Michael R. Carreon
Vice President and Controller

Joseph A. Chronic
Vice President, Flight Operations

Ron L. Cole
Vice President, Sales

Gregory M. Garger
Vice President, Labor Relations

Larry K. LeSueur
Vice President, Phoenix Hub

Linda M. Mitchell
Vice President and General Counsel

Andrew P. Nocella
Vice President, Route Planning and Scheduling

Richard O. Oehme
Vice President, Base Maintenance

Lloyd J. Parker, Jr.
Vice President, Distribution

John L. Ryan
Vice President, Line Maintenance

James W. Sabourin
Vice President, Corporate Communications

Patrick T. Sakole
Vice President, Safety

Joette B. Schmidt
Vice President, Customers and Inflight Services

Thomas T. Weir
Vice President and Treasurer

Mark C. West
Vice President, Corporate Purchasing

John R. Wilson
Vice President, Operations Analysis

Patricia A. Penwell
Corporate Secretary

THE LEISURE COMPANY OFFICERS

W. Douglas Parker
Chairman

Jack E. Richards
President and Chief Executive Officer

Patricia A. Penwell
Corporate Secretary

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NOTE CONCERNING FORWARD-LOOKING INFORMATION

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

- the aftermath of the September 11 terrorist attacks;
- the resulting negative impacts on revenues due to airport closures and reduced demand for air travel;
- increased costs due to enhanced security measures and related government directives;
- the ability of the Company to obtain sufficient additional financing if necessary to survive the adverse economic effects following the September 11 attacks;
- limitations on financing flexibility due to high levels of debt, financial and other covenants in debt instruments and cross default provisions and the potential dilutive impact of the warrants and convertible notes issued in connection with the term loan and related transactions;
- the cyclical nature of the airline industry;
- competitive practices in the industry;
- the impact of changes in fuel prices;
- relations with unionized employees generally and the impact of the process of negotiation of labor contracts on our operations; and
- the outcome of negotiations of collective bargaining.

For additional discussion of such risks, see "*Business - Risk Factors Related to America West and Industry Related Risks*" included in Item 1 of the Company's Annual Report on Form 10-K for the year ended December 31, 2001, filed with the Securities and Exchange Commission. Any forward-looking statements speak only as of the date of this report.

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

2001 in Review

Overview

The airline industry is cyclical in nature and highly sensitive to general economic conditions. In 2001, before September 11, softening economic conditions had a severe adverse effect on airline industry revenues, principally due to a decline in higher yielding business traffic. In addition, historically high fuel costs led to increased costs and reduced operating margins. Accordingly, before September 11, 2001, AWA focused on maintaining its low cost structure and on continuing to improve its unit revenues with the expectation that economic conditions would improve by 2002.

The September 11, 2001 terrorist attacks on the World Trade Center and the Pentagon dramatically worsened the economic conditions for AWA and the airline industry in general. After the attacks, the FAA suspended all commercial airline flights for two days leading to substantial losses for AWA and the other airlines. AWA cancelled more than 2,000 flights from September 11 until the airline resumed normal operations on September 16, 2001. During this five-day period, the Company continued to incur substantially all of its normal operating expenses and therefore recognized operating losses of approximately $20 million. As a result of these acts of terrorism, demand for air travel, as shown by advance bookings and load factors, declined significantly. Ticket prices and, in turn, yields (revenue per passenger mile) fell dramatically as airlines attempted to stimulate incremental passenger travel. The airline industry also incurred, and continues to face, an increase in costs resulting from enhanced security measures and aviation-related insurance. In addition, the general increase in hostilities relating to reprisals against terrorist organizations and the threat of further terrorist attacks negatively impacted airline revenues and costs for the near-term. Thus, for the period September 16 through December 31, 2001, despite resuming normal operations, AWA incurred further significant operating losses.

Despite a recent increase in air travel, we believe near-term revenues will continue to be negatively impacted by the soft economic conditions and decline in business traffic. In addition, we expect the Airline's revenues and costs to be negatively impacted by the threat of future terrorist attacks in the near- and long-term.

AWA's Response to the September 11, 2001 Terrorist Attacks

The September 11, 2001 terrorist attacks and the resulting losses had a substantial and immediate adverse effect on the Company's liquidity. In the absence of additional financing and cost reductions, the Company believed its liquidity position was not adequate to weather the post-September 11 downturn in the short-term. Accordingly, we took immediate steps to obtain additional financing, reduce costs and restore customer confidence.

ADDITIONAL FINANCING

Additional financing included:

- $98.2 million in federal assistance received to date under the Air Transportation Safety and System Stabilization Act (the "Act"), $60.3 million of which was received in September 2001 and $37.9 million of which was received in November 2001.

See Note 3, "*Air Transportation Safety and System Stabilization Act*" in Notes to Consolidated Financial Statements; and
- $10.0 million from the completion in September 2001 of the sale and leaseback of two spare aircraft engines and $58.7 million from the completion in October 2001 of the sale and leaseback of eight Airbus aircraft and three flight simulators. See Note 7, "*Commitments and Contingencies - (d) Sale-Leaseback Transactions*" in Notes to Consolidated Financial Statements.

COST REDUCTIONS

Cost reductions included:
- a reduction in AWA's flight schedule by approximately 20% based on available seat miles effective September 18, 2001;
- the discontinuation of meal service on all flights; and
- the elimination of approximately 2,000 employee positions.

In addition, AWA implemented a plan to conserve cash by deferring non-essential capital expenditures and slowing or suspending payments to vendors and business partners. Many of our obligations to purchase aircraft and payments to vendors and business partners were restructured as part of the government guaranteed loan discussed below.

WIN BACK CUSTOMERS CAMPAIGN

AWA launched a vigorous campaign to win back customers and get America flying again. Key components of the campaign included:
- New security measures, including additional law enforcement officers and enhanced security screening procedures, have been implemented at AWA's airport locations. AWA has also completed the reinforcement of cockpit doors on all its aircraft.
- A communication plan, including direct marketing and media efforts, was implemented to reinforce the convenience of air travel. These efforts included letters to community organizations, business leaders, tourism offices and government agencies. In Phoenix, Arizona, AWA's principal hub location, local media also donated print, television, radio, outdoor and online advertising to promote the "hometown airline."
- Marketing initiatives, including internet fare sales, travel agent promotions and enhanced frequent flyer program benefits, have been launched.

In part, as a result of these initiatives, AWA's passenger load factors and booking levels continue to improve; however, revenues remain well below historical levels.

APPLICATION FOR GOVERNMENT GUARANTEED LOAN

Despite AWA's recognition of $108.2 million in federal assistance, the completion of $70 million in sale-leaseback financing, and careful management of its business and costs, it was necessary for AWA to participate in the Federal Guarantee Loan Program established under the Act in order to restore AWA to a manageable liquidity position and allow it to weather the post-September 11 economic downturn. See Note 3, "*Air Transportation Safety and System Stabilization Act*" in Notes to Consolidated Financial Statements. In November 2001, AWA submitted its application for a federal loan guarantee. To qualify for assistance under the Federal Guarantee Loan Program, AWA was required to demonstrate that it will be able to continue operations and be able to repay the loans in accordance with their terms. In addition, the regulations under the Act strongly suggested that an applicant obtain assistance from its key constituents in order to restructure its costs. Accordingly, AWA initiated a comprehensive effort to obtain concessions from its key constituents that

would allow it to right size its business, reduce its costs to be consistent with reduced revenue generating capability, create financial flexibility, and restore its long-term sustainability and profitability. AWA received final approval from the Air Transportation Stabilization Board ("ATSB") for a government loan guarantee in January 2002.

Government Guaranteed Loan

In January 2002, AWA closed a $429 million loan supported by a $380 million government loan guarantee. See Note 20, "*Subsequent Events - Government Guaranteed Loan*" in Notes to Consolidated Financial Statements. Management estimates this loan triggered over $600 million of concessions and additional financing (primarily aircraft rent reductions and future financing commitments), resulting in a restructuring of AWA's indebtedness and lease commitments valued at approximately $1 billion. The major components of the restructuring are:

- *Government Guaranteed Loan* – The catalyst for AWA's restructuring plan was a $429 million loan backed by a $380 million federal loan guarantee. The loan has a seven-year term with ratable amortization in years three through seven, an interest rate of three month LIBOR plus 40 basis points paid quarterly and guarantee fees payable to the U.S. Treasury Department and other loan participants of 550 basis points in year one and approximately 800 basis points thereafter.
- *Aircraft Deferrals/Financing* – AWA restructured its aircraft purchase commitment with AVSA S.A.R.L., an affiliate of Airbus Industries ("AVSA"), to defer 17 new Airbus aircraft previously scheduled for delivery in 2003 and 2004 by a total of 505 aircraft-months to 2004 through 2007. New financing commitments totaling approximately $200 million were obtained for 11 aircraft which were either already delivered in 2001 or scheduled to be delivered in 2002 and 2003. Financing for three of the aircraft is subject to achieving a minimum liquidity threshold and financing for two of the aircraft is subject to attaining established financial performance goals. As a result, AWA is now financed for all scheduled aircraft deliveries through the fourth quarter of 2003.
- *Aircraft Returns/Rent Reductions* – Through negotiations with approximately twenty aircraft lessors, AWA has retired or plans to retire 11 aircraft by early 2002 to better size its fleet to the current industry demand environment. For the aircraft that remain, management projects annual rent payments will be reduced by approximately $50 million per year for each of the next seven years.
- *Term-out of Line of Credit* – At December 31, 2001, AWA had in place a $125 million senior secured revolving credit facility with a group of financial institutions that had a three-year term expiring in December 2002. As of December 31, 2001, AWA had drawn $89.9 million under this facility. In January 2002, upon closing of the $429 million government guaranteed loan, AWA's secured credit facility was converted into an $89.9 million secured term loan maturing at year-end 2007. The loan has a six-year term with ratable amortization in years four through six and an interest rate of one month LIBOR plus 225 basis points from the closing date through December 31, 2004 and one month LIBOR plus 475 basis points from January 1, 2005 and thereafter. In addition, AWA will pay interest in kind on the aggregate outstanding principal amount of the loan at a rate of two percent per annum from the closing date through December 31, 2004.
- *State/City Financing* – From the State of Arizona and the City of Phoenix, AWA received $1.25 million in job training grants and $1.5 million in other financing and expects to receive $8.5 million through the sale and leaseback of jetways at Phoenix Sky Harbor International Airport.

- *TPG Undertaking* – At the request of the ATSB, TPG partners, L.P., and its affiliates, owners of all 941,431 shares of America West Holdings Class A common stock, have undertaken not to dispose of their Class A stock other than in connection with an offer to acquire all the shares of the Company's Class B common stock accepted or approved by the holders of a majority of the Class B stock. This undertaking is subject to certain exceptions, including transfers to TPG affiliates, repurchase of the Class A stock by Holdings and exercise of TPG's rights to convert the Class A stock into Class B stock, and will terminate when the warrants issued in connection with the term loan transactions discussed below expire or are exercised and the underlying shares of Class B stock are sold, or TPG and its affiliates no longer hold the Class A stock.
- *Warrants/Convertible Senior Notes* – As compensation for various elements of the restructuring plan, Holdings issued a warrant to purchase up to 18.8 million shares of its Class B common stock to the federal government and additional warrants to purchase up to 3.8 million shares of its Class B common stock to other loan participants, in each case at an exercise price of $3 per share and a term of ten years. Holdings also issued approximately $104.5 million in convertible senior notes as partial compensation to aircraft lessors. The notes have a seven-year term, a coupon rate of 7.5% with interest paid in kind for years one through three. The notes are convertible after three years into Class B common stock at $12 per share.

Airline Operations Update

Despite the September 11, 2001 terrorist attacks, a key element of AWA's strategy to improve unit revenues remains the customer service initiatives launched in July 2000, which were designed to improve operational reliability and restore customer confidence by reducing the number of flight cancellations and improving on-time performance. In 2001, AWA continued to make significant improvements in a number of key service areas as reported to the DOT:

- On-time performance improved to 85.2% in the fourth quarter of 2001 compared with 64.1% in the same period of 2000. In December 2001 and January 2002, the Company ranked first in the industry in on-time performance, its best performance in over six years in this important customer service measure.
- Completion factor improved to 99.3% in the fourth quarter of 2001 compared with 95.4% in the fourth quarter of 2000. Total cancellations were down more than 87%.
- AWA posted a 39% improvement in mishandled baggage in the fourth quarter of 2001 when compared to the fourth quarter of 2000.
- Customer complaints were down 55.6% in the fourth quarter of 2001 compared to the fourth quarter of 2000.

The improvement in operational reliability, combined with pricing incentives, resulted in AWA load factors in the second half of 2001 that were among the highest in the industry. As booking levels have steadily improved, AWA has begun gradually reinstating service and plans to have its flight schedule back to pre-September 11 levels by the end of 2002. The airline has also added back first class meal service on certain of its longest haul flights and approximately 1,600 employees have returned to work, or are scheduled to return by June 2002, primarily in the customer service and reservations areas.

Financial Results

Despite the challenges in 2001, AWA continues to

maintain its position as having the lowest operating cost per available seat mile ("CASM") of all the other major domestic hub-and-spoke airlines and remains competitive with the major point-to-point airline, Southwest Airlines. In 2001, the Company's CASM, excluding special charges, was 8.68 cents, approximately 19% less than the average CASM of the other major domestic hub-and-spoke airlines. We expect that our day-to-day discipline in managing our cost structure, together with the additional cost reduction initiatives implemented in 2001, will allow us to maintain or increase the gap between our unit cost and the average unit costs of the other large hub-and-spoke carriers.

In addition, the Company's EBITDAR (operating income before depreciation, amortization and rent) margin for 2001 was 12.8%, which ranks fourth among all major domestic airlines. The Company believes that EBITDAR margin, which is a non-GAAP measurement, is the best measure of relative airline financial performance. EBITDAR measures operating income or loss before depreciation and aircraft rentals. By excluding both rentals and depreciation, differences in the method of financing aircraft acquisitions are eliminated. Cash earnings are impacted by differences in financing aircraft as depreciation attributable to owned aircraft (including those acquired through finance leases) is added back to cash earnings while operating lease rentals are deducted. Operating income or loss is also less valuable as a basis of comparison because both the depreciation and interest element of aircraft acquisitions are included in operating profit for aircraft acquired through operating leases. While excluded from EBITDAR margin, depreciation, amortization and rent are components of operating expense and are significant in understanding and assessing the Company's financial performance. In addition, the Company's use of EBITDAR margin may not be comparable to similarly titled measures presented by other companies.

2002 Outlook

Despite steady improvement in AWA's operations, passenger load factors and unit revenues, the Company expects to incur a loss in the first quarter of 2002. Furthermore, the Company expects to incur a loss for the full year 2002.

Results of Operations

SUMMARY OF HOLDINGS' FINANCIAL RESULTS

Holdings recorded a consolidated net loss of $147.9 million in 2001, a diluted loss per share of $4.39. This compares to $7.7 million of consolidated net income, or $0.22 per diluted share, in 2000. The decline in earnings was due primarily to depressed passenger traffic and revenues following the terrorist attacks on September 11, 2001 and a reduction in business travel driven by a slowing economy. The 2001 results include a nonoperating, pretax gain of $108.2 million ($67.3 million after tax) related to the federal government assistance, an $11.0 million pretax gain ($6.8 million after tax) resulting from the settlement in March 2001 of a lawsuit related to an air-to-ground telecommunication system that was previously written off and an $8.8 million pretax gain ($5.5 million after tax) from an insurance settlement in the fourth quarter of 2001. See Note 3, "*Air Transportation Safety and System Stabilization Act*" and Note 14, "*Nonoperating Income (Expenses) - Other, Net*" in Notes to Consolidated Financial Statements. These gains were offset by $38.4 million of pretax special charges ($23.9 million after tax) resulting from the early termination of aircraft leases in the second and fourth quarters of 2001 and the reduction-in-force in the second quarter of 2001 and a $2.1 million pretax loss ($1.3 million after tax) related to the write-down to realizable value of the Company's investment in Book4golf.com in the third quarter of 2001. See Note 13, "*Special Charges*" and Note 11, "*Accumulated Other Comprehensive Income (Loss)*" in Notes to Consolidated Financial Statements. The 2000 results

included a pretax gain of $15.5 million ($9.6 million after tax) from AWA's sale of 500,000 warrants to purchase common stock of Priceline.com in the first quarter of 2000, a nonoperating, pretax gain of $9.2 million ($5.7 million after tax) from TLC's sale of a majority interest in National Leisure Group and The Vacation Store in May 2000, a nonoperating, pretax gain of $8.6 million ($5.3 million after tax) from AWA's sale of one million shares of GetThere.com common stock in October 2000 and a $2.0 million nonoperating, pretax gain ($1.2 million after tax) from TLC's sale of America West Golf Vacations in July 2000. The 2000 period also included a pretax charge of $16.0 million ($10.0 million after tax) primarily related to the write-down to net realizable value of certain excess expendable aircraft parts. The Company recorded a consolidated income tax benefit for financial reporting purposes of $73.2 million for the 2001 period on a pretax loss of $221.1 million. This compares to $17.1 million of income tax expense in the 2000 period on $24.7 million of pretax income.

