

SECURITIES AND EXCHANGE COMMISSION

FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

Filing Date: **1994-05-13** | Period of Report: **1994-03-31**
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FILER

USAIR GROUP INC

CIK: **701345** | IRS No.: **541194634** | State of Incorporation: **DE** | Fiscal Year End: **1231**
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SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 1994

USAir Group, Inc.

(Commission file number: 1-8444)

and

USAir, Inc.

(Commission file number: 1-8442)

(Exact names of registrants as specified in their charters)

Delaware	USAir Group, Inc.	54-1194634
(State of incorporation	USAir, Inc.	53-0218143
of both registrants)	(I.R.S. Employer Identification Nos.)	

USAir Group, Inc.

2345 Crystal Drive, Arlington, Virginia 22227

(Address of principal executive offices)

(703) 418-5306

(Registrant's telephone number, including area code)

USAir, Inc.

2345 Crystal Drive, Arlington, Virginia 22227

(Address of principal executive offices)

(703) 418-7000

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrants (1) have filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrants were required to file such reports), and (2) have been subject to such filing requirements for the past 90 days.

Yes

No

At April 30, 1994, there were outstanding approximately 59,540,000 shares (exclusive of approximately 1,535,000 shares held in treasury) of common stock of USAir Group, Inc. and 1,000 shares of common stock of USAir, Inc.

The registrant USAir, Inc. meets the conditions set forth in General Instructions H(1)(a) and (b) of Form 10-Q and is therefore participating in the filing of this form with the reduced disclosure format.

USAir Group, Inc.

and

USAir, Inc.

Quarterly Report on Form 10-Q

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PART I. FINANCIAL INFORMATION

Item 1A. Financial Statements

USAir Group, Inc.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

THREE MONTHS ENDED MARCH 31, 1994 and 1993 (Unaudited) (in thousands except per share amounts)

<CAPTION>

	1994 ----	1993 ----
<S>	<C>	<C>
Operating Revenues		
Passenger transportation	\$1,528,063	\$1,600,438
Cargo and freight	41,992	42,048
Other	115,846	73,855
	-----	-----
Total operating revenues	1,685,901	1,716,341
Operating Expenses		
Personnel costs	722,962	659,191

Aviation fuel	162,472	176,015
Commissions	141,099	142,857
Other rent and landing fees	115,853	109,679
Aircraft rent	114,036	118,939
Aircraft maintenance	105,518	94,750
Depreciation and amortization	78,240	74,209
Other, net	381,767	338,679
	-----	-----
Total operating expenses	1,821,947	1,714,319
	-----	-----
Operating income (loss)	(136,046)	2,022
Other Income (Expense)		
Interest income	4,249	1,739
Interest expense	(68,669)	(62,339)
Interest capitalized	3,767	6,958
Other, net	44	(9,412)
	-----	-----
Other income (expense), net	(60,609)	(63,054)
	-----	-----
Loss before taxes and cumulative effect of accounting change	(196,655)	(61,032)
Income tax provision	-	-
	-----	-----
Loss before cumulative effect of accounting change	(196,655)	(61,032)
Cumulative effect of change in method of accounting for postemployment benefits	-	(43,749)
	-----	-----
Net loss	(196,655)	(104,781)
	-----	-----
Preferred dividend requirement	(19,220)	(16,908)
	-----	-----
Net loss applicable to common stockholders	\$ (215,875)	\$ (121,689)
	=====	=====
Loss per common share		
Before accounting change	\$ (3.64)	\$ (1.65)
Effect of accounting change	-	(0.92)
	-----	-----
Loss per common share	\$ (3.64)	\$ (2.57)
	=====	=====
Shares used for computation (000)	59,274	47,253

See accompanying Notes to Condensed Consolidated Financial Statements.

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<TABLE>
USAir Group, Inc.
CONDENSED CONSOLIDATED BALANCE SHEETS
MARCH 31, 1994 (Unaudited) and December 31, 1993 (in thousands except per share amounts)

<CAPTION>

	March 31, 1994	December 31, 1993
	-----	-----
ASSETS		
<S>	<C>	<C>
Current Assets		
Cash and cash equivalents	\$ 386,000	\$ 368,347
Receivables, net	509,220	364,020
Materials and supplies, net	351,352	362,019
Prepaid expenses and other	110,861	83,334

