

1 BEFORE THE ALPA ARBITRATION BOARD
2 - - - - -x
3 THE CREW MEMBERS OF US :
4 AIRWAYS :
5 Plaintiff, :
6 vs. :
7 THE CREW MEMBERS OF :
8 AMERICA WEST AIRLINES :
9 Defendant. :
10 - - - - -x

11 HEARING VOLUME 12

12
13 GEORGE NICOLAU, Chairman
14 CAPTAIN STEVE GILLEN, Pilot Neutral
15 CAPTAIN JIM BRUCIA, Pilot Neutral

16
17 Washington, D.C.
18 Monday, January 15, 2007

19
20 REPORTED BY:
21 DONALD R. THACKER

1 Hearing before the ALPA Arbitration Board, on
2 Monday, January 15, 2007, in Washington, D.C. at the

01-15-07ARBfinal
3 Mayflower Hotel, 1127 Connecticut Avenue, Northwest,
4 at 10:10 a.m. before DONALD R. THACKER, a Notary
5 Public within and for the District of Columbia, when
6 were present on behalf of the respective parties:
7
8 DANIEL M. KATZ, ESQ.
9 JASON WHITEMAN, ESQ.
10 Katz & Ranzman
11 5028 Wisconsin Avenue, Northwest, Suite 250
12 Washington, D.C. 22036
13 On behalf of U.S. Airways
14
15 JEFFREY R. FREUND, ESQ.
16 LISA POWELL, ESQ.
17 ROGER POLLAK, ESQ.
18 Bredhoff & Kaiser, PLLC
19 805 15th Street, Northwest, Suite 1000
20 Washington, D.C. 20005
21 On behalf of America West Airlines
22

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1 PROCEEDINGS
2 CHAIRMAN NICOLAU: When you are ready.
3 MR. FREUND: We are ready.
4 Good morning. I will describe what we are
5 going to do today and we will proceed.
6 We have produced an integration evaluation
7 model that we think is correct, and it is premised
8 on work that began in the late 1990s. It was built

9 and designed by two people, both of whom are here
10 today, Dan Akins who is airline economist and Joe
11 Meier who is a computer programmer, data processing
12 expert.

13 My intention is to put Dan Akins on the
14 stand to testify about the product of the model. I
15 have Joe Meier present. My intention was not to put
16 him on the stand with regard to how the, you know,
17 the programming that underlies the model, but he is
18 here and available for cross-examination in the
19 event that the U.S. Airways pilots want to
20 cross-examine him.

21 CHAIRMAN NICOLAU: Okay.

22 MR. FREUND: So with that I will call Dan

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1 Akins.

2 MR. KATZ: Let me, before Mr. Akins comes
3 to the stand, let me interpose an objection, George.

4 We had a little tiff, but we started our
5 case in chief because Jeff demanded the software and
6 the code and the computer model that Rikk Salamat
7 testified from, and you ruled that we had to turn
8 over that information. So a week before Rikk
9 Salamat testified we gave them the CD with the code
10 and the source, source code and the software and the
11 output of the exhibits that Rikk testified about.

12 And we asked for similar treatment and
13 virtually every day last week we asked them for the
14 information and we didn't get anything until 9:15

15 yesterday, other than a CD that has the two lists on
16 it, and the people that were removed and extracted,
17 what Bob Mann testified about last Friday.

18 And we have Rikk going over these pictures
19 here and the gross numbers that are depicted here,
20 and it doesn't add up. There is typographical
21 errors or there is some other problem, but they have
22 got a guy who is an expert in the language that the

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1 program was written in, APL and they were working on
2 it over the weekend, they couldn't make it run.
3 They couldn't get answers to how the thing works.

4 The main point though is that we gave them
5 a seniority list for every single year showing what
6 job each pilot was in each year until the end of
7 time as far as these lists are concerned. So that
8 if they couldn't do anything else with the software
9 at least they could see from the CD we gave them
10 what the earnings were, pilot by pilot year by year,
11 and do something with that.

12 We have nothing year by year here. We
13 have a gross number for the entire period of time,
14 not broken down by pilot, not broken out by year,
15 and we haven't been able to make heads or tails of
16 it.

17 So I object to them testifying about this.

18 CHAIRMAN NICOLAU: Well, when you say that
19 you have got gross numbers over a period of time,
20 don't you have a list as of when.

21 MR. FREUND: Yes, let me --

22 MR. KATZ: No.

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1 CHAIRMAN NICOLAU: Ratio and methodology.

2 MR. FREUND: Absolutely. Let me be clear
3 as to what was produced so that there is no
4 misunderstanding.

5 We produced to Dan, well, we produced the
6 exhibits that appear --

7 MR. KATZ: At 9:15 yesterday morning.

8 MR. FREUND: When we were supposed to.

9 We produced the exhibits, that Dan Akins
10 is going to be testifying about, yesterday morning
11 at 9:15 pursuant to the ground rules.

12 We gave the U.S. Airways pilots a disk
13 that contains the program, and all of its workings,
14 written in -- it is in APL. Theirs was written in
15 Pearl, those are two different computer languages,
16 but ours is in APL, from which they are capable or
17 could have been capable of producing exactly what it
18 is that Dan has described, that is year by year
19 pilots earnings.