In 1999, the Company recognized net income of $119.4 million and income tax expense for financial reporting purposes of $86.8 million. Diluted earnings per share for 1999 were $3.03.

AWA

The following discussion provides an analysis of AWA's results of operations and reasons for material changes therein for the years ended December 31, 2001, 2000 and 1999.

Statements of Operations

FOR THE YEARS ENDED DECEMBER 31, 2001, 2000 AND 1999 (IN THOUSANDS)

	2001	2000	1999
Operating revenues:			
Passenger	$ 1,941,877	$ 2,179,811	$ 2,028,223
Cargo	33,824	37,377	41,936
Other	45,262	73,683	76,796
Total operating revenues	2,020,963	2,290,871	2,146,955
Operating expenses:			
Salaries and related costs	601,986	556,906	498,490
Aircraft rents	355,517	331,005	277,326
Other rents and landing fees	140,372	130,679	122,034
Aircraft fuel	343,224	373,313	220,380
Agency commissions	75,085	86,469	114,742
Aircraft maintenance materials and repairs	257,939	258,432	218,319
Depreciation and amortization	63,178	54,313	48,442
Amortization of reorganization value in excess of amounts allocable to identifiable assets	19,896	19,896	19,896
Special charges	38,352	—	—
Other	445,525	492,596	429,425
Total operating expenses	2,341,074	2,303,609	1,949,054
Operating income (loss)	(320,111)	(12,738)	197,901
Nonoperating income (expenses):			
Interest income	22,654	23,706	19,593
Interest expense, net	(33,789)	(22,939)	(29,352)
Federal government assistance	108,246	—	—
Gain (loss) on disposition of property and equipment	(3,000)	(2,332)	1,095
Other, net	3,063	29,444	11,737
Total nonoperating income, net	97,174	27,879	3,073
Income (loss) before income taxes	$ (222,937)	$ 15,141	$ 200,974

The table below sets forth selected operating data for AWA.

	YEAR ENDED DECEMBER 31,			% CHANGE	% CHANGE
	2001	**2000**	**1999**	**2001-2000**	**2000-1999**
Aircraft (end of period)	146	138	123	5.8	12.2
Average daily aircraft utilization (hours)	9.7	10.9	11.6	(11.0)	(6.0)
Available seat miles (in millions)	26,539	27,112	25,912	(2.1)	4.6
Block hours (in thousands)	508	517	493	(1.7)	4.9
Average stage length (miles)	894	878	862	1.8	1.9
Average passenger journey (miles)	1,325	1,269	1,303	4.4	(2.6)
Revenue passenger miles (in millions)	19,074	19,113	17,711	(0.2)	7.9
Load factor (percent)	71.9	70.5	68.4	1.4 pts	2.1 pts
Passenger enplanements (in thousands)	19,576	19,954	18,704	(1.9)	6.7
Yield per revenue passenger mile (cents)	10.18	11.40	11.45	(10.7)	(0.4)
Revenue per available seat mile:					
Passenger (cents)	7.32	8.04	7.83	(9.0)	2.7
Total (cents)	7.61	8.45	8.29	(9.9)	1.9
Fuel consumption (gallons in millions)	414	424	412	(2.4)	2.9
Average fuel price (cents per gallon)	83.0	88.1	53.4	(5.8)	65.0
Full-time equivalent employees (end of period)	11,316	12,850	11,536	(11.9)	11.4

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

	YEAR ENDED DECEMBER 31,			% CHANGE	% CHANGE
	2001	**2000**	**1999**	**2001-2000**	**2000-1999**
Salaries and related costs	2.27	2.06	1.92	10.4	6.8
Aircraft rents	1.34	1.22	1.07	9.7	14.1
Other rents and landing fees	0.53	0.48	0.47	9.7	2.3
Aircraft fuel	1.29	1.38	0.85	(6.1)	61.9
Agency commissions	0.28	0.32	0.44	(11.3)	(28.0)
Aircraft maintenance materials and repairs	0.97	0.95	0.84	2.0	13.1
Depreciation and amortization	0.24	0.20	0.19	18.8	7.2
Amortization of reorganization values in excess of amounts allocable to identifiable assets	0.08	0.07	0.08	2.1	(4.4)
Special charges	0.14	—	—	100.0	—
Other	1.68	1.82	1.66	(7.6)	9.6
	8.82	8.50	7.52	3.8	13.0

2001 Compared with 2000

AWA recorded an operating loss of $320.1 million in 2001 compared to an operating loss of $12.7 million in 2000. Loss before income taxes for 2001 was $222.9 million compared to $15.1 million of pretax income in 2000.

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

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

- Salaries and related costs per ASM increased 10.4% primarily due to an increase in salaries and related costs per employee, the reduction in ASMs and a higher number of employees in 2001 to support anticipated growth. Average salaries and related costs per full-time equivalent employee increased 6.5% primarily due to higher disability and medical insurance premiums ($13.5 million), a new collective bargaining agreement with the Company's fleet service workers, which was entered into in June 2000 that included higher wage rates, and contractual wage increases required by the Company's agreement with its pilots. Payroll expense for fleet service personnel increased by $10.5 million and pilot salaries increased by $5.8 million in 2001. The average number of full-time equivalent employees increased 1.4% year-over-year while ASMs decreased 2.1%.
- Aircraft rent expense per ASM increased 9.7% due primarily to the net addition of five leased aircraft to the fleet during 2001 as compared to 2000.
- Other rents and landing fees expense per ASM increased 9.7% due primarily to higher airport rentals ($8.0 million) and landing fees ($3.8 million), which were offset in part by lower costs for borrowed parts ($2.6 million).
- Aircraft fuel expense per ASM decreased 6.1% due primarily to a 5.8% decrease in the average price per gallon of fuel to 83.0 cents in 2001 from 88.1 cents in 2000.
- Agency commissions expense per ASM decreased 11.3% due primarily to a 10.9% decrease in passenger revenues. An increase in the percentage of non-commissionable revenue in 2001 primarily as a result of increased usage of the Company's

website and other lower cost distribution channels and a decrease in the travel agent commission cap from $50 to $20, effective August 28, 2001, also contributed to the decrease.

- Aircraft maintenance materials and repairs expense per ASM increased 2.0% due primarily to the deferral of certain aircraft C-check expenses ($3.1 million) in the post-September 11 period and the reduction in ASMs.
- Depreciation and amortization expense per ASM increased 18.8% due primarily to an increase in amortization expense related to aircraft leasehold improvements ($2.8 million) and computer software and hardware additions and facility improvements to support growth ($1.6 million). Higher depreciation expense related to rotable aircraft parts ($2.3 million) and owned aircraft ($1.6 million) also contributed to the increase.
- Amortization of excess reorganization value expense per ASM increased due to the 2.1% decrease in ASMs.
- Other operating expenses per ASM decreased 7.6% to 1.68 cents from 1.82 cents primarily due to lower interrupted trip and baggage claim expenses as a result of AWA's improved operating performance ($19.9 million) and decreased discretionary spending which drove lower advertising ($9.2 million) and catering ($3.8 million) costs. The recovery of $11.0 million from the settlement in March 2001 of a lawsuit related to an air-to-ground telecommunication system that was previously written off, an $8.8 million insurance settlement in the fourth quarter of 2001 and a $9.0 million charge in the fourth quarter of 2000 related to the write-down to net realizable value of certain excess expendable aircraft parts also contributed to the decrease. These decreases were offset in part by higher costs related to traffic liability and other insurance ($9.4 million) and security services ($5.0 million).

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

2000 Compared with 1999

AWA recorded an operating loss of $12.7 million in 2000, a decrease of $210.6 million from 1999's operating income of $197.9 million. Income before income taxes for 2000 was $15.1 million compared to $201.0 million in 1999.

Total operating revenues for 2000 were a record $2.3 billion. Passenger revenues were a record $2.2 billion in 2000, an increase of $151.6 million or 7.5% from 1999. RASM in 2000 increased 2.7% to 8.04 cents from 7.83 cents despite a 1.9% increase in average stage length due to increased flying to long-haul business markets. Yield decreased 0.4% to 11.40 cents in 2000 from 11.45 cents in 1999. ASMs increased 4.6% in 2000 as compared to 1999 while load factor increased by 2.1 points to 70.5%. Cargo revenues for 2000 decreased $4.6 million (10.9%) due to lower freight and mail volumes. Other revenues, which consist primarily of alcoholic beverage sales, contract service sales, service charges and Mesa Airlines net revenues, decreased $3.1 million (4.1%) due primarily to the effect of higher fuel prices, which reduced net revenues from AWA's code sharing agreement with Mesa Airlines.

Operating expenses in 2000 increased $354.6 million, or 18.2% year-over-year while ASMs increased 4.6% in 2000 as compared to 1999. As a result, CASM increased 13.0% to 8.50 cents in 2000 from 7.52 cents in 1999 largely due to higher fuel prices, the airline's operating reliability issues which led to a reduction in ASMs without a corresponding reduction in total expenses and a charge of $16.0 million primarily related to the write-down to net realizable value of certain excess expendable aircraft parts which was recorded in "other operating expenses." Excluding the $16 million charge, CASM for 2000 was 8.44 cents, an increase of 12.2% from 1999. Significant changes in the components of operating expense per ASM are explained as follows:

- Salaries and related costs per ASM increased 6.8% primarily due to a higher number of employees in 2000 to support anticipated growth. The number of full-time equivalent employees increased 11.4% year-over-year. Also, contracts with the Transportation Workers Union ("TWU") (signed June 2000) and the Association of Flight Attendants ("AFA") (signed May 1999), covering the airline's fleet service workers and flight attendants, respectively, included higher wage rates. Payroll expense for fleet service personnel increased by $13.9 million (17.3%) and flight attendant salaries increased $6.6 million (12.4%) in 2000. In addition, the contract with the Air Line Pilots Association ("ALPA") (signed May 1995) required longevity-related salary level increases. Payroll expense for pilots increased by $16.6 million (12.0%) in 2000.
- Aircraft rent expense per ASM increased 14.1% due primarily to the net addition of 15 leased aircraft to the fleet during 2000 as compared to 1999. The effect of a sale-leaseback transaction involving six previously owned aircraft, which was completed in August 1999, increased aircraft rent expense by approximately $8.8 million in 2000.
- Aircraft fuel expense per ASM increased 61.9% due to a 65.0% increase in the average price per gallon of fuel to 88.1 cents in 2000 from 53.4 cents in 1999.
- Agency commissions expense per ASM decreased 28.0% due to an increase in the mix of non-commissionable revenue in 2000 primarily due to increased usage of the Company's website and other lower cost distribution channels and a decrease in the base commission rate from 8% to 5% effective October 18, 1999.
- Aircraft maintenance materials and repairs expense per ASM increased 13.1% primarily due to higher aircraft C-check ($27.2 million), engine overhaul ($2.4 million) and wheel and brake maintenance ($1.1 million) expenses.
- Depreciation and amortization expense per ASM increased 7.2% due primarily to an increase in amortization expense related to computer software and hardware additions and facility improvements to support growth ($4.1 million) and aircraft leasehold improvements ($2.6 million). Rotable aircraft parts ($1.5 million) and engine ($0.8 million) depreciation expenses also increased in 2000. These increases were offset in part by a decrease in airframe depreciation ($3.6 million) resulting from the sale-leaseback transaction involving six previously owned aircraft, which was completed in August 1999.
- Amortization of excess reorganization value expense per ASM decreased due to the 4.6% increase in ASMs.
- Other operating expenses per ASM increased 9.6% to 1.82 cents from 1.66 cents primarily due to the $16.0 million charge discussed above, higher interrupted trip and baggage claim expenses driven by the airline's operational challenges ($12.1 million), higher professional, technical and legal fees ($7.6 million) and increased costs resulting from growth. Growth-related costs include aircraft refueling charges and fuel taxes ($7.6 million),

catering expense ($6.7 million), frequent travel award program expense ($5.3 million), advertising ($5.0 million), furnished accommodations and per diem ($4.3 million), ground handling ($3.8 million), guard services ($2.2 million), aircraft cleaning ($1.6 million) and traffic liability insurance ($1.4 million). These increases were offset in part by a $19.6 million year-over-year decrease in Year 2000 remediation costs and the recovery in September 2000 of $4.1 million from the settlement of a lawsuit related to certain software applications that were previously written off.

Net nonoperating expenses benefited from a $15.5 million gain on sale of 500,000 warrants to purchase common stock of Priceline.com ("Priceline") in March 2000 and an $8.6 million gain on sale of one million shares of GetThere.com common stock in October 2000. The 1999 period included a $2.7 million gain on sale of AWA's investment in 30,000 shares of Priceline common stock in June 1999 and an $11.9 million mark-to-market gain on 294,109 shares of Priceline common stock that were sold in January 2000. Net interest expense decreased $6.4 million in 2000 primarily due to lower average outstanding debt resulting in part from the sale-leaseback of six aircraft in August 1999. Interest income increased $4.1 million due to higher interest rates and cash and cash equivalent balances in 2000.

Liquidity and Capital Resources

Sources and Uses of Cash

At December 31, 2001, Holdings' consolidated and AWA's unrestricted cash and cash equivalents and short-term investments were $156.9 million and $148.5 million, respectively. Net cash provided by operating activities for Holdings and AWA was $152.4 million and $147.9 million, respectively, in 2001. The year-over-year decrease was due primarily to the loss in the 2001 period. That loss included $98.2 million of federal assistance provided to AWA under the Act. AWA received $60.3 million of assistance in September 2001 and $37.9 million in November 2001, and expects to receive additional assistance in the first quarter of 2002. Net cash provided by operating activities benefited by $58.1 million in 2001 as AWA deferred payment of certain transportation taxes to the IRS until January 15, 2002 as allowed by the Act. See Note 3, "*Air Transportation Safety and System Stabilization Act*" and Note 14, "*Nonoperating Income (Expense) - Other, Net*" in Notes to Consolidated Financial Statements. In addition, AWA slowed or suspended payments to certain of its vendors and business partners as a result of the cash conservation program implemented in response to the September 11 terrorist attacks. See "*2001 in Review - AWA's Response to the September 11, 2001 Terrorist Attacks - Cost Reductions*." As of December 31, 2001, AWA's cash balance increased by $21.8 million as a result of this program.

In 2001, net cash used in investing activities by Holdings and AWA was $206.0 million and $204.3 million, respectively. Principal investing activities during 2001 were the sale of short-term investments totaling $50.7 million and the purchase of 11 new Airbus A319 aircraft and two new Airbus A320 aircraft in 2001. See Note 7, "*Commitments and Contingencies - (c) Aircraft Acquisitions*" in Notes to Consolidated Financial Statements. Ten of these aircraft were subsequently refinanced as a result of sale-leaseback transactions, which resulted in $332.8 million in proceeds to AWA. The 2001 period also included $10.0 million of proceeds from the sale and leaseback of two owned aircraft engines in September 2001 and $17.4 million from the sale and leaseback of three flight simulators in October 2001. See Note 7, "*Commitments and Contingencies - (d) Sale-Leaseback Transactions*" in Notes to Consolidated Financial Statements.

In 2001, net cash provided by financing activities to Holdings and AWA was $66.3 million and $65.7 million, respectively. During 2001, AWA borrowed $378.4 million from its 2001-1 and 2000-1 Pass-Through Trusts to fund the acquisition of the 13 new aircraft above and borrowed $45.0 million under the Company's revolving credit facility. As a result of the sale-leaseback of the ten aircraft discussed above, AWA repaid, or assigned to a third party on a non-recourse basis, $281.4 million of the amounts borrowed. In addition, during 2001, AWA repaid $66.5 million of indebtedness under its revolving credit facility.

Operating with a working capital deficiency is common in the airline industry as tickets sold for transportation which has not yet been provided are classified as a current liability while the related income-producing assets, the aircraft, are classified as non-current. At December 31, 2001, Holdings' working capital deficiency was $329.1 million and AWA's working capital deficiency was $89.1 million.

Capital expenditures for 2001 were approximately $633.2 million for Holdings and $632.7 million for AWA. Included in these amounts are capital expenditures for capitalized maintenance of approximately $116.1 million. In addition, capital expenditures in 2001 included $397.9 million to purchase 11 new Airbus A319 and two new Airbus A320 aircraft. Two of these aircraft were subsequently refinanced as the result of a sale-leaseback transaction in March 2001 and eight of the aircraft were refinanced as part of a sale-leaseback transaction in October 2001. The three remaining aircraft are expected to be refinanced in the first quarter of 2002. Excluding these aircraft, 2001 capital expenditures were approximately $235.4 million. Capital expenditures for 2002 are expected to decrease to approximately $232.2 million due primarily to decreased expenditures for rotable aircraft parts. The Company currently intends to fund such expenditures with cash from operations. See "*Commitments*."