Total current assets	1,357,433	1,177,720
Property and Equipment		
Flight equipment	5,134,400	5,031,351
Ground property and equipment	1,086,259	1,074,526
Less accumulated depreciation and amortization	(1,957,155)	(1,883,858)
	4,263,504	4,222,019
Purchase deposits	150,274	156,621
Property and equipment, net	4,413,778	4,378,640
Other Assets		
Goodwill, net	538,654	542,666
Other intangibles, net	301,367	296,775
Other assets, net	496,654	482,112
Total other assets	1,336,675	1,321,553
	\$7,107,886	\$6,877,913
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Current maturities of long-term debt	\$ 83,534	\$ 87,833
Accounts payable	394,994	335,918
Traffic balances payable and unused tickets	818,193	630,147
Accrued expenses	1,122,200	1,182,886
Total current liabilities	2,418,921	2,236,784
Long-Term Debt, Net of Current Maturities	2,670,253	2,444,017
Deferred Credits and Other Liabilities		
Deferred gains, net	433,538	440,327
Postretirement benefits other than pensions, non-current	926,635	907,343
Non-current pension liability and other	330,163	303,299
Total deferred credits and other liabilities	1,690,336	1,650,969
Commitments and Contingencies		
Redeemable Cumulative Convertible Preferred Stock		
Series A, 358,000 shares issued, no par value	358,000	358,000
Series F, 30,000 shares issued, no par value	300,000	300,000
Series T, 10,000 shares issued, no par value	100,719	100,719
Stockholders' Equity (Deficit)		
Series B cumulative convertible preferred stock, no par value, 4,263,000 depositary shares issued	213,153	213,153
Common stock, par value \$1 per share, authorized 150,000,000 shares, issued 61,080,000 shares	61,080	61,080
Paid-in capital	1,410,123	1,417,346
Retained deficit	(1,903,428)	(1,682,912)
Common stock held in treasury, at cost, 1,667,000 and 1,864,000 shares, respectively	(75,026)	(83,891)
Deferred compensation	(93,850)	(94,957)
Adjustment for minimum pension liability	(42,395)	(42,395)
Total stockholders' deficit	(430,343)	(212,576)
	\$7,107,886	\$6,877,913
	=====	=====

</TABLE>

See accompanying Notes to Condensed Consolidated Financial Statements.

<TABLE>

USAir Group, Inc.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

THREE MONTHS ENDED MARCH 31, 1994 AND 1993 (Unaudited)

(in thousands)

<CAPTION>

	1994	1993
	----	----
<S>	<C>	<C>
Cash and cash equivalents beginning of period	\$ 368,347	\$ 296,038
Cash flows from operating activities		
Net loss	(196,655)	(104,781)
Adjustments to reconcile net loss to cash provided by (used for) operating activities		
Depreciation and amortization	78,240	74,209
Loss (gain) on disposition of assets	1,125	2,227
Other	(10,036)	(226)
Changes in certain assets and liabilities		
Decrease (increase) in receivables	(145,200)	(46,428)
Decrease (increase) in materials, supplies, prepaid expenses and intangible pension assets	(21,726)	(26,532)
Increase (decrease) in traffic balances payable and unused tickets	188,046	51,787
Increase (decrease) in accounts payable and accrued expenses	20,677	(40,522)
Increase (decrease) in postretirement benefits other than pensions, non-current	19,292	14,100
	-----	-----
Net cash provided by (used for) operating activities	(66,237)	(76,166)
Cash flows from investing activities		
Aircraft acquisitions and purchase deposits, net	(19,069)	(24,384)
Additions to other property	(42,182)	(29,885)
Proceeds from disposition of assets	713	65,479
Change in restricted cash and investments	3,422	(800)
Other	1,819	(2,008)
	-----	-----
Net cash provided by (used for) investing activities	(55,297)	8,402
Cash flows from financing activities		
Issuance of debt	172,156	220,000
Reduction of debt	(15,674)	(436,064)
Issuance of preferred stock	-	300,000
Sale of treasury stock	1,903	1,527
Dividends	(19,198)	(16,908)
	-----	-----
Net cash provided by (used for) financing activities	139,187	68,555
	-----	-----
Net increase (decrease) in cash and cash equivalents	17,653	791
	-----	-----
Cash and cash equivalents end of period	\$ 386,000	\$ 296,829
	=====	=====
Noncash investing and financing activities		
Issuance of debt for aircraft acquisitions	\$ 62,786	\$ 79,762
	=====	=====

</TABLE>

USAir Group, Inc.
Notes to Condensed Consolidated Financial Statements
(Unaudited)

(1) BASIS OF PRESENTATION

The accompanying condensed consolidated financial statements include the accounts of USAir Group, Inc. ("USAir Group" or the "Company") and its wholly-owned subsidiaries: USAir, Inc. ("USAir"), Piedmont Airlines, Inc. ("Piedmont"), Jetstream International Airlines, Inc., Pennsylvania Commuter Airlines, Inc., USAir Leasing and Services, Inc., USAir Fuel Corporation and Material Services Company, Inc.

The comparative 1993 figures in the accompanying Condensed Consolidated Statements of Operations and Condensed Consolidated Statements of Cash Flows have been restated from the March 31, 1993 Quarterly Report on Form 10-Q to reflect the adoption during the third quarter of 1993, retroactive to January 1, 1993, of Statement of Financial Accounting Standards No. 112, "Employers' Accounting for Postemployment Benefits." Certain other 1993 amounts have been reclassified to conform with 1994 classifications.

Management believes that all adjustments (none of which were other than normal recurring accruals) necessary for a fair statement of results have been included in the condensed consolidated financial statements for the interim periods presented, which are unaudited. All significant intercompany accounts and transactions have been eliminated.

These interim period condensed consolidated financial statements should be read in conjunction with the consolidated financial statements contained in the Company's Annual Report on Form 10-K for the year ended December 31, 1993.

(2) COMMITMENTS

On May 12, 1994, USAir and The Boeing Company ("Boeing") reached an agreement to reschedule the delivery of 40 firm order 737-series aircraft from the 1997-2000 time period to the years 2003-2005. In addition, USAir will forego options to purchase 63 737-series, 11 757-series and two 767-series aircraft during the 1996-2000 time period.

The following schedule, as of March 31, 1994, of USAir's new aircraft on firm order, options for new aircraft and scheduled payments for new aircraft orders (including progress payments, buyer furnished equipment, spares and capitalized interest) reflects USAir's May 1994 agreement with Boeing as though the agreement had been in existence at March 31, 1994.

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<TABLE>

(2) COMMITMENTS (Continued)

<CAPTION>

Delivery Period - Firm Orders

	1994	1995	1996	1997	1998	There- after	Total
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Boeing							
757-200	3	7	8	-	-	-	18
737 Series	-	-	-	-	-	40	40
	---	---	---	---	---	---	---
	3	7	8	-	-	40	58
	===	===	===	===	===	===	===
Payments							
(millions)	\$199	\$287	\$252	\$ -	\$ -	\$1,877	\$2,615
	===	===	===	===	===	=====	=====

(3) LONG-TERM DEBT

On April 19, 1994, the Company notified the banks which were parties to a credit agreement dated March 30, 1987, as amended ("Credit Agreement"), of the Company's decision to terminate the Credit Agreement and on April 26, 1994, the Credit Agreement was terminated. As a result, 66 jet and commuter aircraft and certain spare engines with a net book value of approximately \$260 million were released from a mortgage related to the Credit Agreement. The Company had been in violation of certain covenants at March 31, 1994. The Credit Agreement was scheduled by its terms to expire on September 30, 1994.

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</TABLE>
<TABLE>

PART I. FINANCIAL INFORMATION

Item 1B. Financial Statements

USAir, Inc.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

THREE MONTHS ENDED MARCH 31, 1994 and 1993 (Unaudited)

(in thousands)

<CAPTION>

	1994	1993
<S>	<C>	<C>
Operating Revenues		
Passenger transportation	\$1,427,676	\$1,486,189
Cargo and freight	41,230	41,253
Other	120,331	78,006
	-----	-----
Total operating revenues	1,589,237	1,605,448
Operating Expenses		
Personnel costs	688,202	625,908
Aviation fuel	155,474	167,905
Commissions	133,239	133,809
Other rent and landing fees	112,539	106,380

Aircraft rent	102,898	109,534
Aircraft maintenance	89,029	79,153
Depreciation and amortization	72,151	66,875
Other, net	366,985	329,178
	-----	-----
Total operating expenses	1,720,517	1,618,742
	-----	-----
Operating loss	(131,280)	(13,294)
Other Income (Expense)		
Interest income	4,402	7,160
Interest expense	(68,131)	(57,181)
Interest capitalized	3,767	6,953
Other, net	1,190	(8,274)
	-----	-----
Other income (expense), net	(58,772)	(51,342)
	-----	-----
Loss before taxes and cumulative effect of accounting change	(190,052)	(64,636)
Income tax provision	-	-
	-----	-----
Loss before cumulative effect of accounting change	(190,052)	(64,636)
Cumulative effect of change in method of accounting for postemployment benefits	-	(43,749)
	-----	-----
Net loss	\$ (190,052)	\$ (108,385)
	=====	=====

</TABLE>

See accompanying Notes to Condensed Consolidated Financial Statements.

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<TABLE>
USAir, Inc.
CONDENSED CONSOLIDATED BALANCE SHEETS
MARCH 31, 1994 (Unaudited) and DECEMBER 31, 1993 (in thousands except per share amounts)

<CAPTION>

	March 31, 1994	December 31, 1993
	-----	-----
ASSETS		
<S>	<C>	<C>
Current Assets		
Cash and cash equivalents	\$ 385,357	\$ 367,835
Receivable from parent company	43,884	16,092
Receivables, net	512,961	367,403
Materials and supplies, net	329,545	338,808
Prepaid expenses and other	105,908	78,131
	-----	-----
Total current assets	1,377,655	1,168,269
Property and Equipment		
Flight equipment	4,925,935	4,824,031
Ground property and equipment	1,064,625	1,045,306
Less accumulated depreciation and amortization	(1,856,235)	(1,786,817)
	-----	-----
Purchase deposits	4,134,325	4,082,520
Property and equipment, net	150,274	156,621
	-----	-----
(\$160,000 and \$162,000 pledged for parent company debt		

at March 31, 1994 and December 31, 1993, respectively)	4,284,599	4,239,141
Other Assets		
Goodwill, net	538,654	542,666
Other intangibles, net	300,615	295,988
Other assets, net	578,452	563,404
	-----	-----
Total other assets	1,417,721	1,402,058
	-----	-----
	\$7,079,975	\$6,809,468
	=====	=====
LIABILITIES AND STOCKHOLDER'S EQUITY		
Current Liabilities		
Current maturities of long-term debt	\$ 81,939	\$ 85,715
Accounts payable	377,579	316,843
Traffic balances payable and unused tickets	851,497	659,606
Accrued expenses	1,095,807	1,150,062
	-----	-----
Total current liabilities	2,406,822	2,212,226
Long-Term Debt, Net of Current Maturities		
Long-term debt	2,668,652	2,441,935
Notes payable - parent company	104,754	105,080
	-----	-----
Total long-term debt, net of current maturities	2,773,406	2,547,015
Deferred Credits and Other Liabilities		
Deferred gains, net	428,016	434,586
Postretirement benefits other than pensions, non-current	926,385	907,093
Non-current pension liability and other	327,347	300,497
	-----	-----
Total deferred credits and other liabilities	1,681,748	1,642,176
Commitments and Contingencies		
Stockholder's Equity		
Common stock, par value \$1 per share, authorized		
1,000 shares, issued and outstanding 1,000 shares	1	1
Paid-in capital	2,416,131	2,416,131
Retained earnings (deficit)	(2,156,169)	(1,966,117)
Adjustment for minimum pension liability	(41,964)	(41,964)
	-----	-----
Total stockholder's equity	217,999	408,051
	-----	-----
	\$7,079,975	\$6,809,468
	=====	=====

</TABLE>

See accompanying Notes to Condensed Consolidated Financial Statements.