Government Guaranteed Loan

In January 2002, AWA closed a $429 million loan supported by a $380 million government loan guarantee. See "*2001 in Review - Government Guaranteed Loan*" and Note 20, "*Subsequent Events - Government Guaranteed Loan*" in Notes to Consolidated Financial Statements. This loan triggered concessions and additional financing (primarily aircraft rent reductions and future financing commitments), resulting in a restructuring of AWA's indebtedness and lease commitments.

Versus year-end 2001, the completion of the government loan and related restructuring increased the Company's liquidity by approximately $400 million ($429 million loan, less 550 basis point guarantee fee to the U.S. Treasury Department and other loan participants, and less other transaction fees).

Aside from the government-backed loan proceeds and the corresponding amortization, the restructuring is expected to improve future cash flows. Cash interest expense associated with the government-backed loan and the convertible bonds is expected to be offset by the reductions in aircraft rent obtained in connection with the closing of the government guaranteed loan and an increase in interest income.

While closing of the government guaranteed loan has substantially improved the Company's liquidity position, AWA has not generated annualized positive cash flows after September 11, 2001. The recent improved traffic and capacity has significantly decreased the average annualized daily negative cash flow from operations. However, cash flow from operations as of March 27, 2002 remains negative at less than $1 million per day.

Pass Through Trusts

In May 2001, America West Airlines 2001-1 Pass Through Trusts issued $427.2 million of Pass Through Trust Certificates in connection with the

financing of nine Airbus A319 aircraft and five Airbus A320 aircraft. The combined effective interest rate on this financing is 7.66% on a fixed rate equivalent basis at the time of closing. The Pass Through Trust Certificates were issued by separate trusts that hold equipment notes issued upon delivery of each financed aircraft. Proceeds from the certificates are deposited in an escrow account pending their application to purchase the equipment notes. The equipment notes are secured by a security interest in the aircraft and are issued, at AWA's election, either by AWA in connection with a mortgage financing of the relevant aircraft or by a separate owner trust in connection with a leveraged lease financing of the relevant aircraft. The Pass Through Trust Certificates are not direct obligations of, nor guaranteed by, Holdings or AWA. However, AWA has certain indemnity obligations in respect of the trusts and interest on the escrowed proceeds pending their application to finance aircraft.

The acquisition of each aircraft subject to this financing and delivered in 2001 has been structured as a mortgage financing. Two of the aircraft were delivered in the second quarter of 2001 and six were delivered in the third quarter of 2001. In connection with the delivery of these aircraft, AWA issued equipment notes in an aggregate amount of $58 million during the second quarter of 2001 and $174 million in the third quarter of 2001. In October 2001, AWA converted the mortgage financing of these eight aircraft into a leveraged lease financing by entering into a sale-leaseback transaction. See Note 7, "*Commitments and Contingencies - (d) Sale-Leaseback Transactions*" in Notes to Consolidated Financial Statements. As a result, approximately $227.5 million of the equipment notes were assumed, on a non-recourse basis, by the owner trustees that purchased the aircraft from AWA. Three aircraft were delivered in the fourth quarter of 2001 and AWA issued $97 million of equipment notes in connection with the delivery of these aircraft. The acquisition of the one aircraft delivered in the first quarter of 2002 was structured as a leveraged lease financing. The owner trust issued equipment notes in an aggregate amount of $34 million in connection with the delivery of this aircraft. The remaining two aircraft are expected to be delivered in the second quarter of 2002.

In addition to the 2001-1 Pass Through Trusts, since AWA's restructuring in 1994, AWA has set up ten other Pass Through Trusts, which issued an aggregate of approximately $1.0 billion of pass through trust certificates. Two aircraft were financed by these pass-through trusts in the first quarter of 2001. The financing of these aircraft was structured as a mortgage financing. In March 2001, AWA converted the mortgage financing of these two aircraft into a leveraged lease financing by entering into a sale-leaseback transaction. See Note 7, "*Commitments and Contingencies - (d) Sale-Leaseback Transactions*" in Notes to Consolidated Financial Statements. As a result, approximately $49.4 million of the equipment notes were assumed, on a non-recourse basis, by the owner trustees that purchased the aircraft from AWA. All other aircraft financed by these trusts were structured as leveraged lease financings.

Commitments

As of December 31, 2001, the Company had $342.1 million of long-term debt (including current maturities) which consisted primarily of principal amortization of notes payable secured by certain of AWA's aircraft and $89.9 million of borrowing under the revolving credit facility. In January 2002, AWA closed a $429 million government guaranteed loan and converted its $89.9 million secured line of credit to a term loan. Holdings also issued approximately $104.5 million in convertible senior notes, guaranteed by AWA, as partial compensation to

aircraft lessors for certain rent reductions and other concessions. After giving effect to these transactions, the Company has approximately $840.7 million of long-term debt (including current maturities).

The following table sets forth the Company's cash obligations as of December 31, 2001, as adjusted to include the January 2002 government guaranteed loan transactions, for each year through 2006.

(IN THOUSANDS)

	2002	2003	2004	2005	2006	beyond 2006	total
Long-term debt:							
Equipment notes - 2001-1 EETC [1]	$ 9,112	$ 7,259	$ 5,036	$ 9,440	$ 7,170	$ 58,983	$ 97,000
Equipment notes - Non EETC [2]	9,674	9,674	8,989	8,304	8,304	22,856	67,801
Revolving Credit Facility [3]	—	—	—	30,000	30,000	29,855	89,855
7.5% Convertible Senior Notes due 2009 [4]	—	—	—	—	—	104,465	104,465
Government guaranteed loan [5]	—	—	85,800	85,800	85,800	171,600	429,000
State loan [6]	—	—	750	250	250	250	1,500
10 3/4% Senior Unsecured Notes due 2005	—	—	—	49,998	—	—	49,998
Industrial development bonds [7]	—	—	—	—	—	29,300	29,300
AVSA promissory notes [8]	10,500	—	—	—	—	—	10,500
	29,286	16,933	100,575	183,792	131,524	417,309	879,419
Cash aircraft rental payments [9]	304,940	306,616	287,335	275,972	249,795	1,894,951	3,319,609
Lease payments on equipment and facility operating leases [10]	18,890	15,621	14,446	13,929	12,068	65,432	140,386
Special facility revenue bonds [11]	1,644	1,644	1,644	1,644	1,644	20,546	28,766
Aircraft purchase commitments [12]	157,466	166,219	74,319	—	223,292	263,893	885,189
Total	$ 512,226	$ 507,033	$ 478,319	$ 475,337	$ 618,323	$ 2,662,131	$ 5,253,369

(1) Includes approximately $85.4 million of equipment notes issued to the 2001-1 pass through trusts with fixed interest rates of 7.10% to 8.37%, averaging 7.29%, with installments due 2002 through 2021 and $11.6 million of equipment notes with a variable interest rate of 5.72% with installments due 2002 through 2005.

(2) Includes approximately $67.8 million of equipment notes with variable interest rates of 3.56% to 4.88%, averaging 4.62%, installments due 2002 through 2008.

(3) In connection with the closing of the government guaranteed loan, AWA's secured credit facility was converted into an $89.9 million secured term loan maturing at year-end 2007. See "*Government Guaranteed Loan*" above.

(4) Includes $104.5 million of 7.5% convertible senior notes due 2009, the interest on which is paid in kind for years one through three. See "*Government Guaranteed Loan*" above.

(5) Government guaranteed loan includes $429.0 million due September 2008 with a variable interest rate of 2.12%. Guarantee fees of 5.5% of the outstanding guaranteed principal balance in 2002 and approximately 8.0% of the outstanding guaranteed principal balance in 2003 through 2008 are payable to the U.S. Treasury Department and other loan participants.

(6) Arizona State loan includes $1.5 million due December 2007 with a variable interest rate of 5.42%.

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

(8) Includes AVSA promissory notes of $10.5 million due 2002 with variable interest rates of 3.46% to 3.85%, averaging 3.59%.

(9) Includes non-cancelable operating leases for 132 aircraft with remaining terms ranging from one month to approximately 22 years. See Note 7, "*Commitments and Contingencies - (a) Leases*" in Notes to Consolidated Financial Statements. Management estimates the debt equivalent value of these operating leases approximates $2 billion using an interest rate of 10%.

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

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

(12) Includes commitments to purchase a total of 25 airbus aircraft and spare engines for delivery in 2002 through 2007.

AWA expects to fund these cash obligations from funds provided by operations, the proceeds of the government guaranteed loan, the $200 million of financing commitments for Airbus aircraft obtained in connection with the government loan, and future financings, if necessary. The cash available to AWA from these sources, however, may not be sufficient to cover these cash obligations because economic factors outside its control may reduce the amount of cash generated by operations or increase its costs. For instance, a further economic downturn or other unforeseen events could reduce the demand for air travel, which would reduce the amount of cash generated by operations. An increase in borrowing costs, either due to a reduction in our credit rating or due to a general increase in interest rates, or in the cost of maintenance, aircraft and aircraft engines and parts, could increase AWA's costs, which could decrease the amount of cash available to cover the cash obligations. In addition, AWA may be required to prepay portions of the government guaranteed loan if its employee compensation costs exceed a certain threshold. In either case, its liquidity may be adversely affected and it may not have sufficient cash to prepay the government loan and meet its other obligations. Moreover, certain of its long-term debt agreements contain a $100 million minimum cash balance requirement. As a result, AWA cannot use all of its available cash to fund operations, capital expenditures and cash obligations without violating this requirement.

In January 2001, AWA entered into a development agreement and ground lease with the City of Phoenix pursuant to which AWA has constructed a flight operations and training facility on land located adjacent to Phoenix Sky Harbor International Airport. The initial lease term is 20 years with two five-year extension options. The facility contains approximately 164,000 square feet and will accommodate AWA's pilot and in-flight training, systems operational control and crew scheduling functions when fully occupied by the end of the first quarter of 2002. The estimated cost to design and construct the facility is $35 million, of which the Company has paid approximately $16.7 million as of December 31, 2001. The Company currently intends to fund the remaining construction costs with operating cash flow.

Financial Covenants and Credit Rating

Certain of AWA's long-term debt agreements contain minimum cash balance requirements and other covenants with which Holdings and AWA are in compliance. Thus the Company cannot use all of its available cash to fund its operations and commitments without potentially violating these minimum cash balance requirements. In addition, certain of these covenants restrict AWA's ability to pay cash dividends on its common stock and make certain other restricted payments (as specified therein). Under these restrictions, as of December 31, 2001, the Company's ability to pay dividends, together with any other restricted payments, was limited. Moreover, under the terms of the government guaranteed loan (see Note 20, "*Subsequent Events - Government Guaranteed Loan*" in Notes to Consolidated Financial Statements), the Company is prohibited from paying cash dividends prior to repayment of the loan in full. Finally, AWA's long-term debt agreements contain cross-default provisions, which may be triggered by defaults by AWA under other agreements relating to indebtedness. As of December 31, 2001, AWA had suspended payment under certain aircraft leases and, as a result, had received notices of default from certain aircraft lessors. In January 2002, AWA paid in full approximately $81 million in deferred aircraft lease payments simultaneously with the funding of the $429 million government guaranteed loan, thereby curing the defaults. See "*Business - Risk Factors Related to America West and Industry Related Risks - Our high*

leverage, fixed costs and the financial and other covenants in our debt instruments may limit our ability to fund general corporate requirements, limit our flexibility in responding to competitive developments and increase our vulnerability to adverse economic and industry conditions" included in Item 1 of the Company's Annual Report on Form 10-K.

The government guaranteed loan contains minimum cash balance requirements and other covenants with which Holdings and AWA are in compliance. These covenants are consistent with those in AWA's other long-term debt agreements in that AWA's ability to pay dividends, together with any other restricted payments (as defined therein), is limited and defaults by AWA under other agreements relating to indebtedness may trigger a default under the government guaranteed loan.

Both Moody's and Standard & Poor's have downgraded the credit ratings of AWA over the past nine months. In a series of downgrades, Moody's assessment of AWA's senior implied rating and senior unsecured debt rating went from B1 for both ratings before April 19, 2001 to Caa3 and Ca, respectively, on November 21, 2001. Standard & Poor's did a similar series of downgrades, taking AWA's credit rating from B+ before September 19, 2001 to CCC- on November 1, 2001. As a result of these downgrades, our ability to incur additional indebtedness may be impaired. The rating agencies base their ratings on the Company's financial performance and operations, its cash flow and liquidity, the level of its debt and industry conditions in general. If the Company's financial performance or industry conditions do not improve, it may face future downgrades, which could further negatively impact its costs and the prices of its equity or debt securities. See *"Business - Risk Factors Related to America West and Industry Related Risks - Because our credit rating has been downgraded, our borrowing costs may increase and our ability to incur additional debt may be impaired"* included in Item 1 of the Company's Annual Report on Form 10-K.

Other Information

Labor Relations

The Company is in the process of negotiating with ALPA on a new contract for AWA's pilots. The parties are currently in mediation under the auspices of the National Mediation Board ("NMB"). The existing contract with ALPA became amendable in May 2000. In addition, the Company is in negotiations with the International Brotherhood of Teamsters ("IBT") on a first contract covering the Company's stock clerks, a work group of approximately 60 employees. The parties are currently in mediation under the auspices of the NMB. The Company cannot predict the form of these future collective bargaining agreements and therefore the effect, if any, on AWA's operations or financial performance.

On January 22, 2001, the TWU filed an Application for Investigation of Representation Dispute with the NMB, seeking to represent approximately 4,000 passenger service representatives and reservations agents. On March 20, 2001, that application was dismissed by the NMB due to an insufficient showing of interest. A one-year prohibition established by the NMB on any new Application for Investigation of Representation Dispute expired on March 20, 2002.

Income Taxes

At December 31, 2001, the Company had net operating loss carryforwards ("NOL"), general business tax credit carryforwards and alternative minimum tax credit carryforwards of approximately $215.9 million, $9.9 million and $6.3 million, respectively. Under Section 382 of the Internal Revenue Code of 1986, as amended, if a loss corporation has an "ownership change" within a designated testing period, its ability to use its pre-change NOL and tax credit carryforwards is subject to certain limitations. The Company is a loss corporation within the meaning of Section 382. The

issuance of certain common stock by the Company pursuant to the plan of reorganization in 1994 resulted in an ownership change within the meaning of Section 382. This ownership change has resulted in an annual limitation (the "Section 382 Limitation") upon the Company's ability to offset any post-change taxable income with pre-change NOL. The Company's Section 382 Limitation is $36.2 million per year. Should the Company generate insufficient taxable income in any post-change taxable year to utilize fully the Section 382 Limitation of that year, any excess limitation will be carried forward to use in subsequent tax years, provided the pre-change NOL has not been exhausted and the carryforward period has not expired. The alternative minimum tax credit may be carried forward indefinitely and is available to reduce future income tax payable to the extent regular income tax exceeds alternative minimum tax in any given year.

The Company's reorganization and the associated implementation of fresh start reporting in 1994 gave rise to significant items of expense for financial reporting purposes that are not deductible for income tax purposes. In large measure, it is these nondeductible expenses that result in an effective tax benefit rate (for financial reporting purposes) significantly less than the current U.S. corporate statutory rate of 35%.

Government Regulations

On November 19, 2001, the President signed into law the Aviation and Transportation Security Act (the "ATSA"). This law enhances aviation security measures and federalizes many aspects of civil aviation security. ATSA establishes a new Transportation Security Administration within the Department of Transportation. Under the ATSA, all security screeners at airports will be federal employees and a significant number of other airport security functions will be overseen and performed by federal employees, including federal security managers, federal law enforcement officers and federal air marshals. The ATSA mandated that beginning on January 18, 2002, all checked baggage at United States airports be screened using explosive detection systems, or, where such systems are not yet available, using other screening techniques such as positively matching baggage to a passenger who has boarded an aircraft. The ATSA requires all checked baggage to be screened by explosive detection systems by December 31, 2002. Other requirements in the ATSA that directly affect airline operations include: the strengthening of cockpit doors; deploying federal air marshals on board certain flights; improving airline crew security training; and expanding use of criminal background checks of employees. Implementation of these and other requirements of the ATSA will result in increased costs for air carriers and may result in delays and disruptions to air travel. Under the ATSA, funding for the new federal security system is to be provided by a $2.50 per enplanement ticket tax, not to exceed $5.00 per one-way trip, and by imposing additional direct fees on air carriers. Pursuant to the ATSA, air carriers began collecting the new ticket tax from passengers on February 1, 2002 and have been required to make additional payments to the Transportation Security Administration. The total estimated cost to the Company of compliance with the security requirements of the ATSA for 2002 is approximately $39 million, of which approximately $32 million is expected to be reimbursed by the federal government with proceeds from the ticket tax. As a result of competitive pressure, AWA and other airlines may be unable to recover all of these additional security costs from passengers through increased fares. In addition, we cannot forecast what new security and safety requirements may be imposed in the future or the costs or financial impact of complying with any such requirements.