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<TABLE>

USAir, Inc.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

THREE MONTHS ENDED MARCH 31, 1994 and 1993 (Unaudited)

(in thousands)

<CAPTION>

<S>

1994

<C>

1993

<C>

Cash and cash equivalents beginning of period	\$ 367,835	\$ 295,432
Cash flows from operating activities		
Net loss	(190,052)	(108,385)
Adjustments to reconcile net loss to cash provided by (used for) operating activities		
Depreciation and amortization	72,151	66,875
Loss on disposition of property	1,156	2,228
Other	(9,399)	(556)
Changes in certain assets and liabilities		
Decrease (increase) in receivables	(181,275)	57,084
Decrease (increase) in materials, supplies, prepaid expenses and intangible pension assets	(23,380)	(25,659)
Increase (decrease) in traffic balances payable and unused tickets	191,891	59,398
Increase (decrease) in accounts payable and accrued expenses	33,418	(38,430)
Increase (decrease) in postretirement benefits other than pensions, non-current	19,292	14,100
	-----	-----
Net cash provided by (used for) operating activities	(86,198)	26,655
Cash flows from investing activities		
Aircraft acquisitions and purchase deposits, net	(19,069)	(24,379)
Additions to other property	(40,271)	(28,585)
Proceeds from disposition of property	659	65,404
Change in restricted cash and investments	3,422	(800)
Other	1,819	(2,008)
	-----	-----
Net cash provided by (used for) investing activities	(53,440)	9,632
Cash flows from financing activities		
Issuance of debt	172,156	-
Reduction of debt	(14,996)	(35,208)
	-----	-----
Net cash provided by (used for) financing activities	157,160	(35,208)
	-----	-----
Net increase (decrease) in cash and cash equivalents	17,522	1,079
	-----	-----
Cash and cash equivalents end of period	\$ 385,357	\$ 296,511
	=====	=====
Noncash investing and financing activities		
Issuance of debt for aircraft acquisitions	\$ 62,786	\$ 79,762
	=====	=====
Other property acquisitions - transfer from affiliated company	\$ 7,925	\$ -
	=====	=====

</TABLE>

See accompanying Notes to Condensed Consolidated Financial Statements.

USAir, Inc.
Notes to Condensed Consolidated Financial Statements
(Unaudited)

(1) BASIS OF PRESENTATION

The accompanying condensed consolidated financial statements include the accounts of USAir, Inc. ("USAir") and its wholly-owned subsidiary USAM Corp. USAir is a wholly-owned subsidiary of USAir Group, Inc. ("USAir Group" or the "Company").

The comparative 1993 figures in the accompanying Condensed Consolidated Statements of Operations and Condensed Consolidated Statements of Cash Flows have been restated from the March 31, 1993 Quarterly Report on Form 10-Q to reflect the adoption during the third quarter of 1993, retroactive to January 1, 1993, of Statement of Financial Accounting Standards No. 112, "Employers' Accounting for Postemployment Benefits." Certain other 1993 amounts have been reclassified to conform with 1994 classifications.

Management believes that all adjustments (none of which were other than normal recurring accruals) necessary for a fair statement of results have been included in the condensed consolidated financial statements for the interim periods presented, which are unaudited. All significant intercompany accounts and transactions have been eliminated.

These interim period condensed consolidated financial statements should be read in conjunction with the consolidated financial statements contained in USAir's Annual Report on Form 10-K for the year ended December 31, 1993.

(2) OTHER

Please refer to Note 2 in USAir Group's "Notes to Condensed Consolidated Financial Statements" on page 4 of this report.

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Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

INTRODUCTION

The following discussion relates to the financial results and condition of USAir Group, Inc. (the "Company"). USAir, Inc. ("USAir") is the Company's principal subsidiary and accounts for approximately 93% of its operating revenue. The following discussion is based primarily upon USAir's results of operations and prospects.

Adverse weather in the northeast U.S., the intense competitive environment characterized by the growth of low fare, low cost competitors in USAir's markets, the resulting changes in USAir's fares discussed below, and industry fare discounting promotions are factors which had a negative impact on the Company's results of operations for the first quarter of 1994. The growth of the operations of low fare, low cost carriers in USAir's short haul markets in the eastern U.S. continues to be the most significant negative factor and represents a competitive challenge for USAir, which has a higher cost structure than its competitors. In March 1994, the Company announced that it expected a pre-tax loss for the full year of 1994 in excess of the \$350 million loss reported for 1993. USAir believes that it must reduce its operating costs substantially if it is to survive in this low fare competitive environment.

On February 1, 1994, to avoid a loss of market share in the eastern U.S., USAir substantially lowered its fares in primary and

secondary markets affected by the expansion of Continental Airlines' ("Continental") low fare, low cost service. This measure reduced fares in certain markets by up to 70%. The Company believes that the additional passenger traffic stimulated by the lower fares will not be sufficient to offset the effect of the accompanying yield dilution. Through advance schedule filings, USAir has received indications that Continental and its commuter affiliates plan to initiate service in July 1994 in certain additional markets competitive with USAir and its commuter affiliates in the northeastern and southeastern U.S. at fares substantially below those currently offered by USAir in those markets and in markets within a reasonable driving distance. Continental also announced that it will augment capacity, by eliminating first class seating, in certain short-haul markets in the eastern U.S. where it is currently competing against USAir with low fares. USAir is in the process of evaluating Continental's announced measures and formulating its response; however, the Company expects that Continental's latest actions will have a material adverse effect on the Company's financial condition, results of operations and prospects. If Continental's actions have this effect, the urgency of reducing USAir's unit costs and the

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exigencies related to USAir's financial condition, discussed below, will increase. Continental could continue to redeploy its assets and offer other low fair service in markets served by USAir in addition to the anticipated July 1994 service levels.

The Company is actively pursuing several initiatives in an effort to lower USAir's unit costs, which are among the highest of the major U.S. airlines. USAir estimates that its unit cost, or cost per available seat mile ("ASM"), will be approximately 11.3 cents in 1994 if no actions are taken to reduce costs. The Company's short term goal is to reduce USAir's unit cost to approximately 10 - 10.5 cents during the next two to three years, with the goal of implementing the most substantial cost reductions during 1994. The longer range goal is to reduce USAir's unit costs to approximately 9.5 - 10 cents. The largest single component of USAir's operating costs, approximately 40%, relates to personnel costs. In order to improve its financial condition and results of operations, USAir has, among other things, initiated discussions with the leadership of its unionized employees regarding substantial wage reductions, improved productivity, and other cost savings. The outcome of those discussions is uncertain, and even if substantial savings are achieved, it remains uncertain whether they will be adequate in light of the Company's financial condition and competitive position. There are recent examples of companies in the airline industry which have obtained employee concessions in agreements also resulting in the recapitalization of the companies, including employee ownership stakes and employee participation in corporate governance as well as the restructuring of debt and lease obligations. In other cases, airlines have filed for bankruptcy protection under Chapter 11 of the bankruptcy code, and some airlines have ceased operation altogether when their operating costs remained excessive in relation to their revenues, and their liquidity became insufficient to sustain their operations. In addition, other factors beyond the Company's control, such as a downturn in the economy, a dramatic increase in fuel prices or intensified industry fare wars, could have a material adverse effect on the Company's and USAir's prospects and financial condition. Because the Company and USAir are highly leveraged and currently do not have access to bank credit and receivables facilities which had supplied a substantial portion of their liquidity, they could be more vulnerable to these factors than

their financially stronger competitors.

In February 1994, USAir inaugurated quick turn, point-to-point service in 18 city-pair markets using 22 aircraft, in a move intended to increase the utilization of its existing aircraft, facilities and personnel and thereby reduce unit costs. By July 1994, USAir plans to expand the quick turn service to approximately 165 markets using approximately 100 aircraft. There can be no assurance that the quick turn service will generate sufficient additional revenue to offset the increased variable costs associated with this service.

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Other initiatives which USAir is pursuing include:

- * an employee suggestion cost-cutting program beginning July 1994 with a goal of \$50 million in annual savings and one-time program costs of \$10 million.
- * rationalization of its jet fleet.
- * centralization of its purchasing function and measures to enhance cargo revenue.
- * modification of its product which is intended to reduce costs and enable USAir to compete more effectively with low cost carriers while integrating the short-haul product with the remaining network. This modification may require substantial implementation costs.

There can be no assurance that any of these initiatives will be successful in improving USAir's financial condition and results of operations.

Because it is uncertain whether USAir can achieve sufficient cost reductions, even if successful in some or all of the above initiatives, the Company has commenced study of other strategic options, including major restructurings, which may be available to address the difficult financial and competitive factors facing USAir.

United Airlines ("United") has stated in press reports that it may accelerate the development of a low cost, short-haul operation if its shareholders approve the proposed buyout by its employees. This move could enable United to initiate additional low fare, low cost service in markets served by USAir. In addition, a number of small low cost, low fare start-up carriers have initiated or are seeking to initiate service in the eastern U.S.

On April 12, 1994, Delta Air Lines ("Delta") and Virgin Atlantic Airways ("Virgin Atlantic") announced that they had reached a codeshare marketing agreement that would enable Delta to feed traffic to Virgin Atlantic for travel between the U.S. and Heathrow Airport in London. This arrangement is subject to the approval of the U.S. Department of Transportation (the "DOT"). The Company believes that the Delta/Virgin Atlantic arrangement, if approved by the DOT, will compete with the codeshare service offered by USAir and British Airways between certain U.S. cities and London. United and Lufthansa German Airlines ("Lufthansa") have received the necessary approvals to implement a code share arrangement which will include transatlantic service from certain U.S. cities to Europe and beyond. United and Lufthansa are

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expected to commence the first phase of such service on June 1, 1994. The resulting impact of these code share arrangements on the Company's results of operations and financial condition cannot be predicted at this time, but is not expected to be material.