As a member of the Air Transport Association, AWA voluntarily established a customer service plan to provide additional information to passengers on flight delays, cancellations or overbookings, to offer the lowest fare available, allow reservations to be held or cancelled, provide prompt ticket refunds and be more responsive to customer complaints. Congress is currently considering legislation that could impose new consumer protection requirements on airlines including payments to passengers for excessive flight delays and prohibition of the issuance of non-refundable tickets. As a result of competitive pressures AWA and other airlines would be limited in their ability to pass costs associated with compliance with such laws to passengers. We cannot forecast the cost impact of such measures if enacted.

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

In December 1997, the National Civil Aviation Review Commission (the "NCARC") completed its Report to Congress on FAA funding and recommended implementation of a cost based user fee system for air carriers. Congress is presently considering the recommendations of the NCARC, which may result in enactment of a new funding mechanism. The Company cannot currently estimate the effect the new combination of ticket and segment taxes, or any change in those taxes as recommended by the NCARC, will have on its operating results. There can be no assurance that the new taxes or such changes will not have a material adverse effect on the Company's financial condition and results of operations.

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

Related Party Transactions

AWA has entered into various aircraft leasing arrangements with AerFi Group plc ("AerFi"), formerly GPA Group plc, at terms comparable to those obtained from third parties for similar transactions. William A. Franke, the Company's former Chairman and CEO, was a director and, indirectly, a minor shareholder of AerFi. In addition, an affiliate of TPG purchased a large minority stake in AerFi in November 1998 and had three representatives serving on AerFi's five-member Board of Directors. AerFi was acquired by AirFinance B.V. in November 2000 and Mr. Franke and the TPG affiliate disposed of all share interests in AerFi at that time. Mr. Franke and the representatives of the TPG affiliate also resigned from their board positions at that time. AWA currently leases four aircraft from AerFi and the rental payments for such leases amounted to $14.1 million, $14.8 million and $14.8 million for the years ended December 31, 2001, 2000 and 1999, respectively. After restructuring of the leases in conjunction with the $429 million government

guaranteed loan (see Note 20, "*Subsequent Events - Government Guaranteed Loan*" in Notes to Consolidated Financial Statements), AWA is obligated to pay approximately $96.5 million under the AerFi leases which expire at various dates through the year 2013.

AerFi and AWA also entered into a Put Termination Agreement which terminated arrangements with AerFi pursuant to which AerFi could cause AWA to lease up to four additional aircraft prior to June 30, 1999. Pursuant to the Put Termination Agreement, AWA is obligated to make certain payments to the U.S. subsidiaries of AerFi ("AerFi Subs"). The payments due to the AerFi Subs under the Put Termination Agreement were approximately $1.9 million for each of the years 2001, 2000 and 1999.

As part of the Company's reorganization in 1994, Continental Airlines made an investment in AWA and AWA entered into an alliance agreement related to code sharing arrangements and ground handling operations. AWA paid Continental approximately $30.1 million, $32.4 million and $31.7 million and also received approximately $22.0 million, $25.5 million and $24.5 million in 2001, 2000 and 1999, respectively, from Continental pursuant to these agreements. In March 2002, AWA received notice from Continental of its intention to terminate the code sharing and related agreements between the two airlines, effective April 26, 2002. See Note 20, "*Subsequent Events - Termination of Code Share Agreement with Continental Airlines*" in Notes to Consolidated Financial Statements.

In December 2000, Continental Airlines sold to the Company all 158,569 shares of Class A common stock of the Company held by Continental. Continental also assigned to the Company its rights of first refusal held by Continental with respect to shares of Class A common stock owned by TPG Partners, L.P., TPG Parallel I, L.P. and Air Partners II, L.P. (collectively, the "TPG Parties") under a Priority Distribution Agreement originally entered into between Continental and the TPG Parties in 1994. As consideration, AWA paid Continental $10.8 million with respect to these transactions. Under the agreement, the Company's rights of first refusal terminated when William A. Franke ceased to be the Chairman of the Company. The payment was accounted for in 2000 as a reduction in Holdings' shareholders' equity.

AWA provides air transportation and certain administrative services to The Leisure Company, a wholly owned subsidiary of Holdings that was formed on January 1, 1998. The cost of air transportation and administrative services are negotiated on an arms length basis. AWA had net air transportation sales to TLC of $60.2 million, $55.3 million and $54.8 million, and also received $1.3 million, $1.3 million and $1.6 million in 2001, 2000 and 1999, respectively, under the services agreement.

Critical Accounting Policies

The preparation of the Company's consolidated financial statements in accordance with generally accepted accounting principles requires that management make certain estimates and assumptions that affect the reported amount of assets and liabilities, revenues and expenses, and the disclosure of contingent assets and liabilities at the date of our financial statements. We believe our estimates and assumptions are reasonable; however, actual results could differ from those estimates. We have identified the following critical accounting policies that require the use of significant judgments and estimates relating to matters that are inherently uncertain and may result in materially different results under different assumptions and conditions. See Note 1, "*Significant Accounting Policies*" in Notes to Consolidated Financial Statements for additional discussion of these and other significant accounting policies.

- *Passenger Revenue* – Passenger revenue is recognized when transportation is provided. Ticket sales for transportation that has not yet been provided are recorded as air traffic liability. Passenger traffic commissions and related fees are expensed when the related revenue is recognized. Passenger traffic commissions and related fees not yet recognized are included as a prepaid expense. Due to complex pricing structures, refund and exchange policies, and interline agreements with other airlines, certain amounts are recognized in revenue using estimates regarding both the timing of the revenue recognition and the amount of revenue to be recognized. These estimates are generally based on the statistical analysis of the Company's historical data. Any adjustments resulting from periodic evaluations of the estimated air traffic liability are included in results of operations during the period in which the evaluations are completed.
- *Accounting For Long-Lived Assets* – Property and equipment are recorded at cost. Interest capitalized on advance payments for aircraft acquisitions and on expenditures for aircraft improvements are part of these costs. Property and equipment is depreciated and amortized to residual values over the estimated useful lives or the lease term, whichever is less, using the straight-line method. The estimated useful lives for the Company's ground property and equipment range from three to 12 years for owned property and equipment and up to 22 years for the technical support facility. The estimated useful lives of the Company's owned aircraft, jet engines, flight equipment and rotable parts range from five to 30 years. Leasehold improvements relating to flight equipment and other property on operating leases are amortized over the life of the lease, or the life of the asset, whichever is shorter. The Company records impairment losses on long-lived assets used in operations when events and circumstances indicate that the assets might be impaired as defined by Statement of Financial Accounting Standards ("SFAS") No. 121, "*Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of.*"
- Frequent Flyer Accounting – The Company maintains a frequent travel award program known as "FlightFund" that provides a variety of awards to program members based on accumulated mileage. The estimated cost of providing the free travel, using the incremental cost method as adjusted for estimated redemption rates, is recognized as a liability and charged to operations as program members accumulate mileage. The Company also sells mileage credits to companies participating in its FlightFund program, such as hotels, car rental agencies and credit card companies. Revenue from the sale of mileage credits is deferred and recognized when transportation is provided. A change to the estimated cost per mile, minimum award level, percentage of revenue to be deferred or deferred recognition period could have a significant impact on the Company's revenues or mileage liability accrual in the year of the change as well as future years.
- *Long-Term Maintenance Reserve* – The Company records an accrual for the estimated cost of scheduled airframe and engine overhauls required to be performed on leased aircraft prior to their return to the lessors. These estimates are based on historical costs and management's assumptions regarding the renewal of aircraft leases. A significant change to the Airline's fleet plan could have a material impact on the Company's maintenance reserve requirements.

Recently Issued Accounting Pronouncements

In June 2001, the Financial Accounting Standards

Board ("FASB") issued SFAS No. 141, "*Business Combinations*." SFAS No. 141 primarily addresses the accounting for the cost of an acquired business, including any subsequent adjustments to its cost. SFAS No. 141 requires the use of the purchase method of accounting for all business combinations, thereby eliminating the pooling-of-interest method, and provides new criteria for determining whether intangible assets acquired in a business combination should be recognized separately from goodwill. SFAS No. 141 is effective for all business combinations initiated after June 30, 2001. The adoption of SFAS No. 141 will have no impact on the Company's results of operations or financial position.

In June 2001, the FASB issued SFAS No. 142, "*Goodwill and Other Intangible Assets*." SFAS No. 142 primarily addresses the accounting for goodwill and intangible assets subsequent to their acquisition. SFAS No. 142 does not permit the amortization of goodwill as required by Accounting Principles Board ("APB") Opinion No. 17, "*Intangible Assets*." Rather, goodwill will be subject to a periodic impairment test, using a two-step process. The first step is to identify a potential impairment. The second step of the goodwill impairment test measures the amount of the impairment loss, using a fair value-based approach. Under SFAS No. 142, reorganization value in excess of amounts allocable to identifiable assets ("ERV") shall be reported as goodwill and accounted for in the same manner as goodwill. SFAS No. 142 is effective for fiscal years beginning after December 15, 2001. Upon adoption of this statement on January 1, 2002, the Company's ERV balance of approximately $272.3 million will no longer be subject to amortization resulting in an annual decrease in amortization expense of approximately $21.5 million. The Company also expects to record an impairment loss ranging from $100 million to the entire ERV balance of $272.3 million upon adoption of SFAS No. 142. The Company expects to complete the measurement of the impairment loss after March 31, 2002. The impairment loss resulting from the adoption of SFAS No. 142 will be recorded as the cumulative effect of a change in accounting principle in the first quarter of 2002.

In August 2001, the FASB issued SFAS No. 143, "*Accounting for Asset Retirement Obligations*." SFAS No. 143 is effective for fiscal years beginning after June 15, 2002 and provides new criteria for the measurement of a liability for an asset retirement obligation and the associated asset retirement cost. In October 2001, the FASB issued SFAS No. 144, "*Accounting for the Impairment or Disposal of Long-Lived Assets*." SFAS No. 144 is effective for fiscal years beginning after December 15, 2001. SFAS No. 144 supersedes SFAS No. 121, "*Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of*." However, this Statement retains the fundamental provisions of SFAS No. 121 for (a) recognition and measurement of the impairment of long-lived assets to be held and used and (b) measurement of long-lived assets to be disposed of by sale. The Company does not expect these standards to have a material effect on its results of operations or financial position.

Market Risk Sensitive Instruments

(a) Commodity Price Risk

Aircraft fuel costs accounted for approximately 14% of the Company's total operating expenses during 2001. At current consumption levels, a one-cent per gallon change in the price of jet fuel would affect the Company's annual operating results in 2002 by approximately $4.2 million. Accordingly, a substantial change in the price of jet fuel would have a significant impact on the Company's results of operations.

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

As of December 31, 2001, the Company had entered into costless collar transactions which establish an upper and lower limit on heating oil futures prices. These transactions are in place with respect to approximately 3% of projected 2002 fuel requirements, including 12% related to the first quarter of 2002. In order to execute additional hedging transactions, we anticipate that we will have to provide cash collateral or other credit support, which we may not be able to provide in a cost-effective manner. See "*Business - Risk Factors Related to America West and Industry Related Risks - Fluctuations in fuel costs could adversely affect our liquidity, operating expenses and results*" included in Item 1 of the Company's Annual Report on Form 10-K.

The use of such hedging transactions in the Company's fuel hedging program could result in the Company not fully benefiting from certain declines in heating oil futures prices. At December 31, 2001, the Company estimates that a 10% change in heating oil futures prices would have changed the fair value of the costless collar transactions by approximately $0.6 million.

As of March 27, 2002, approximately 3% of AWA's 2002 fuel requirements are hedged.

(b) Interest Rate Risk

The Company's exposure to interest rate risk relates primarily to its variable rate long-term debt obligations. At December 31, 2001, the Company's variable-rate long-term debt obligations of approximately $67.3 million represented approximately 30% of its total long-term debt. In January 2002, AWA closed a $429 million loan supported by a $380 million government loan guarantee. This loan triggered concessions and additional financing, resulting in a restructuring of AWA's indebtedness. See "*2001 in Review - Government Guaranteed Loan*" in "*Management's Discussion and Analysis of Financial Condition and Results of Operations*" and Note 20, "*Subsequent Events - Government Guaranteed Loan*" in Notes to Consolidated Financial Statements. After giving effect to these transactions, the Company's variable-rate long-term debt obligations approximate $587.7 million, which represents approximately 72% of its total long-term debt. If interest rates increased 10% in 2002, the impact on the Company's results of operations would not be material.

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

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

	CLASS B COMMON STOCK	
	high	low
Year Ended December 31, 2001		
First Quarter	$ 14.1875	$ 9.2500
Second Quarter	10.8100	8.5800
Third Quarter	10.7100	1.4500
Fourth Quarter	3.5000	1.5200
Year Ended December 31, 2000		
First Quarter	$ 20.9375	$ 12.5000
Second Quarter	19.9375	13.8750
Third Quarter	18.4375	12.1250
Fourth Quarter	13.0625	8.9375

As of December 31, 2001, there were three record holders of Class A common stock and approximately 4,658 record holders of Class B common stock.

Holdings has not paid cash dividends in any of the last three fiscal years and does not anticipate paying cash dividends in the foreseeable future. Under the terms of the government guaranteed loan, the Company is prohibited from paying cash dividends prior to repayment of the loan in full. See Note 20, "*Subsequent Events - Government Guaranteed Loan*" in Notes to Consolidated Financial Statements.

In September 1995, the Company adopted a stock repurchase program. The program was amended in December 1995, August 1997, August 1998, May 1999 and February 2000. During 1995 through 2000, the Company purchased approximately 16.5 million shares of Class B common stock and 7.4 million warrants to purchase Class B common stock. The Company did not purchase any Class B common stock in 2001. As of December 31, 2001, the remaining balance available to be purchased under the program was 900 shares of issued and outstanding Class B common stock. Under the terms of the government guaranteed loan, the Company is prohibited from purchasing any additional shares of its stock prior to repayment of the loan in full. See Note 20, "*Subsequent Events - Government Guaranteed Loan*" in Notes to Consolidated Financial Statements.

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

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

REPORT OF INDEPENDENT ACCOUNTANTS

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

In our opinion, the accompanying consolidated balance sheet and the related consolidated statements of operations, of cash flows and of stockholders' equity and comprehensive income present fairly, in all material respects, the financial position of America West Holdings Corporation at December 31, 2001, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

PricewaterhouseCoopers LLP
Phoenix, Arizona
January 31, 2002

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

We have audited the accompanying consolidated balance sheet of America West Holdings Corporation and subsidiaries as of December 31, 2000, and the related consolidated statements of operations, cash flows and stockholders' equity and comprehensive income (loss) for each of the years in the two-year period ended December 31, 2000. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

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

KPMG LLP

KPMG LLP
Phoenix, Arizona
March 28, 2001

Consolidated Balance Sheets

DECEMBER 31, 2001 AND 2000 (IN THOUSANDS EXCEPT SHARE DATA)

	2001	2000
Assets		
Current assets:		
Cash and cash equivalents	$ 156,865	$ 144,138
Short-term investments	—	50,686
Accounts receivable, less allowance for doubtful accounts of $3,216 in 2001 and $1,794 in 2000	109,012	152,649
Expendable spare parts and supplies, less allowance for obsolescence of $7,249 in 2001 and $5,439 in 2000	51,833	41,843
Prepaid expenses	43,688	41,784
Total current assets	361,398	431,100
Property and equipment:		
Flight equipment	1,082,649	903,336
Other property and equipment	258,400	220,085
Equipment purchase deposits	49,650	93,750
	1,390,699	1,217,171
Less accumulated depreciation and amortization	564,796	462,844
	825,903	754,327
Other assets:		
Restricted cash	54,546	34,554
Reorganization value in excess of amounts allocable to identifiable assets, net	272,283	293,780
Other assets, net	56,779	54,754
	383,608	383,088
	$ 1,570,909	$ 1,568,515
Liabilities and Stockholders' Equity		
Current liabilities:		
Current maturities of long-term debt (see Note 6)	$ 119,141	$ 159,667
Accounts payable	253,318	156,449
Air traffic liability	187,714	208,868
Accrued compensation and vacation benefits	41,470	36,070
Accrued taxes	59,240	17,155
Other accrued liabilities	29,643	35,988
Total current liabilities	690,526	614,197
Long-term debt, less current maturities	222,955	145,578
Deferred credits and other liabilities	133,779	101,122
Deferred tax liability, net	1,306	40,545
Commitments and contingencies (see Note 7)		
Stockholders' equity:		
Preferred stock, $.01 par value. Authorized 48,800,000 shares; no shares issued	—	—
Class A common stock, $.01 par value. Authorized 1,200,000 shares; issued and outstanding 941,431 shares at December 31, 2001 and December 31, 2000	9	9
Class B common stock, $.01 par value. Authorized 100,000,000 shares; issued and outstanding 49,070,346 shares in 2001 and 48,991,256 shares in 2000	491	490
Additional paid-in capital	593,784	594,177
Retained earnings	232,875	380,746
Accumulated other comprehensive income (loss)	1,390	(1,108)
	828,549	974,314
Less: Cost of Class B common stock in treasury, 16,283,895 shares in 2001 and 16,333,895 shares in 2000	(306,206)	(307,241)
Total stockholders' equity	522,343	667,073
	$ 1,570,909	$ 1,568,515

See accompanying notes to consolidated financial statements.