In April 1994, Delta announced that it plans to eliminate up to 15,000 positions, or approximately 20% of its work force, as part of a restructuring initiative that is intended to reduce its cost per ASM from approximately 9.3 cents currently to 7.5 cents by the summer of 1997. Delta's restructuring initiative reportedly will not involve an equity ownership interest by its employees. Delta's announcement is the latest illustration of the trend among the major U.S. airlines to restructure in order to reduce operating costs and enable them to compete in a low fare environment.

RESULTS OF OPERATIONS

The Company recorded a net loss of \$196.7 million on revenue of \$1.7 billion in the first quarter of 1994, compared with a net loss of \$104.8 million on revenue of \$1.7 billion in 1993. The results reflect a 1.8% revenue decrease and 6.3% increase in operating expense, discussed below. The Company estimates that severe winter weather in the first quarter of 1994 negatively affected its results of operations by approximately \$50 million. The financial results for the first quarter of 1993 included a \$43.7 million charge for the cumulative effect of an accounting change, as required by Statement of Financial Accounting Standards No. 112, "Employers' Accounting for Postemployment Benefits" ("FAS 112").

Operating Revenue - The Company's Passenger Transportation Revenue decreased \$72.4 million (4.5%) versus the first quarter of 1993, \$58.5 million of which is attributable to USAir, due to several factors including lower fares resulting from increased competition from low cost, low fare carriers in USAir's markets; adverse weather in January and February 1994; and industry fare discounting promotions. USAir's ASMs were relatively unchanged while the number of passengers increased 10.2% over the first quarter of 1993, resulting in a load factor increase of 3.4 percentage points. Despite the increase in traffic, lower yields, or passenger revenue per revenue passenger mile ("RPM"), resulted in a 3.7% decline in passenger revenue per ASM. The Company expects that the low fares offered in response to low fare, low cost competition will continue to materially and adversely affect passenger revenue and results of operations for the foreseeable future. The Company's Other Revenue increased \$42.0 million (56.9%) as a result of increased cancellation and rebooking fees, frequent traveler participation fees, and various other sources.

Expense - The Company's Personnel Costs increased \$63.8 million (9.7%) primarily due to USAir's \$62.3 million (10.0%) increase in personnel costs which resulted from the expiration

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during 1993 of employee wage reductions, contractual and general salary increases during 1993, and a lower discount rate used during 1994 in the calculation of pension and postretirement benefit expense. Aviation Fuel expense decreased \$13.5 million (7.7%), primarily because of USAir's \$12.4 million (7.4%) decrease, resulting from more favorable prices in 1994. Aircraft Maintenance increased \$10.8 million (11.4%) primarily because of USAir's \$9.9 million (12.5%) increase which is due to the timing of maintenance cycles. Depreciation and Amortization increased \$4.0 million (5.4%) following the delivery of Boeing 757 aircraft during 1993

which caused a \$5.3 million (7.9%) increase at USAir. The \$43.1 million (12.7%) increase in Other Expenses, Net, \$37.8 million of which is attributable to USAir, results from increases in several expense categories, including those related to the increase in USAir's other revenue.

Interest Income improved by \$2.5 million as a result of higher cash levels in 1994. USAir's results include intercompany transactions which are eliminated from the Company's results. Interest Expense increased \$6.3 million (10.2%) as a result of additional interest incurred on various USAir aircraft and unsecured financings, which were completed during 1993 and early 1994, offset by a year-over-year decrease in interest on short-term borrowings. Interest Capitalized decreased \$3.2 million (45.9%) as a result of aircraft deliveries during 1993. Other, Net reflects a \$9.5 million improvement primarily due to improved equity results from USAir's 11% ownership investment in the Galileo International Partnership, which owns and operates the Galileo Computerized Reservation System ("CRS"), and USAir's 21% ownership investment in the Apollo Travel Services Partnership, which markets the Galileo CRS in the U.S. and Mexico.

LIQUIDITY AND CAPITAL RESOURCES

Cash used by operations was approximately \$66 million in the first quarter of 1994. At March 31, 1994, cash and cash equivalents totaled approximately \$386 million, excluding approximately \$171 million which was deposited in trust accounts to collateralize letters of credit or workers compensation policies and classified as "Other Assets." At March 31, 1994, the Company had no outstanding loans under its revolving credit facility with a group of banks ("Credit Agreement") and was unable to access funds thereunder because it was not in compliance with certain financial covenants. On April 19, 1994, the Company notified the banks which were parties to the Credit Agreement of its decision to terminate the agreement and on April 26, 1994, the Credit Agreement was terminated. As a result, 66 jet and commuter aircraft and certain spare engines with a net book value of approximately \$260 million were released from a mortgage related to the Credit Agreement. USAir is currently unable to sell receivables under its revolving accounts receivable sale program ("Receivables Agreement") because of failure to comply with two of the financial covenants required to

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be maintained in connection with that agreement. USAir is currently engaged in discussions with the financial institution

that is party to the Receivables Agreement regarding either waivers from compliance with the covenants or a revised agreement. There can be no assurance that USAir will be successful in obtaining a waiver or reaching a revised or new agreement to sell its receivables. The existing Receivables Agreement is scheduled by its terms to expire in December 1994. There were no outstanding sales under the Receivables Agreement on March 31, 1994.

On May 12, 1994, USAir reached an agreement with the Boeing Company to reschedule the delivery of 40 737-series aircraft from the 1997-2000 time period to the years 2003-2005. In addition, as part of the same agreement, USAir will forego its options to purchase an additional 63 737-series, 11 757-series, and two 767-series aircraft during the 1996-2000 time period. As a result, the Company's capital commitments have been substantially reduced for the 1995-2001 time period. See Note 2 to the Company's Condensed Consolidated Financial Statements for the future aircraft commit-

ments schedule reflecting this agreement with Boeing.

Net cash used for investing activities during the first quarter of 1994 was \$55.3 million. Net cash provided by financing activities was \$139.2 million, primarily from the \$172.2 net proceeds received by USAir upon the sale of \$175 million principal amount of 9 5/8% Senior Notes due 2001 through an underwritten public offering. In addition, USAir incurred additional debt of \$62.8 million associated with the delivery of two new Boeing 757 aircraft during the first quarter and the payment of scheduled aircraft progress payments. The \$62.8 million is reflected as non-cash activity in USAir Group's Condensed Consolidated Statement of Cash Flows found in Item 1A of this report because USAir incurred the related debt upon delivery of the aircraft or payment of the progress payments. The Company has committed financing for the remainder of its 1994 and 1995 scheduled aircraft deliveries.

On April 6, 1994, Moody's Investors Services, Inc. further lowered its ratings on the Company's and USAir's securities. This action followed a similar downgrade by Standard & Poor's Corporation ("S&P") in March 1994. S&P is continuing to monitor the Company's results of operations with the possibility of a further downgrade. The recent downgrades will make it more difficult for the Company and USAir to effect additional financing.

At March 31, 1994, USAir Group's ratio of current assets to current liabilities was 0.56 to 1 and the debt component of USAir Group's capitalization structure was approximately 89% (100% if the three series of redeemable preferred stock are considered to be debt).

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PART II - OTHER INFORMATION

Item 1. Legal Proceedings

On May 11, 1994, USAir received a Civil Investigative Demand (the "CID") from the U.S. Department of Justice related to an antitrust investigation to determine whether there are, have been, or may be violations of Sections 1 and 2 of the Sherman Act related to, among other things, agreements to pay, and payments of, travel agency "override commissions" in the Pittsburgh, Charlotte, Philadelphia and other markets. USAir has its largest hub operations at airports in Pittsburgh, Charlotte and Philadelphia. "Override commissions" are common sales incentives in the U.S. airline industry and customarily involve the payment of commissions by an airline in excess of the base commission (typically 10% of the relevant fare) when travel agency sales for the airline exceed certain goals agreed to by the agency and the airline. A CID is a request for information in the course of an antitrust investigation and does not constitute the institution of a civil or criminal cause of action. USAir intends to comply with the CID. At this time, USAir cannot predict the manner in which this investigation will be resolved and if the resolution will have an adverse impact of USAir's results of operations, financial position or ability to compete. USAir understands that certain other U.S. air carriers have received similar CIDs.

For information on certain other pending legal proceedings see Part I, Item 3. - "Legal Proceedings" in the combined Annual Report of USAir Group and USAir on Form 10-K for the year ended December 31, 1993.

Item 5. Other Information

Certain unions are engaged in efforts to unionize USAir's customer service and reservations employees. The Railway Labor Act (the "RLA") governs, and the National Mediation Board (the "NMB") has jurisdiction over, such campaigns. Under the RLA, the NMB could order an election among a class or craft of eligible employees if a union submitted an application to the NMB supported by the authorization cards from at least 35% of the applicable class or craft of employees. If the NMB ordered an election and a majority of the eligible employees voted for representation, USAir would be required to negotiate a collective bargaining agreement with the union that wins the election. On January 28, 1994, the International Association of Machinists (the "IAM"), United Steelworkers of America (the "USWA") and International Brotherhood of Teamsters (the "IBT") filed applications with the NMB requesting that an election be held among USAir's fleet service employees, a class or craft of approximately 8,000 workers included among

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USAir's customer service employees. On March 1, 1994, after determining that each of the three applicant unions had submitted the required number of authorization cards, the NMB declared an election among the fleet service agents. Ballots were mailed to applicable employees on April 14, 1994 and will be tabulated by the NMB on May 17, 1994. USAir cannot predict the outcome of the election, nor can it predict, if a union is certified, when a collective bargaining agreement would be negotiated or what its terms would be. On March 21, 1994, the USWA filed an additional application with the NMB requesting an election among USAir's passenger service employees, a class or craft of approximately 10,000 workers included among USAir's customer service and reservations employees. The NMB is in the process of determining whether this application is supported by sufficient authorization cards to warrant an election. USAir cannot predict whether an election will be held among the passenger service class or craft and if an election were held, the outcome. Nor can it predict if a union is certified when a collective bargaining agreement would be negotiated or what its terms would be. If unions are certified to represent the fleet service employees and the passenger service employees, substantially all of USAir's non-management employees would be unionized. USAir also cannot predict whether any union might submit authorization cards to the NMB sufficient to obtain an election among any other class or craft of employees.

Piedmont's collective bargaining agreement with the Air Line Pilots Association ("ALPA"), which represents its pilot employees, became amendable on December 1, 1992. On February 22, 1994, the NMB, which had assigned a mediator to the negotiations between Piedmont and ALPA on a new agreement, declared these negotiations at an impasse and commenced a thirty-day "cooling-off" period. On March 27, 1994, two days following the expiration of this period at midnight on March 25, 1994, Piedmont reached agreement on a new collective bargaining agreement that becomes amendable on March 31, 1998. The new agreement was ratified by Piedmont's pilot employees on May 2, 1994 and provides for increases in salary and benefits for the term of the agreement.