Consolidated Statements of Operations

FOR THE YEARS ENDED DECEMBER 31, 2001, 2000 AND 1999 (IN THOUSANDS EXCEPT PER SHARE DATA)

	2001	2000	1999
Operating revenues:			
Passenger	$ 1,941,877	$ 2,179,811	$ 2,028,223
Cargo	33,824	37,377	41,936
Other	90,212	127,166	140,725
Total operating revenues	2,065,913	2,344,354	2,210,884
Operating expenses:			
Salaries and related costs	603,819	559,578	500,351
Aircraft rents	355,517	331,005	277,326
Other rents and landing fees	140,372	130,680	122,035
Aircraft fuel	343,224	373,313	220,380
Agency commissions	75,085	86,469	114,742
Aircraft maintenance materials and repairs	257,939	258,432	218,319
Depreciation and amortization	63,178	54,313	48,442
Amortization of reorganization value in excess of amounts allocable to identifiable assets	19,896	19,896	19,896
Special charges	38,352	—	—
Other	483,116	543,305	484,842
Total operating expenses	2,380,498	2,356,991	2,006,333
Operating income (loss)	(314,585)	(12,637)	204,551
Nonoperating income (expenses):			
Interest income	14,785	15,980	12,417
Interest expense, net	(26,349)	(15,449)	(22,253)
Federal government assistance	108,246	—	—
Gain (loss) on disposition of property and equipment	(3,000)	(2,332)	1,095
Gain on sale of investments	—	36,417	11,933
Other, net	(198)	2,764	(1,593)
Total nonoperating income, net	93,484	37,380	1,599
Income (loss) before income taxes	(221,101)	24,743	206,150
Income taxes (benefit)	(73,230)	17,064	86,761
Net income (loss)	$ (147,871)	$ 7,679	$ 119,389
Earnings (loss) per share:			
Basic	$ (4.39)	$ 0.22	$ 3.17
Diluted	$ (4.39)	$ 0.22	$ 3.03
Shares used for computation:			
Basic	33,670	35,139	37,679
Diluted	33,670	35,688	39,432

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

FOR THE YEARS ENDED DECEMBER 31, 2001, 2000 AND 1999 (IN THOUSANDS)

	2001	2000	1999
Cash flows from operating activities:			
Net income (loss)	$ (147,871)	$ 7,679	$ 119,389
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization	64,573	56,881	51,385
Amortization of capitalized maintenance	116,809	121,031	113,679
Amortization of excess reorganization value	21,497	21,496	21,496
Amortization of deferred credits	(6,928)	(9,272)	(7,521)
Loss (gain) on sale of subsidiaries	2,257	(11,125)	—
Special charges	38,379	—	—
Other	5,254	5,713	3,258
Changes in operating assets and liabilities:			
Decrease (increase) in accounts receivable, net	43,516	(36,622)	(21,693)
Decrease (increase) in expendable spare parts and supplies, net	(9,990)	7,484	(18,180)
Increase in prepaid expenses	(5,279)	(2,596)	(366)
Decrease (increase) in other assets, net	(19,722)	8,879	(51,984)
Increase in accounts payable	73,178	9,926	37,252
Increase (decrease) in air traffic liability	(21,154)	16,216	(16,727)
Increase (decrease) in accrued compensation and vacation benefits	5,373	(13,795)	1,526
Increase in accrued taxes	1,329	4,974	39,603
Decrease in other accrued liabilities	(6,345)	(152)	(2,774)
Increase (decrease) in other liabilities	(2,512)	3,425	955
Net cash provided by operating activities	152,364	190,142	269,298
Cash flows from investing activities:			
Purchases of property and equipment	(633,246)	(255,417)	(299,571)
Sale (purchases) of short-term investments	50,686	(35,069)	11,868
Proceeds from sales of aircraft	332,800	—	—
Proceeds from sales of other property and equipment	28,900	38,611	187,197
Net proceeds from sale of subsidiaries	—	44,530	—
Equipment purchase deposits and other	14,900	3,182	(6,250)
Net cash used in investing activities	(205,960)	(204,163)	(106,756)
Cash flows from financing activities:			
Proceeds from issuance of debt	423,422	143,310	162,074
Repayment of debt	(357,723)	(42,159)	(239,876)
Acquisition of treasury stock	—	(60,653)	(118,278)
Acquisition of warrants	—	—	(3,378)
Proceeds from exercise of AWA warrants	—	—	32,781
Other	624	5,487	7,949
Net cash provided by (used in) financing activities	66,323	45,985	(158,728)
Net increase in cash and cash equivalents	12,727	31,964	3,814
Cash and cash equivalents at beginning of year	144,138	112,174	108,360
Cash and cash equivalents at end of year	$ 156,865	$ 144,138	$ 112,174
Cash, cash equivalents and short-term investments at end of year	$ 156,865	$ 194,824	$ 127,791

See accompanying notes to consolidated financial statements.

Consolidated Statements of Stockholders' Equity and Comprehensive Income (Loss)

FOR YEARS ENDED DECEMBER 31, 2001, 2000 AND 1999 (IN THOUSANDS EXCEPT SHARE DATA)

	class A common stock	class B common stock	additional paid-in capital	retained earnings	accumulated other comprehensive income (loss)	class B treasury stock	total
Balance at Dec. 31, 1998	$ 11	$ 453	$ 556,508	$ 253,678	$ —	$ (141,192)	$ 669,458
Net income	—	—	—	119,389	—	—	119,389
Issuance of 2,573,060 shares and 481,420 shares of Class B common stock pursuant to the exercise of stock warrants and stock options including tax benefit from the exercise of stock options of $647	—	31	41,346	—	—	—	41,377
Issuance of 227,237 shares of Class B common stock	—	2	4,567	—	—	—	4,569
Acquisition of 6,046,700 shares of Class B treasury stock	—	—	—	—	—	(118,278)	(118,278)
Issuance of 50,000 shares of Class B treasury stock	—	—	35	—	—	997	1,032
Repurchase of 377,400 warrants at $8.95 per warrant	—	—	(3,378)	—	—	—	(3,378)
Balance at Dec. 31, 1999	11	486	599,078	373,067	—	(258,473)	714,169
Net income	—	—	—	7,679	—	—	7,679
Other comprehensive income (loss):							
Adjustment to unrealized gain (loss) on available-for-sale securities, net of tax	—	—	—	—	(1,108)	—	(1,108)
Total comprehensive income (loss)	—	—	—	7,679	(1,108)	—	6,571
Cancellation of 1,930 shares and issuance of 442,010 shares of Class B common stock pursuant to the exercise of stock warrants and stock options including tax benefit from the exercise of stock options of $593	—	4	6,281	—	—	—	6,285
Cancellation of 10,740 shares of Class B common stock issued as restricted stock	—	—	(331)	—	—	—	(331)
Acquisition of 2,999,100 shares of Class B treasury stock	—	—	—	—	—	(49,825)	(49,825)
Issuance of 50,000 shares of Class B treasury stock	—	—	(26)	—	—	1,057	1,031
Acquisition and retirement of 158,569 shares of Class A common stock	(2)	—	(10,825)	—	—	—	(10,827)
Balance at Dec. 31, 2000	9	490	594,177	380,746	(1,108)	(307,241)	667,073
Net loss	—	—	—	(147,871)	—	—	(147,871)
Other comprehensive income (loss):							
Changes in the fair value of derivative financial instruments, net of tax	—	—	—	—	1,390	—	1,390
Adjustment to unrealized gain (loss) on available-for-sale securities, net of tax	—	—	—	—	1,108	—	1,108
Total comprehensive income (loss)	—	—	—	(147,871)	2,498	—	(145,373)
Issuance of 93,334 shares of Class B common stock pursuant to the exercise of stock options including tax benefit from the exercise of stock options of $8	—	1	948	—	—	—	949
Cancellation of 14,244 shares of Class B common stock issued as restricted stock	—	—	(410)	—	—	—	(410)
Issuance of 50,000 shares of Class B treasury stock	—	—	(606)	—	—	1,035	429
Other	—	—	(325)	—	—	—	(325)
Balance at Dec. 31, 2001	$ 9	$ 491	$ 593,784	$ 232,875	$ 1,390	$ (306,206)	$ 522,343

See accompanying notes to consolidated financial statements.

1. Summary of Significant Accounting Policies

Holdings is the parent company for America West Airlines ("AWA") and The Leisure Company ("TLC"). AWA is the eighth largest commercial airline carrier in the United States serving 59 destinations in the U.S., Canada and Mexico. TLC is a leisure travel subsidiary that arranges and sells vacation packages that include hotel accommodations, airfare, ground transportation and a variety of entertainment options. Holdings' primary business activity is ownership of all the capital stock of AWA and TLC.

(a) Basis of Presentation

The consolidated financial statements include the accounts of Holdings and its wholly owned subsidiaries AWA and TLC (collectively, the "Company"). All significant inter-company balances and transactions have been eliminated in consolidation. Certain reclassifications have been made to the prior years' consolidated financial statements to conform to the current year's presentation.

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

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

(c) Expendable Spare Parts and Supplies

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

(d) Property and Equipment

Property and equipment are recorded at cost. Interest capitalized on advance payments for aircraft acquisitions and on expenditures for aircraft improvements are part of these costs. Interest capitalized for the years ended December 31, 2001, 2000 and 1999 was $12.5 million, $9.0 million and $6.1 million, respectively. Property and equipment is depreciated and amortized to residual values over the estimated useful lives or the lease term, whichever is less, using the straight-line method.

The estimated useful lives for the Company's ground property and equipment range from three to 12 years for owned property and equipment and up to 22 years for the technical support facility. The estimated useful lives of the Company's owned aircraft, jet engines, flight equipment and rotable parts range from five to 30 years. Leasehold improvements relating to flight equipment and other property on operating leases are amortized over the life of the lease or the life of the asset, whichever is shorter.

The Company records impairment losses on long-lived assets used in operations when events and circumstances indicate that the assets might be impaired as defined by SFAS No. 121, "*Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of*" (see "*(n) New Accounting Standards*").

(e) Restricted Cash

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

(f) Aircraft Maintenance and Repairs

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

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

Reorganization value in excess of amounts allocable to identifiable assets ("ERV") is amortized on a straight-line basis over 20 years. Accumulated amortization at December 31, 2001, 2000 and 1999 was $178.1 million, $156.6 million and $135.1 million, respectively. In accordance with SFAS No. 121 and APB Opinion No. 17, the Company assesses the recoverability of this asset based upon expected future undiscounted cash flows and other relevant information (see "*(n) New Accounting Standards*").

(h) Frequent Flyer Awards

The Company maintains a frequent travel award program known as "FlightFund" that provides a variety of awards to program members based on accumulated mileage. The estimated cost of providing the free travel, using the incremental cost method as adjusted for estimated redemption rates, is recognized as a liability and charged to operations as program members accumulate mileage.

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

(i) Deferred Credit-Operating Leases

Rents for operating leases were adjusted to fair market value when the Company emerged from bankruptcy in 1994. The net present value of the difference between the stated lease rates and the fair market rates has been recorded as a deferred credit in the accompanying consolidated balance sheets. The deferred credit will be increased through charges to interest expense and decreased on a straight-line basis as a reduction in rent expense over the applicable lease periods. At December 31, 2001 and 2000, the unamortized balance of the deferred credit was $58.7 million and $65.6 million, respectively.

(j) Passenger Revenue

Passenger revenue is recognized when transportation is provided. Ticket sales for transportation which has not yet been provided are recorded as air traffic liability. Passenger traffic commissions and related fees are expensed when the related revenue is recognized. Passenger traffic commissions and related fees not yet recognized are included as a prepaid expense. Due to complex pricing structures, refund and exchange policies, and interline agreements with other airlines, certain amounts are recognized in revenue using estimates regarding both the timing of the revenue recognition and the amount of revenue to be recognized. These estimates are generally based on the statistical analysis of the Company's historical data. Any adjustments resulting from periodic evaluations of the estimated air traffic liability are included in results of operations during the period in which the evaluations are completed.

(k) Advertising Costs

The Company expenses the costs of advertising as incurred. Advertising expense for the years ended December 31, 2001, 2000 and 1999 was $13.8 million, $26.3 million and $23.7 million, respectively.

(l) Income Taxes

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

(m) Stock Options

The Company accounts for its stock option plan in accordance with the provisions of APB Opinion No. 25, "*Accounting for Stock Issued to Employees*," and related interpretations. As such, compensation expense would be recorded on the date of grant only if the current market price of the underlying stock exceeded the exercise price. In accordance with SFAS No. 123, "*Accounting for Stock-Based Compensation*," the Company provides pro forma net income and pro forma earnings per share disclosures for employee stock option grants made in 1995 and subsequent years as if the fair-value-based method defined in SFAS No. 123 had been applied (see Note 10, "*Stock Options and Awards*").

(n) New Accounting Standards

In June 2001, the FASB issued SFAS No. 141, "*Business Combinations*." SFAS No. 141 primarily addresses the accounting for the cost of an acquired business, including any subsequent adjustments to its cost. SFAS No. 141 requires the use of the purchase method of accounting for all business combinations, thereby eliminating the pooling-of-interest method, and provides new criteria for determining whether intangible assets acquired in a business combination should be recognized separately from goodwill. SFAS No. 141 is effective for all business combinations initiated after June 30, 2001. The adoption of SFAS No. 141 will have no impact on the Company's results of operations or financial position.

In June 2001, the FASB issued SFAS No. 142, "*Goodwill and Other Intangible Assets*." SFAS No. 142 primarily addresses the accounting for goodwill and intangible assets subsequent to their acquisition. SFAS No. 142 does not permit the amortization of goodwill as required by APB Opinion No. 17, "*Intangible Assets*." Rather, goodwill will be subject to a periodic impairment test, using a two-step process. The first step is to identify a potential impairment. The second step of the goodwill impairment test measures the amount of the impairment loss, using a fair value-based approach. Under SFAS No. 142, ERV shall be reported as goodwill and accounted for in the same manner as goodwill. SFAS No. 142 is effective for fiscal years beginning after December 15, 2001. Upon adoption of this statement on January 1, 2002, the Company's ERV balance of approximately $272.3 million will no longer be subject to amortization resulting in an annual decrease in amortization expense of approximately $21.5 million. The Company also expects to record an impairment loss ranging from $100 million to the entire ERV balance of $272.3 million upon adoption of SFAS No. 142. The Company expects to complete the measurement of the impairment loss after March 31, 2002. The impairment loss resulting from the adoption of SFAS No. 142 will be recorded as the cumulative effect of a change in accounting principle in the first quarter of 2002.

In August 2001, the FASB issued SFAS No. 143, "*Accounting for Asset Retirement Obligations*." SFAS No. 143 is effective for fiscal years beginning after

June 15, 2002 and provides new criteria for the measurement of a liability for an asset retirement obligation and the associated asset retirement cost. In October 2001, the FASB issued SFAS No. 144, "*Accounting for the Impairment or Disposal of Long-Lived Assets*." SFAS No. 144 is effective for fiscal years beginning after December 15, 2001. SFAS No. 144 supersedes SFAS No. 121, "*Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of.*" However, this Statement retains the fundamental provisions of SFAS No. 121 for (a) recognition and measurement of the impairment of long-lived assets to be held and used and (b) measurement of long-lived assets to be disposed of by sale. The Company does not expect these standards to have a material effect on its results of operations or financial position.

(o) Use of Estimates

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

2. Adoption of New Accounting Standard

On January 1, 2001, the Company adopted SFAS 133, "*Accounting for Derivative Instruments and Hedging Activities*," which established accounting and reporting standards for all derivative instruments and hedging activities. SFAS No. 133 requires recognition of all derivatives as either assets or liabilities in the balance sheet at fair value. If certain conditions are met, a derivative may be specifically designated as a hedge of the exposure to changes in the fair value of a recognized asset or liability or an unrecognized firm commitment ("fair value hedge,") a hedge of the exposure to variable cash flows of a forecasted transaction ("cash flow hedge,") or a hedge of the foreign currency exposure ("foreign currency hedge") of a net investment in a foreign operation or a foreign currency-denominated forecasted transaction. The accounting for changes in the fair value of a derivative (that is, gains and losses) depends on the intended use of the derivative and the resulting designation. In accounting for a fair value hedge, the derivative hedging instrument will be measured at fair value with the mark to fair value being recorded in earnings. In a cash flow hedge, the derivative hedging instrument will be measured at fair value with the effective portion of the gains or losses on the derivative hedging instrument initially being reported in other comprehensive income.

The Company's fuel hedging contracts qualify as cash flow hedges, as they hedge exposure to variable cash flows of forecasted transactions. Upon adoption of SFAS 133, effective January 1, 2001, the Company recorded the fair market value of these hedging contracts as a net obligation of $2.4 million on the Company's balance sheet. In accordance with SFAS 133, the Company recorded a loss of $1.7 million, net of taxes of $0.7 million, in "*Accumulated Other Comprehensive Income (Loss)*" in the first quarter of 2001. The adoption of SFAS 133 did not have a material effect on the Company's results of operations (see "*(b) Fuel Price Risk Management*" in Note 5, "*Financial Instruments and Risk Management*").

3. Air Transportation Safety and System Stabilization Act

In the wake of large financial losses attributed to the terrorist attacks on the United States that occurred on September 11, 2001, the Senate and House of Representatives of the United States of America passed, and the President signed into law H.R. 2926, the Air Transportation Safety and System

Stabilization Act (the “Act”). The intent of the Act is to preserve the continued viability of the United States air transportation system. The Act includes the following key provisions:

- Airlines will receive immediate cash compensation up to an industry total of $5 billion, including up to $500 million in the aggregate for cargo carriers and up to $4.5 billion in the aggregate for commercial carriers based upon each carrier’s share of available seat miles during the month of August 2001. Airlines must demonstrate that their losses equal or exceed the amount granted. AWA recognized $108.2 million of federal government assistance as nonoperating income in 2001, of which $98.2 million was received in 2001, because direct and incremental losses resulting from the terrorist attacks exceeded that amount (see Note 14 “*Nonoperating Income (Expense) - Other, Net*”).
- The federal government will guarantee credit instruments issued to air carriers of up to $10 billion. A newly created Air Transportation Stabilization Board (“ATBS”) will have authority to set all terms and conditions, including determining the amounts and recipients of the loans. The Act also allows the government to take an equity stake in the airlines receiving federal loan guarantees as collateral. AWA applied to the ATSB for a loan guarantee in November 2001. In January 2002, AWA received final approval from the ATSB and closed a $429 million loan supported by a $380 million government loan guarantee (see Note 20, “*Subsequent Events - Government Guaranteed Loan*”).
- The Act establishes potential protection for air service to small communities. Carriers that receive direct financial assistance may be required by the Secretary of the Department of Transportation (“DOT”) to maintain scheduled service to any point served by the carrier prior to September 11, 2001.
- The Act establishes forgiveness of Internal Revenue Service (“IRS”) penalties for late payment of certain taxes, provided they were paid by November 15, 2001, or, at the discretion of the Secretary of the DOT, as late as January 15, 2002. AWA deferred payment of approximately $58.1 million of transportation taxes to the IRS until January 15, 2002 under the Act.
- The Act provides for reimbursement to air carriers and their vendors or subcontractors for increases in the cost of war risk insurance for the period up to October 1, 2002. The Act also limits the amount of liability for claims against an air carrier attributed to the terrorist attacks to a total not to exceed the limits of the liability coverage maintained by the carrier. In October 2001, AWA received approximately $1.3 million under the Act to reimburse increases in war risk insurance premiums for the period October 2001 through October 2002, of which approximately $0.3 million was recognized as a reduction of insurance expense in 2001.

4. Investments in Debt Securities

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

(IN THOUSANDS)

	2001	2000
Corporate notes	$ —	$ 163,942
Money market funds	156,865	30,882
Total cash equivalents and short-term investments	$ 156,865	$ 194,824

5. Financial Instruments and Risk Management

(a) Fair Value of Financial Instruments

CASH EQUIVALENTS, SHORT-TERM INVESTMENTS AND RECEIVABLES

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

INVESTMENT IN EQUITY SECURITIES

In May 2000, Holdings completed the sale of a majority interest in TLC's retail operations, National Leisure Group and The Vacation Store, to Softbank Capital Partners and General Catalyst LLC. TLC received $52 million in cash and retained a 12% passive ownership interest in the restructured venture. In response to additional capital calls, TLC invested an additional $1.2 million in National Leisure Group during 2001. The investment is carried on the Company's consolidated balance sheet at cost, which approximates $7.7 million and $6.5 million at December 31, 2001 and 2000, respectively.

The Company owned approximately 28,300 shares and 18,900 shares of Class A common stock of Aeroxchange Ltd., an airline industry business-to-business e-commerce exchange, at December 31, 2001 and 2000, respectively. The common stock of Aeroxchange is not publicly traded on a securities exchange, therefore the fair value of the Company's investment in Aeroxchange is not readily determinable. Accordingly, the investment is carried at cost, which approximates $2.8 million and $1.9 million at December 31, 2001 and 2000, respectively.

At December 31, 2000, the Company owned approximately 73,000 depository certificates which were convertible, subject to certain restrictions, into the common stock of Equant N.V. ("Equant.") The estimated fair value of these depository certificates as of December 31, 2000 was approximately $2.0 million, based upon the publicly traded market value of Equant common stock. The fair value of the Company's investment in the depository certificates was not readily determinable (i.e., the depository certificates were not traded on a securities exchange). Accordingly, the investment was carried at cost, which was not material as of December 31, 2000. In July 2001, the Company sold all 73,413 Equant depository certificates, which were held by the SITA Foundation on behalf of the Company, resulting in a pretax gain of approximately $1.5 million.

In July 2000, Holdings completed the sale of America West Golf Vacations, a division of TLC, to Book4golf.com, a provider of Internet-based, real-time golf tee time reservation systems. TLC received 900,000 common shares, with a fair market value of $2.1 million, representing approximately 2% ownership interest. The estimated fair value of the Company's investment in Book4golf.com was approximately $0.3 million at December 31, 2000. In the third quarter of 2001, management determined the decline in market value of the Company's investment in Book4golf.com, approximately $2.1 million since July 2000, was other than temporary. In accordance with SFAS No. 12 "*Accounting for Certain Marketable Securities*," the investment was written down to realizable value, recognizing a pretax loss of $2.1 million (see Note 11, "*Accumulated Other Comprehensive Income (Loss)*").

WARRANTS

The Company is the holder of warrants in a number of on-line ventures that are not public. The fair value of these warrants is not readily determinable. Accordingly, the investment is carried at cost, which was not material at December 31, 2001 or 2000.

LONG-TERM DEBT

At December 31, 2001 and 2000, the fair value of long-term debt was approximately $323.2 million and

$312.2 million, respectively, based on quoted market prices for the same or similar debt including debt of comparable remaining maturities.

(b) Fuel Price Risk Management

Under its fuel hedging program, the Company may enter into certain hedging transactions with approved counterparties for a period generally not exceeding 12 months. The Company accounts for its fuel hedging contracts as cash flow hedges. Therefore, all changes in fair value of the fuel hedging contracts that are considered to be effective are recorded in "*Accumulated Other Comprehensive Income (Loss)*" until the underlying fuel being hedged is used. As of December 31, 2001, the Company had entered into costless collar transactions hedging approximately 3% of its projected 2002 fuel requirements. The fair value of the Company's financial derivative instruments at December 31, 2001 was a net investment of approximately $2.2 million as compared to a net obligation of approximately $2.4 million at January 1, 2001.

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

(c) Concentration of Credit Risk

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

6. Long-Term Debt

Long-term debt at December 31, 2001 and 2000 consists of the following:

(IN THOUSANDS)

	2001	2000
Secured		
Notes payable, fixed interest rates of 7.10% to 8.37%, averaging 7.29%, installments due 2002 through 2021	$ 84,347	$ 58,012
Notes payable, variable interest rates of 3.56% to 5.72%, averaging 4.78%, installments due 2002 through 2008	79,125	19,364
Revolving credit facility, floating interest rates of three month LIBOR + 2.50%, averaging 6.19%, interest only due through 2002 (a)	89,855	111,310
	253,327	188,686
Unsecured		
10 3/4% Senior Unsecured Notes, face amount of $50 million, interest only payment until due in 2005 (b)	49,236	49,028
Notes payable, interest rates of 90-day LIBOR + 1.25%, averaging 3.59%, installments due through 2002	10,500	38,500
Industrial development bonds, face amount of $29.3 million, fixed interest rate of 6.3% due 2023 (c)	29,033	29,020
Other	—	11
	88,769	116,559
Total long-term debt	342,096	305,245
Less: current maturities	(119,141)	(159,667)
	$ 222,955	$ 145,578

(a) In December 1999, AWA entered into a $125 million senior secured revolving credit facility with a group of financial institutions that had a three-year term. Borrowings under this credit facility accrued interest at either the "base rate" (prime rate or the rate which is 1/2 of 1% in excess of the Federal Funds Effective Rate) or the "adjusted eurodollar rate" (LIBOR rate adjusted for certain reserve requirements in respect to "Eurodollar liabilities") plus the applicable margin based on Moody's rating of AWA's senior unsecured notes. The credit agreement is secured by certain assets of AWA. As of December 31, 2001, AWA had drawn $89.9 million against its available line of credit which is classified in current maturities of long-term debt in the Company's consolidated balance sheets. In January 2002, upon closing of the $429 million government guaranteed loan (see Note 20, "*Subsequent Events - Government Guaranteed Loan*"), AWA's secured credit facility was converted into an $89.9 million secured term loan maturing at year-end 2007. The loan has a six-year term with ratable amortization in years four through six and an interest rate of one month LIBOR plus 225 basis points from the closing date through December 31, 2004 and one month LIBOR plus 475 basis points from January 1, 2005 and thereafter. In addition, AWA will pay interest in kind on the aggregate outstanding principle amount of the loan at a rate of two percent per annum from the closing date through December 31, 2004.

(b) The 10 3/4% Senior Unsecured Notes mature on September 1, 2005 and interest is payable in arrears semi-annually. The 10 3/4% Senior Unsecured Notes may be redeemed at the option of the Company on or after September 1, 2001 at any time in whole or from time to time in part, at a redemption price equal to the following percentage of principal redeemed, plus accrued and unpaid interest to the date of redemption, if redeemed during the 12-month period beginning:

	percentage
September 1, 2001	103.583%
September 1, 2002	101.792%
September 1, 2003 and thereafter	100.000%

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

Secured financings totaling $253.3 million are collateralized by assets, primarily aircraft, engines, simulators, rotable aircraft parts and AWA's hangar facility, with a net book value of $466.4 million at December 31, 2001.

In January 2002, AWA closed a $429 million loan backed by a $380 million federal loan guarantee. The loan has a seven-year term with ratable amortization in years three through seven, an interest rate of three month LIBOR plus 40 basis points paid quarterly and guarantee fees payable to the U.S. Treasury Department and other loan participants of 550 basis points in year one and approximately 800 basis points thereafter. Holdings also issued approximately $104.5 million in convertible senior notes to certain aircraft lessors as compensation for various elements of the restructuring plan. The notes have a seven-year term, a coupon rate of 7.5% with interest paid in kind for years one through three. The notes are convertible after three years into Class B common stock at $12 per share. (See Note 20, "*Subsequent Events - Government Guaranteed Loan*.")

After giving effect to the government guaranteed loan transaction, the estimated maturities of long-term debt are as follows:

	(IN THOUSANDS)
2002	$ 29,286
2003	16,933
2004	100,575
2005	183,792
2006	131,524
Thereafter	417,309
	$ 879,419

Certain of the Company's long-term debt agreements contain minimum cash balance requirements and other financial covenants with which Holdings and AWA are in compliance. In addition, certain of these covenants restrict the Company's ability to pay cash dividends on its common stock and make certain other restricted payments (as specified therein). Finally, AWA's long-term debt agreements contain cross-default provisions, which may be triggered by defaults by AWA under other agreements relating to indebtedness. As of December 31, 2001, AWA had suspended payment under certain aircraft leases and, as a result, had received notices of default from certain aircraft lessors. In January 2002, AWA paid in full approximately $81 million in deferred aircraft lease payments simultaneously with the funding of the $429 million government guaranteed loan, thereby curing the defaults. See "*Business - Risk Factors Related to America West and Industry Related Risks - Our high leverage, fixed costs and the financial and other covenants in our debt instruments may limit our ability to fund general corporate requirements, limit our flexibility in responding to competitive developments and increase our vulnerability to adverse economic and industry conditions*" included in Item 1 of the Company's Annual Report on Form 10-K.

7. Commitments and Contingencies

(a) Leases

As of December 31, 2001, the Company had 132 aircraft under operating leases with remaining terms ranging from one year to approximately 22 years. In January 2002, AWA closed a $429 million loan supported by a $380 million government loan guarantee that resulted in a restructuring of its aircraft lease commitments. As a result, AWA has retired or plans to retire 11 aircraft by early 2002 to better size its fleet to the current industry demand environment. In addition, under the restructured lease agreements, annual rent payments have been reduced for each of the next seven years (see Note 20, "*Subsequent Events - Government Guaranteed Loan*"). Certain of these leases contain put options pursuant to which the lessors could require AWA to renew the leases for periods ranging from 8 months to 8.5 years or call options pursuant to which the lessors could require AWA to return the aircraft to the lessors upon receipt of four to nine months written notice. The Company also has options to purchase certain of the aircraft at fair market values at the end of the lease terms. Certain of the agreements require security deposits, minimum return provisions and maintenance reserve payments. The Company also leases certain terminal space, ground facilities and computer and other equipment under noncancelable operating leases.

After giving effect to the January 2002 government loan transaction, the scheduled future minimum cash rental payments under noncancelable operating leases with initial terms of more than one year are as follows:

	(IN THOUSANDS)
2002	$ 323,830
2003	322,237
2004	301,781
2005	289,900
2006	261,863
Thereafter	1,960,383
	$ 3,459,994

Rent expense (excluding landing fees) was approximately $457 million, $427 million and $365 million for the years ended December 31, 2001, 2000 and 1999, respectively.

Collectively, the restructured operating lease agreements require security deposits with lessors of $15.9 million and bank letters of credit of $19.1 million. The letters of credit are collateralized by $19.1 million of restricted cash.

(b) Revenue Bonds

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

(c) Aircraft Acquisitions

At December 31, 2001, AWA had firm commitments to AVSA for a total of 15 Airbus A318-100, two Airbus A319-100 and eight Airbus A320-200 aircraft with delivery through 2004 at a cost of approximately $1.0 billion. In January 2002, upon closing of the $429 million government guaranteed loan, AWA restructured its aircraft purchase commitment to AVSA. As a result, 17 new Airbus aircraft previously scheduled for delivery in 2003 and 2004 were deferred by a total of 505 aircraft-months to 2004 through 2007. The agreement with AVSA also includes options to purchase an additional 17 A320 family aircraft during 2006 through 2008 and purchase rights for an additional 25 aircraft in the A320 family of aircraft for delivery in 2005 to 2008.

The Company has an agreement with International Aero Engines ("IAE") which provides for the purchase by the Company of five new V2500-A5 spare engines scheduled for delivery through 2003 for use on certain of the A320 fleet. At December 31, 2001, the five engines have an estimated aggregate cost of $24 million.

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

	(IN THOUSANDS)
2002	$ 157,466
2003	166,219
2004	74,319
	$ 398,004

In May 2001, America West Airlines 2001-1 Pass Through Trusts issued $427.2 million of Pass Through Trust Certificates in connection with the financing of nine Airbus A319 aircraft and five Airbus A320 aircraft. The combined effective interest rate on this financing is 7.66% on a fixed rate equivalent basis at the time of closing. The Pass Through Trust Certificates were issued by separate trusts that hold equipment notes issued upon delivery of each financed aircraft. Proceeds from the certificates are deposited in an escrow account pending their application to purchase the equipment notes. The equipment notes are secured by a security interest in the aircraft and are issued either by AWA in connection with a mortgage financing or by a separate owner trust in connection with a leveraged lease

financing of the relevant aircraft, at AWA's election. The Pass Through Trust Certificates are not direct obligations of, nor guaranteed by, Holdings or AWA. However, AWA has certain indemnity obligations in respect of the trusts and interest on the escrowed proceeds pending their application to finance aircraft.

The acquisition of each aircraft subject to this financing and delivered in 2001 has been structured as a mortgage financing. Two of the aircraft were delivered in the second quarter of 2001 and six were delivered in the third quarter of 2001. In connection with the delivery of these aircraft, AWA issued equipment notes in an aggregate amount of $58 million during the second quarter of 2001 and $174 million in the third quarter of 2001. In October 2001, AWA completed the sale of these eight aircraft as part of a sale-leaseback transaction (see "*(d) Sale-Leaseback Transactions*"). As a result, approximately $227.5 million of the equipment notes were assumed, on a non-recourse basis, by the owner trustees that purchased the aircraft from AWA. Three aircraft were delivered in the fourth quarter of 2001 and AWA issued $97 million of equipment notes in connection with the delivery of these aircraft. The acquisition of the one aircraft delivered in the first quarter of 2002 was structured as a leveraged lease financing. The owner trust issued equipment notes in an aggregate amount of $34 million in connection with the delivery of this aircraft. The remaining two aircraft are expected to be delivered in the second quarter of 2002.

In January 2002, in conjunction with the $429 million government guaranteed loan, AWA obtained new financing commitments for 11 aircraft which were either already delivered in 2001 or scheduled to be delivered in 2002 and 2003. Financing for five of the aircraft is subject to either achieving an established minimum liquidity or attaining established operating performance goals. As a result, AWA is now financed for all scheduled aircraft deliveries through the fourth quarter of 2003 (see Note 20, "*Subsequent Events - Government Guaranteed Loan*").