Item 6. Exhibits and Reports on Form 8-K

A. Exhibits

Designation

- 11 Computation of Primary and Fully Diluted Earnings Per Share for the three months ended March 31, 1994 and 1993 for USAir Group, Inc.
- 99 Airline Operating Statistics for the three months ended March 31, 1994 and 1993 for USAir, Inc.

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B. Reports on Form 8-K

Date of Report	Subject of Report
January 18, 1994	Third Waiver dated as of December 21, 1994 to certain covenants contained in the Credit Agreement.
January 25, 1994	Press Release dated January 25, 1994 of USAir Group, Inc. and USAir, Inc. with consolidated statements of operations for each company.
March 9, 1994	Projected losses for the first quarter and year 1994 and the initiation of negotiations with the leadership of USAir's unions regarding pay reductions and productivity improvements.

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SIGNATURE

Pursuant to the requirements of the Securities and Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

USAir Group, Inc.
(Registrant)

Date: May 13, 1994

By: /s/ Ann Greer-Rector

Ann Greer-Rector
Vice President & Controller
(Principal Accounting Officer)

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SIGNATURE

Pursuant to the requirements of the Securities and Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

USAir, Inc.
(Registrant)

Date: May 13, 1994

By: /s/ Ann Greer-Rector

Ann Greer-Rector
Vice President & Controller
(Principal Accounting Officer)

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<TABLE>

USAir Group, Inc.
EXHIBIT 11
COMPUTATION OF PRIMARY
AND FULLY DILUTED EARNINGS PER SHARE

(unaudited)
(in thousands except per share amounts)

<CAPTION>

	Three Months Ended March 31,	
	1994	1993
	-----	-----
<S>	<C>	<C>
Adjustments to Net Loss		
=====		
Loss before accounting change	\$ (196,655)	\$ (61,032)
Preferred dividend requirement	(19,220)	(16,908)
	-----	-----
Net loss applicable to common stock before accounting change	(215,875)	(77,940)
Accounting change	-	(43,749)
	-----	-----
Net loss applicable to common stock and common stock equivalents used for primary computation	(215,875)	(121,689)
Fully Diluted Adjustments		
Assume conversion of preferred stock	19,220	16,908
	-----	-----
Adjusted net loss applicable to common stock assuming full dilution	\$ (196,655)	\$ (104,781)
	=====	=====
Adjustments to Shares Outstanding		
=====		
Average number of shares of common stock	59,274	47,253
Primary Adjustments		
Assume exercise of options and common stock equivalents 1)	-	-
Total average number of common and common equivalent shares used for primary computation	59,274	47,253
	=====	=====
Average number of shares of common stock	59,274	47,253
Fully Diluted Adjustments 2)		
Assume exercise of options	15	164
Assume conversion of preferred stock	39,156	30,399
Total average number of shares assumed to be outstanding after full conversion	98,445	77,816
	=====	=====
Loss Per Share		
=====		
Primary 1)		
Before accounting change	\$ (3.64)	\$ (1.65)
Effect of accounting change	-	(0.92)
	-----	-----
Primary loss per share	\$ (3.64)	\$ (2.57)
	=====	=====
Fully diluted 2)		
Before accounting change	\$ (2.00)	\$ (0.78)
Effect of accounting change	-	(0.57)

Fully diluted loss per share	----- \$ (2.00) =====	----- \$ (1.35) =====
------------------------------	-----------------------------	-----------------------------

- 1) The assumed exercise of options and common stock equivalents which are anti-dilutive are not included in the computation and presentation of primary earnings per share.
 - 2) The assumed exercise of options and conversion of preferred stock are anti-dilutive but are included in accordance with Regulation S-K Item 601(b)(11).
- </TABLE>

<TABLE>

USAir, Inc.
EXHIBIT 99
AIRLINE OPERATING STATISTICS

<CAPTION>

	Three Months Ended March 31,		
	1994	1993	Better (Worse)
	----	----	-----
<S>	<C>	<C>	<C>
Revenue passengers (thousands) *	13,028	11,825	10.2 %
Revenue passenger miles ("RPMs") (millions) *	8,390	7,927	5.8 %
Available seat miles ("ASMs") (millions) *	14,214	14,249	(0.2)%
Passenger load factor 1) *	59.0 %	55.6 %	3.4 pts
Breakeven load factor 2)	66.7 %	58.0 %	(8.7)pts
Passenger revenue per ASM *	10.04 c	10.43 c	(3.7)%
Total revenue per ASM	10.98 c	11.20 c	(2.0)%
Cost per ASM	11.89 c	11.29 c	(5.3)%
Yield (revenue per RPM) *	17.02 c	18.75 c	(9.2)%
Cost of fuel per gallon	54.51 c	59.80 c	8.8 %
Gallons of fuel consumed (millions)	285	281	(1.4)%

* Scheduled service only.

c cents.

- 1) Passenger load factor is the percentage of aircraft seating capacity that is actually utilized (RPMs/ASMs).
- 2) Breakeven load factor represents the percentage of aircraft seating capacity that must be utilized, based on fares in effect during the period, for USAir to break even at the pretax income level.

</TABLE>