(d) Sale-Leaseback Transactions

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

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

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

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

In June 2000, AWA borrowed $32.0 million from a foreign bank to fund the acquisition of one new Airbus A320 aircraft. In July 2000, AWA entered into a sale-leaseback transaction whereby the Company sold this aircraft for approximately the acquisition cost. The aircraft is being leased back from the purchaser for approximately 22 years and is being accounted for as an operating lease.

(e) Federal Aviation Administration ("FAA") Proposed Civil Penalties

In October 2001, the FAA announced that it proposed civil penalties be assessed against AWA in the amount of approximately $668,000 for alleged maintenance violations occurring in May and June 1999 and alleged operation of aircraft in violation of FAA regulations between November 1997 and September 2000. AWA believes it is currently in full compliance with FAA regulations and intends to contest the proposed penalties.

(f) Contingent Legal Obligations

Holdings and its subsidiaries are parties to various legal proceedings, including some purporting to be class actions, and some which demand large monetary damages or other relief which, if granted, would require significant expenditures. While the outcome of these legal proceedings cannot be predicted with certainty, management currently expects that any liability arising from such matters, to the extent not provided for through insurance or otherwise, will not have a material adverse effect on the financial condition and results of operations of the Company.

8. Income Taxes

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

(IN THOUSANDS)	YEAR ENDED DECEMBER 31,		
	2001	2000	1999
Current taxes:			
Federal	$ (33,991)	$ 6,352	$ 23,503
State	—	786	3,215
Total current taxes	(33,991)	7,138	26,718
Deferred taxes	(39,239)	9,926	60,043
Total income tax expense (benefit)	$ (73,230)	$ 17,064	$ 86,761

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

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

(IN THOUSANDS)	YEAR ENDED DECEMBER 31,		
	2001	2000	1999
Income tax expense (benefit) at U.S. statutory rate	$ (77,386)	$ 8,660	$ 72,153
State income tax (benefit), net of federal income tax benefit	(7,417)	1,329	6,620
Nondeductible amortization of reorganization value in excess of amounts allocable to identifiable assets	7,523	7,524	7,524
Change in valuation allowance	(409)	(1,419)	—
Expired tax credits	409	1,419	—
Other, net	4,050	(449)	464
Total	$ (73,230)	$ 17,064	$ 86,761

As of December 31, 2001, the Company has available net operating loss carryforwards ("NOL"), business tax credit carryforwards and alternative minimum tax credit carryforwards for federal income tax purposes of approximately $215.9 million, $9.9 million and $6.3 million, respectively. The NOL expire during the years 2005 through 2009 while the business credit carryforwards expire during the years 2002 through 2006. However, such carryforwards are not fully available to offset federal (and in certain circumstances, state) alternative minimum taxable income. Further, as a result of a statutory "ownership change" (as defined for purposes of Section 382 of the Internal Revenue Code) that occurred as a result of the Company's reorganization in 1994, the Company's ability to utilize its NOL and business tax credit carryforwards may be restricted. The alternative minimum tax credit may be carried forward without expiration and is available to offset future income tax payable to the extent regular income tax exceeds alternative minimum tax in any given year.

Composition of Deferred Tax Items:

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

		(IN THOUSANDS)
	2001	2000
Deferred income tax liabilities		
Property and equipment, principally depreciation and "fresh start" differences	$ (110,902)	$ (107,482)
Total deferred tax liability	(110,902)	(107,482)
Deferred tax assets		
Aircraft leases	16,240	17,267
Frequent flyer accrual	5,685	5,469
Net operating loss carryforwards	88,088	55,150
Tax credit carryforwards	9,862	12,145
Other	16,440	4,034
Total deferred tax assets	136,315	94,065
Valuation allowance	(26,719)	(27,128)
	109,596	66,937
Net deferred tax liability	$ (1,306)	$ (40,545)

SFAS No. 109, "*Accounting for Income Taxes*," requires a "more likely than not" criterion be applied when evaluating the realizability of a deferred tax asset. The valuation allowance of $26.7 million is necessary because at this time the Company has not determined it is more likely than not that the entire balance of the deferred tax assets will be fully realized. The Company continues to monitor the valuation allowance and will make adjustments as appropriate. If in future tax periods, the Company were to recognize additional tax benefits related to items attributable to the predecessor company such as net operating loss and other carryforwards, such benefits would be applied to reduce further reorganization value in excess of amounts allocable to identifiable assets.

9. Capital Stock

Preferred Stock

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

Common Stock

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

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

Treasury Stock

In September 1995, the Company adopted a stock repurchase program. The program was amended in December 1995, August 1997, August 1998, May 1999 and February 2000. During 1995 through 2000, the Company purchased approximately 16.5 million shares of Class B common stock and 7.4 million Warrants. The Company did not purchase any Class B common stock in 2001. As of December 31, 2001, the remaining balance available to be purchased under the program was 900 shares of issued and outstanding Class B common stock. Under the terms of the government guaranteed loan (see Note 20, "*Subsequent Events - Government Guaranteed Loan*,") the Company is prohibited from purchasing any additional shares of its stock prior to repayment of the loan in full.

10. Stock Options and Awards

Under the 1994 Incentive Equity Plan, as amended (the "Plan,") the Company's Board of Directors may grant stock options to officers and key employees. The maximum number of shares of Class B common stock authorized for issuance under the Plan is 9.0 million shares of which 1.2 million shares are available for grant at December 31, 2001. Stock options are granted with an exercise price equal to the stock's fair market value at the date of grant, generally become exercisable over a three-year period and expire if unexercised at the end of 10 years.

Stock option activity during the years indicated is as follows:

	number of shares	weighted-average exercise price
Balance at December 31, 1998:	4,785,000	$ 16.26
Granted	1,525,650	$ 19.53
Exercised	(481,420)	$ 16.51
Canceled	(586,661)	$ 18.82
Balance at December 31, 1999:	5,242,569	$ 16.90
Granted	1,782,300	$ 13.49
Exercised	(442,010)	$ 12.93
Canceled	(680,388)	$ 19.26
Balance at December 31, 2000:	5,902,471	$ 15.90
Granted	257,000	$ 11.30
Exercised	(93,334)	$ 10.17
Canceled	(765,451)	$ 16.14
Balance at December 31, 2001:	5,300,686	$ 15.74

At December 31, 2001, options outstanding and exercisable by price range are as follows:

range of exercise prices	options outstanding	weighted average remaining contractual life	weighted average exercise price	options currently exercisable	weighted average exercise price
$ 8.00 - $10.81	1,664,249	7.02	$ 10.13	1,013,284	$ 9.77
$ 11.63 - $16.50	1,210,001	5.67	$ 13.61	1,090,672	$ 13.48
$ 16.56 - $20.06	1,198,000	7.38	$ 18.28	830,015	$ 18.38
$ 20.44 - $24.88	1,116,436	6.51	$ 22.41	981,225	$ 22.68
$ 25.63 - $29.19	112,000	6.38	$ 28.47	112,000	$ 28.47
	5,300,686	6.67	$ 15.74	4,027,196	$ 16.21

There were 3,205,576 and 2,717,672 stock options exercisable as of December 31, 2000 and December 31, 1999, respectively. The per share weighted-average fair value of stock options granted during 2001, 2000 and 1999 was $3.92, $5.38 and $8.83, respectively, on the date of grant using the Black-Scholes option pricing model with the following weighted-average assumptions: 2001 - expected dividend yield of 0.0%, risk-free interest rate of 4.8%, volatility of 44.9% and an expected life of four years; 2000 - expected dividend yield of 0.0%, risk-free interest rate of 6.1%, volatility of 52.2% and an expected life of four years; 1999 - expected dividend yield of 0.0%, risk-free interest rate of 5.5%, volatility of 60.0% and an expected life of four years.

The Company applies APB Opinion No. 25 in accounting for its Plan and, accordingly, no compensation cost has been recognized for its stock options in the consolidated financial statements. Had the Company determined compensation cost based on the fair value at the grant date for its stock options under SFAS No. 123, the Company's net income (loss) and earnings (loss) per share would have been reduced to the pro forma (unaudited) amounts indicated:

(IN THOUSANDS EXCEPT PER SHARE DATA)

		2001	2000	1999
Net income (loss):	As reported	$ (147,871)	$ 7,679	$ 119,389
	Pro forma	$ (152,044)	$ 1,709	$ 114,323
Earnings (loss) per share:				
Basic	As reported	$ (4.39)	$ 0.22	$ 3.17
	Pro forma	$ (4.52)	$ 0.05	$ 3.03
Diluted	As reported	$ (4.39)	$ 0.22	$ 3.03
	Pro forma	$ (4.52)	$ 0.05	$ 2.90

Pro forma net income (loss) reflects only options granted during the years 1995 through 2001. Therefore, the full impact of calculating compensation cost for stock options under SFAS No. 123 is not reflected in the pro forma net income (loss) amounts presented above because compensation cost is reflected over the options' vesting period and compensation cost for options granted prior to January 1, 1995 is not considered.

Under the Plan, the Company granted 20,000 shares and 221,500 shares of Class B common stock as restricted stock to certain officers and key employees in 2000 and 1999. There were no restricted stock grants in 2001. The Company recognized compensation expense of $0.8 million, $1.6 million and $0.9 million related to restricted stock in 2001, 2000 and 1999, respectively. At December 31, 2001, 59,228 shares of restricted stock were vested.

The Plan also provides for the issuance of stock and grant of stock options to non-employee directors. The Company has granted options to purchase 273,000 shares of Class B common stock to members of the Board of Directors who are not employees of the Company. The options have a ten-year term and are exercisable six months after the date of grant. As of December 31, 2001, 180,000 options were outstanding and exercisable at prices ranging from $8.00 to $29.19 per share. On December 31, 2001, 2000 and 1999, non-employee directors were also granted Class B common stock pursuant to the Plan totaling 9,750 shares, 9,000 shares, and 5,737 shares, respectively.

11. Accumulated Other Comprehensive Income (Loss)

Accumulated other comprehensive income (loss) includes unrealized gains and losses on available-for-sale securities and changes in the fair value of derivative financial instruments that qualify for hedge accounting. For the twelve months ended December 31, 2001, the Company recorded a total comprehensive loss of $145.4 million compared to total comprehensive income of $6.6 million for the twelve months ended December 31, 2000. The difference between net income (loss) and comprehensive income (loss) for the twelve months ended December 31, 2001 and 2000 is detailed in the following table:

(IN THOUSANDS)

	12 months ended Dec. 31, 2001	12 months ended Dec. 31, 2000
Net income (loss)	$ (147,871)	$ 7,679
Unrealized losses on derivative instruments, net of deferred taxes	(3,146)	—
Reclassification adjustment to net income (loss) of previously reported unrealized losses on derivative instruments, net of taxes	4,536	—
Unrealized losses on marketable equity securities, net of deferred taxes	(199)	(1,108)
Realized losses on marketable equity securities, net of taxes	1,307	—
Total other comprehensive income (loss)	2,498	(1,108)
Comprehensive income (loss)	$ (145,373)	$ 6,571

In July 2000, Holdings completed the sale of America West Golf Vacations, a division of TLC, to Book4golf.com, a provider of Internet-based, real-time, golf tee time reservation systems. TLC received 900,000 common shares, with a fair market value of $2.1 million. The Company recorded a nonoperating pretax gain on sale of $2.0 million in the third quarter of 2000. In accordance with SFAS No. 115, "*Accounting for Certain Investments in Debt and Equity Securities*," the Company had classified TLC's investment in Book4golf.com as available-for-sale securities in the Company's consolidated balance sheet. SFAS No. 130, "*Reporting Comprehensive Income*" requires unrealized gains or losses on the Company's available-for-sale securities to be included in accumulated other comprehensive income, a component of stockholders' equity. In the third quarter of 2001, management determined the decline in market value of the Company's investment in Book4Golf.com, approximately $2.1 million since July 2000, was other than temporary. In accordance with SFAS No. 12, "*Accounting for Certain Marketable Securities*," the investment was written down to realizable value, recognizing a nonoperating pretax loss of $2.1 million. The tax benefit associated with the loss was $0.8 million.

12. Employee Benefit Plan

The Company has a 401(k) defined contribution plan, covering essentially all employees of the Company. Participants may contribute from 1 to 15% of their pretax earnings to a maximum of $10,500 in 2001. The Company's matching contribution is determined annually by the Board of Directors. The Company's contribution expense to the plan totaled $8.1 million, $9.0 million and $7.6 million in 2001, 2000 and 1999, respectively.

13. Special Charges

In April 2001, Holdings announced a cost reduction plan to respond to a softening economy. The plan included a slowing of the airline's growth through the return of seven older 737-300 leased aircraft to the lessors in the second half of 2001 and January 2002 and significant reductions in overhead due in part to select reductions-in-force of management, administrative and clerical personnel.

The Company recorded a pretax charge of $35.7 million in the second quarter of 2001 related to the earlier-than-planned aircraft returns and reductions-in-force. The following table presents the payments made during 2001 and remaining accrual as of December 31, 2001.

	aircraft returns	reduction-in-force	total
Balance at December 31, 2000	$ —	$ —	$ —
Special charges	34,572	1,149	35,721
Impairment loss	(12,003)	—	(12,003)
Accrual	22,569	1,149	23,718
Payments	(5,783)	(1,066)	(6,849)
Balance at December 31, 2001	$ 16,786	$ 83	$ 16,869

The Company expects to make the final payments related to these special charges in the second quarter of 2002.

In the fourth quarter of 2001, AWA recorded a pretax special charge of $2.7 million related to the early termination of leases for one A320 and one 737-300 aircraft.

14. Nonoperating Income (Expense) - Other, Net

For accounting purposes, AWA recognizes federal government assistance income to offset direct and incremental losses resulting from the terrorist attacks to the extent of actual direct and incremental losses incurred. AWA received $98.2 million under the Act from the United States Government in 2001 and expects to receive at least an additional $10.0 million under the Act in the first quarter of 2002 (see Note 3, "*Air Transportation Safety and System Stabilization Act*"). In accordance with EITF Issue No. 01-10, "*Accounting for the Impact of the Terrorist Attacks of September 11, 2001*," AWA recognized the entire amount as nonoperating income because direct and incremental losses incurred during 2001 exceeded that amount.

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

In July 2000, Holdings completed the sale of America West Golf Vacations, a division of TLC, to Book4golf.com, a provider of Internet-based, real-time, golf tee time reservation systems. TLC received 900,000 common shares, with a fair market value of $2.1 million. The Company recorded a nonoperating pretax gain on sale of $2.0 million in the third quarter of 2000. In the third quarter of 2001, management determined the decline in market value of the Company's investment in Book4Golf.com, approximately $2.1 million since July 2000, was other than temporary. In accordance with SFAS No. 12, "*Accounting for Certain Marketable Securities*," the investment was written down to realizable value, recognizing a pretax loss of $2.1 million (see Note 11, "*Accumulated Other Comprehensive Income (Loss).*")

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

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

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

In December 1999, AWA recorded an $11.9 million pretax unrealized gain on the Company's investment in Priceline.com common stock. AWA sold all 294,109 shares of Priceline.com for approximately $15.1 million in January 2000.

15. Earnings (Loss) Per Share

(IN THOUSANDS EXCEPT PER SHARE DATA)

Year Ended December 31,	2001	2000	1999
Basic earnings (loss) per share:			
Income (loss) applicable to common stock	$ (147,871)	$ 7,679	$ 119,389
Weighted average common shares outstanding	33,669,858	35,139,084	37,678,947
Basic earnings (loss) per share	$ (4.39)	$ 0.22	$ 3.17
Diluted earnings (loss) per share:			
Income (loss) applicable to common stock	$ (147,871)	$ 7,679	$ 119,389
Share computation:			
Weighted average common shares outstanding	33,669,858	35,139,084	37,678,947
Assumed exercise of stock options and warrants	—	549,093	1,753,324
Weighted average common shares outstanding as adjusted	33,669,858	35,688,177	39,432,271
Diluted earnings (loss) per share	$ (4.39)	$ 0.22	$ 3.03

For the year ended December 31, 2001, the incremental shares from assumed exercise of stock options are not included in the computation of diluted EPS because of the antidilutive effect on EPS. For the years ended December 31, 2000 and 1999, options of 3,592,311 and 1,632,041, respectively, are not included in the computation of diluted EPS because the option exercise prices were greater than the average market price of common stock, resulting in an antidilutive effect.

16. Supplemental Information to Consolidated Statements of Cash Flows

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

(IN THOUSANDS)

Year Ended December 31,	2001	2000	1999
Non-cash transactions:			
Notes payable issued for equipment purchase deposits	$ 10,500	$ 42,000	$ 35,000
Notes payable canceled under the aircraft purchase agreement	38,500	38,500	45,500
Cash transactions:			
Interest paid, net of amounts capitalized	24,242	11,536	19,920
Income taxes paid (refunded)	(8,588)	9,859	56,062

17. Related Party Transactions

AWA has entered into various aircraft leasing arrangements with AerFi Group plc ("AerFi"), formerly GPA Group plc, at terms comparable to those obtained from third parties for similar transactions. William A. Franke, the Company's former Chairman and CEO, was a director and, indirectly, a minor shareholder of AerFi. In addition, an affiliate of TPG purchased a large minority stake in AerFi in November 1998 and had three representatives serving on AerFi's five-member Board of Directors. AerFi was acquired by AirFinance B.V. in November 2000 and Mr. Franke and the TPG affiliate disposed of all share interests in AerFi at that time. Mr. Franke and the representatives of the TPG affiliate also resigned from their board positions at that time. AWA currently leases four aircraft from AerFi and the rental payments for such leases amounted to $14.1 million, $14.8 million and $14.8 million for the years ended December 31, 2001, 2000 and 1999, respectively. After restructuring of the leases in conjunction with the $429 million government guaranteed loan (see Note 20, "*Subsequent Events - Government Guaranteed Loan*,") the Company is obligated to pay approximately $96.5 million under the AerFi leases which expire at various dates through the year 2013.

AerFi and AWA also entered into a Put Termination Agreement which terminated arrangements with AerFi pursuant to which AerFi could cause AWA to lease up to four additional aircraft prior to June 30, 1999. Pursuant to the Put Termination Agreement, AWA is obligated to make certain payments to the U.S. subsidiaries of AerFi ("AerFi Subs"). The payments due to the AerFi Subs under the Put Termination Agreement were approximately $1.9 million for each of the years 2001, 2000 and 1999.

As part of the Company's reorganization in 1994, Continental Airlines made an investment in the Company and the Company entered into an alliance agreement related to code sharing arrangements and ground handling operations. The Company paid Continental approximately $30.1 million, $32.4 million and $31.7 million and also received approximately $22.0 million, $25.5 million and $24.5 million in 2001, 2000 and 1999, respectively, from Continental pursuant to these agreements. In March 2002, AWA received notice from Continental of its intention to terminate the code sharing and related agreements between the two airlines, effective April 26, 2002. See Note 20, "*Subsequent Events - Termination of Code Share Agreement with Continental Airlines*."

In December 2000, Continental Airlines sold to the Company all 158,569 shares of Class A common stock of the Company held by Continental. Continental also assigned to the Company its rights of first refusal held by Continental with respect to shares of Class A common stock owned by TPG Partners, L.P., TPG Parallel I, L.P. and Air Partners II, L.P. (collectively, the "TPG Parties") under a Priority Distribution Agreement originally entered into between Continental and the TPG Parties in 1994. As consideration, AWA paid Continental $10.8 million with respect to these transactions. Under the agreement, the Company's rights of first refusal terminated when William A. Franke ceased to be the Chairman of the Company. The payment was accounted for in 2000 as a reduction in shareholders' equity.

18. Quarterly Financial Data (Unaudited)

Summarized quarterly financial data for 2001 and 2000 follows (in thousands of dollars except per share amounts):

	1st quarter	2nd quarter	3rd quarter	4th quarter
2001				
Operating revenues	$ 587,473	$ 587,199	$ 491,355	$ 399,886
Operating loss	(24,506)	(53,513)	(98,917)	(137,649)
Nonoperating income (expenses), net	(2,404)	(370)	52,156	44,102
Income tax benefit	14,074	11,399	15,082	32,675
Net loss	(12,836) (1)	(42,484) (2)	(31,679) (3)	(60,872) (4)
Loss per share:				
Basic	(0.38)	(1.26)	(0.94)	(1.81)
Diluted	(0.38)	(1.26)	(0.94)	(1.81)

	1st quarter	2nd quarter	3rd quarter	4th quarter
2000				
Operating revenues	$ 562,892	$ 617,927	$ 590,539	$ 572,996
Operating income (loss)	11,030	48,307	240	(72,214)
Nonoperating income, net	15,001	9,179	12,022	1,178
Income tax benefit (expense)	(11,402)	(23,995)	(10,960)	29,293
Net income (loss)	14,629 (5)	33,491 (6)	1,302 (7)	(41,743) (8)
Earnings (loss) per share:				
Basic	.40	.93	.04	(1.24)
Diluted	.40	.91	.04	(1.24)

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

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

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

(4) Includes a $47.9 million pretax gain related to a federal grant received under the Air Transportation Safety and System Stabilization Act to offset losses resulting from the September 11, 2001 terrorist attacks, $2.7 million of pretax special charges related to the early termination of aircraft leases and an $8.8 million pretax gain from an insurance settlement.

(5) Includes a $15.5 million pretax gain on sale of 500,000 warrants to purchase common stock of Priceline.com.

(6) Includes a $9.2 million pretax gain from TLC's sale of a majority interest in National Leisure Group and The Vacation Store.

(7) Includes an $8.8 million pretax unrealized gain on the Company's investment in GetThere.com common stock.

(8) Includes $16.0 million of operating expenses primarily related to the write-down to net realizable value of certain excess expendable parts inventory that will be sold.

Earnings per share are computed independently for each of the quarters presented. Therefore, the sum of the quarterly earnings per share in 2001 and 2000 does not equal the total computed for the year.

19. Segment Disclosures

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

20. Subsequent Events

Government Guaranteed Loan

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

- *Government Guaranteed Loan* – The catalyst for AWA's restructuring plan was a $429 million loan

backed by a $380 million federal loan guarantee. The loan has a seven-year term with ratable amortization in years three through seven, an interest rate of three month LIBOR plus 40 basis points paid quarterly and guarantee fees payable to the U.S. Treasury Department and other loan participants of 550 basis points in year one and approximately 800 basis points thereafter.

- *Aircraft Deferrals/Financing* – AWA restructured its aircraft purchase commitment with AVSA to defer 17 new Airbus aircraft previously scheduled for delivery in 2003 and 2004 by a total of 505 aircraft-months to 2004 through 2007. New financing commitments were obtained for 11 aircraft which were either already delivered in 2001 or scheduled to be delivered in 2002 and 2003. Financing for three of the aircraft is subject to achieving a minimum liquidity threshold and financing for two of the aircraft is subject to attaining established financial performance goals. As a result, AWA is now financed for all scheduled aircraft deliveries through the fourth quarter of 2003.
- *Aircraft Returns/Rent Reductions* – Through negotiations with approximately twenty aircraft lessors, AWA has retired or plans to retire 11 aircraft by early 2002 to better size its fleet to the current industry demand environment. For the aircraft that remain, annual rent payments have been reduced for each of the next seven years.
- *Term-out of Line of Credit* – AWA's $89.9 million secured credit facility was converted into an $89.9 million secured term loan maturing at year-end 2007. The loan has a six-year term with ratable amortization in years four through six and an interest rate of one month LIBOR plus 225 basis points from the closing date through December 31, 2004 and one month LIBOR plus 475 basis points from January 1, 2005 and thereafter. In addition, AWA will pay interest in kind on the aggregate outstanding principal amount of the loan at a rate of two percent per annum from the closing date through December 31, 2004.
- *State/City Financing* – From the State of Arizona and the City of Phoenix, AWA received $1.25 million in job training grants and $1.5 million in other financing and expects to receive $8.5 million through the sale and leaseback of jetways at Phoenix Sky Harbor International Airport.
- *TPG Undertaking* – At the request of the ATSB, TPG partners, L.P., and its affiliates, owners of all 941,431 shares of America West Holdings Class A common stock, have undertaken not to dispose of their Class A stock other than in connection with an offer to acquire all the shares of the Company's Class B common stock accepted or approved by the holders of a majority of the Class B stock. This undertaking is subject to certain exceptions, including transfers to TPG affiliates, repurchase of the Class A stock by Holdings and exercise of TPG's rights to convert the Class A stock into Class B stock, and will terminate when the warrants issued in connection with the term loan transactions discussed below expire or are exercised and the underlying shares of Class B stock are sold, or TPG and its affiliates no longer hold the Class A stock.
- *Warrants/Convertible Senior Notes* – As compensation for various elements of the restructuring plan, Holdings issued a warrant to purchase up to 18.8 million shares of its Class B common stock to the federal government and additional warrants to purchase up to 3.8 million shares of its Class B common stock to other loan participants, in each case at an exercise price of $3 per share and a term of ten years. Holdings also issued approximately $104.5 million in convertible senior notes as partial compensation to aircraft lessors. The notes have a seven-year term, a coupon rate of 7.5% with interest paid in kind for years one through three. The notes are convertible after three years into Class B common stock at $12 per share.

The condensed consolidated balance sheet of Holdings as of December 31, 2001, after giving effect to the government guaranteed loan transactions, is set forth below.

Condensed Consolidated Pro Forma Balance Sheet

DECEMBER 31,2001 (UNAUDITED) (IN THOUSANDS)

	actual	pro forma adjustments	pro forma
Cash and cash equivalents	$ 156,865	$ 380,918 (1)(2)	$ 537,783
Other current assets	204,533		204,533
Total current assets	361,398		742,316
Property and equipment, net	825,903		825,903
Other assets, net	383,608	121,850 (2)(3)(4)(6)	505,458
Total assets	$ 1,570,909		$ 2,073,677
Current maturities of long-term debt	$ 119,141	(89,855) (7)	$ 29,286
Other current liabilities	571,385	(54,273) (2)(3)(4)(5)	517,112
Total current liabilities	690,526		546,398
Long-term debt, less current maturities	222,955	588,480 (1)(3)(7)	811,435
Deferred credits and other liabilities	135,085	23,033 (5)	158,118
Stockholders' equity	522,343	35,383 (6)	557,726
Total liabilities and stockholders' equity	$ 1,570,909		$ 2,073,677

(1) Reflects receipt of the $429 million government guaranteed loan, net of debt issue costs of $36.3 million, which include first year guarantee fees, and a $1.5 million unsecured loan from the State of Arizona.

(2) Reflects the payment of $12.8 million of aircraft rent, which was accrued and payable as of December 31, 2001, and $0.4 million of new security deposits upon receipt of the $429 million government guaranteed loan.

(3) Reflects the issuance of $104.5 million of convertible senior notes as partial compensation to aircraft lessors for certain unpaid obligations as of December 31, 2001 ($5.6 million), future rent concessions ($91.8 million) and lease termination costs ($7.1 million). The future rent concessions will be amortized over the remaining lives of the applicable leases. The lease termination costs were related to the earlier than planned return of five older 737-300 leased aircraft. These costs were accrued as part of a pretax special charge in the second quarter of 2001 and, therefore, charged against that accrual. See Note 13, "*Special Charges*."

(4) Reflects $5.8 million of aircraft security deposits as of December 31, 2001 that were applied by aircraft lessors to settle unpaid rent and lease termination costs related to the five aircraft discussed in (3) above. In addition, $0.8 million of security deposits are being held by the lessor to secure the costs of future lease terminations for five additional aircraft with scheduled lease expirations in 2005. This amount has been reclassified as a deferred charge and will be applied to actual costs incurred upon return of the aircraft.

(5) Reflects $23.0 million of aircraft rent, which was accrued as of December 31, 2001, and waived by the aircraft lessors. This amount will be carried as a deferred credit and amortized over the remaining lives of the applicable leases as a reduction in rent expense.

(6) Reflects the fair market value ($35.4 million) of warrants to purchase up to 22.5 million shares of Holdings' Class B common stock issued to the federal government and other loan participants. The value of these warrants will be amortized over the seven-year life of the loan as non-cash interest expense using the effective interest rate method.

(7) Reflects the conversion of AWA's $89.9 million revolving credit facility to an $89.9 million term loan upon receipt of the $429 million government guaranteed loan.

Income Tax Refund

In February 2002, Holdings filed its 2001 consolidated income tax return with the IRS, which included a claim to carryback losses incurred in 2001 to the tax years 1999 and 2000. This resulted in a refund of approximately $33.9 million, of which $33.8 million was received in the first quarter of 2002.

Elimination of Base Commission for Travel Agents

In March 2002, AWA announced the elimination of base commission for all travel agency issued tickets in the United States (including Puerto Rico and the U.S. Virgin Islands) and Canada, effective March 21, 2002. AWA also announced the introduction of the Agency AWArds commission program for travel agents, which offers agencies the opportunity to earn commission payments in exchange for booking more of their business on AWA. The maximum commission payment for this program is 5%. The elimination of AWA's base commission applies to tickets issued for both domestic and international travel. The change does not apply to tickets purchased outside of the United States and Canada.

Revised Fare Structure

In March 2002, AWA announced it simplified its everyday fare structure in response to consumer demand, eliminating traditional Saturday night stays and offering reduced one-way fares throughout the United States and Canada. The new pricing structure will result in significant reductions to the airline's current, unrestricted walkup fares. With this new structure, the airline expects to reduce its reliance on fare sales and off-tariff pricing from discount web sites.

Termination of Code Share Agreement with Continental Airlines ("Continental")

In March 2002, AWA announced that it had received notice from Continental of its intention to terminate the code sharing and related agreements between the two airlines. Continental's notice stated that code sharing will cease on April 26, 2002. Continental's notice also stated that the airlines' reciprocal frequent flyer and airport club agreements will be terminated effective September 24, 2002. AWA estimates that the code sharing, frequent flyer and club arrangements with Continental accounted for about $15 million to $20 million in incremental revenue annually for AWA.

CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

KPMG LLP served as the Company's and AWA's independent auditors for the fiscal years ended December 31, 2000 and 1999. The Company's contract for services with KPMG LLP expired upon completion of the 2000 audit, and on March 29, 2001, the Company notified KPMG LLP that it had approved the engagement of PricewaterhouseCoopers LLP as its independent auditors for the Company and AWA for the fiscal year ended December 31, 2001. The decision to change independent auditors was not made as the result of a disagreement of any kind. The change was recommended by the Holdings Audit Committee and approved by the Board of Directors of Holdings and AWA.

The audit reports of KPMG LLP on Holdings' consolidated balance sheets and on AWA's balance sheets as of December 31, 2000 and 1999 and the related statements of operations, cash flows and stockholders' equity for Holdings and statements of operations, cash flows and stockholder's equity for AWA for each of the years in the three year period ended December 31, 2000 did not contain an adverse opinion or disclaimer of opinion, and were not qualified or modified as to uncertainty, audit scope, or accounting principles.

In connection with the audits of the fiscal years ended December 31, 2000 and 1999 and the interim periods subsequent to December 31, 2000 through March 29, 2001, there were no disagreements between Holdings or AWA and KPMG LLP as to any matter of accounting principles or practices, financial statement disclosure, or audit scope or procedure, which such disagreements, if not resolved to the satisfaction of KPMG LLP, would have caused it to make reference to the subject matter of the disagreement in connection with its reports on the financial statements for such periods within the meaning of Item 304(a)(1)(iv) of Regulation S-K. During the fiscal years ended December 31, 2000 and 1999 and the interim periods subsequent to December 31, 2000 through March 29, 2001, there have been no reportable events (as defined in Item 304(a)(1)(iv) of Regulation S-K).

Holdings and AWA have not consulted with PricewaterhouseCoopers prior to its engagement regarding the application of accounting principles to a specified transaction, either completed or proposed, the type of audit opinion that might be rendered on the financial statements of Holdings or AWA or any matter that was either the subject of disagreement or a reportable event within the meaning of Item 304(a)(l) of Regulation S-K.

Corporate Headquarters

America West Holdings Corporation
111 West Rio Salado Parkway
Tempe, Arizona 85281
(480) 693-0800

Stock Exchange Listing

The Class B common stock for America West Holdings Corporation is traded on the New York Stock Exchange under the symbol "AWA." The Company's Class A common stock is not traded on any active market.

Stock Transfer Agent and Registrar

Computershare Investor Services
2 North La Salle Street
Chicago, Illinois 60602
(800) 926-5864

Independent Accountants

PricewaterhouseCoopers LLP
1850 N. Central Avenue, Suite 700
Phoenix, Arizona 85004

Stockholders

The approximate number of holders of record of America West Holdings Corporation's Class B common stock as of March 25, 2002 was 2,402.
There were three holders of record of America West Holdings Corporation's Class A common stock as of March 25, 2002.

Annual Meeting

The annual meeting of shareholders will be held Monday, May 20, 2002, at 8:30 a.m. PDT at the law offices of Cooley Godward LLP, One Maritime Plaza, 20th floor, San Francisco, California 94111-3580.

Internet Home Page

General information on America West Holdings Corporation and America West Airlines is available on the Internet at www.americawest.com. America West's Web site also allows visitors to book flights, enroll in FlightFund or take advantage of special offers from America West Airlines and America West Vacations. An investor relations section features numerous financial documents, press releases, the company's Annual Report and stock price information.

Flight Information

To book a flight on America West Airlines, visit www.americawest.com, contact your travel agent or call (800) 2-FLY-AWA.

Vacation Packages

To book a vacation package through America West Vacations, visit www.americawestvacations.com, contact your travel agent or call (800) 356-6611.

Investor Relations

Financial publications, including additional copies of the company's Annual Report, Form 10-K, Forms 10-Q or Proxy Statement, are available without charge by contacting:

Manager, Investor Relations
America West Holdings Corporation
111 West Rio Salado Parkway
Tempe, Arizona 85281
(480) 693-5527

General information may also be obtained by calling America West's 24-hour fax-on-demand system at (888) AWA-FAXS.

AMERICA WEST HOLDINGS CORPORATION