20 Our view of our presentation is that
21 producing year by year pilot earnings is really
22 meaningless effort because that is not, as Rikk

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1 Salamat testified to, they aren't accurate
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2 predictors of any given pilot's actual earnings in
3 any given year. What is critical and what our case
4 is based on, is the gross dollars that are available
5 to pilots during the entire cumulative career of all
6 the pilots on the seniority list as of the date the
7 model begins running.

8 Our model is based on our proposed
9 seniority list which the U.S. Airways pilots have,
10 it models and measures that seniority list and the
11 operation of that seniority list and creates
12 earnings on a gross basis, against the earnings on a
13 gross basis of the two airlines stand alone. All of
14 that information is contained in the materials that
15 we provided on disk.

16 We also provided a print out of a hundred
17 pages of computer code that could be read and used
18 by an APL programmer. We -- so I am quite satisfied
19 that we met our burden of production.

20 The fact that our presentation, that is
21 our presentation to the panel, doesn't contain a
22 quote year by year and line by line printout of each

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1 pilots wages is a choice that we have made in terms
2 of the presentation of our case, since we think that
3 a year by year line by line payout doesn't add
4 anything to the analysis.

5 CHAIRMAN NICOLAU: Well, I thought that
6 was where you were going, but are you also saying
7 that with the code and the documents and so forth

8 the other side could show that if they wanted to?
9 MR. KATZ: That is absolutely not true.
10 Rikk and an APL programmer were working on it over
11 the weekend, they could not produce anything like a
12 year by year analysis, of anything.
13 CHAIRMAN NICOLAU: Your programmer here --
14 MR. FREUND: Yes.
15 CHAIRMAN NICOLAU: Have they talked to
16 each other?
17 MR. FREUND: Rikk, who is not an APL
18 programmer, called Joe Meier, they spoke on Sunday.
19 Rikk told Joe --
20 MR. KATZ: Just a minute, Jeff, you were
21 the one who laid down a ground rule that whatever
22 they discussed was off limits here.

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1 CHAIRMAN NICOLAU: I am just trying to
2 find out if they can talk together and find out
3 in --
4 MR. FREUND: They have already spoken.
5 They have already spoken, and I know, although I
6 haven't gotten a signed confidentiality agreement, I
7 know that, as Dan said, they shipped the program up
8 to an APL programmer in Canada. I also know that
9 APL programmer knows our programmer because they
10 worked together at I.P. Sharp some years ago, and
11 that APL programmer has not called Joe Meier who is
12 here in the room.
13 MR. KATZ: Yes, that is the guy who I said
Page 7

14 was an APL programmer, and between Rikk and Brian
15 Oliver they were not able to make anything come out
16 on a year by year basis or anything come out of the
17 program, basically.

18 MR. FREUND: But I have to say that is not
19 our problem. We produced the material.

20 MR. KATZ: You did not produce the
21 materials. We gave you a year by year analysis of
22 where every pilot stood, what his job was, what his

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1 earnings were, and you gave us a picture of this
2 exhibit that shows so many hundreds of millions of
3 dollars over the whole course of everybody's career.

4 And Rikk and Bryan have not been able to
5 duplicate that, because they don't have the
6 documents that we gave to you on CD that was the
7 back-up that made up the whole analysis.

8 MR. FREUND: They have everything they
9 need to produce it. They have all of the data that
10 produced the numbers that appear on our exhibits.

11 MR. KATZ: That is just not true. It is
12 an idiosyncratic piece of software that Joe Meier
13 may know how to put the inputs in for, but it is not
14 anything that Bryan Oliver, who is also an expert in
15 APL language, could utilize to create the result.

16 MR. FREUND: I don't even know what
17 idiosyncratic means --

18 MR. KATZ: It means --

19 CHAIRMAN NICOLAU: That is fine, I think
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1 1983. My main task in a nutshell is I apply
2 economic principles and statistical analysis to
3 airline operations and financial information for
4 various clients including labor, airlines, vendors,
5 airframe manufacturers, airports, and lately I have
6 been involved in a lot of bankruptcy cases on behalf
7 of both ALPA and the AFA as well as others.

8 MR. KATZ: U.S. Air merger committee is
9 prepared to stipulate that Mr. Akins is an expert in
10 aviation economics, including labor economics.

11 THE WITNESS: Thank you.

12 MR. FREUND: Thanks for the stipulation.

13 Let me just spend a minute or two, please,
14 and ask you to look at Tab 27. You have the tabs in
15 front of you.

16 THE WITNESS: Right.

17 BY MR. FREUND:

18 Q Can you tell me what Tab 27 is, please?

19 A It is my resume, CV.

20 Q Hope so. And while you are on the stand
21 just take a quick peak at Tab 28, and just tell me
22 if you can tell me what Tab 28 is?

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1 A Joe Meier's CV.

2 Q Dan, I am not going to ask you to run
3 through the full three pages of your resume, in
4 light of the stipulation, but you mentioned at the
5 end of your description of the activities you have

6 been engaged in 1113 proceedings in bankruptcy
7 court?

8 A Yes.

9 Q Did the work in those proceedings include
10 the costing and the valuation over time of either
11 pilot or flight attendant collective bargaining
12 agreements and proposals?

13 A Yes.

14 Q Dan, you are going to testify today about
15 something that is called the pilot earnings model.
16 Let's take a look at Tab 29, please. Tab 29
17 exhibit, page 1 of Tab 29 is obviously just the
18 cover sheet, so let's turn to page 2, and with page
19 2 in front of you can you describe the genesis of
20 the pilot earnings as what it is intended to do and
21 what it does?

22 A Right, the Pilot Earnings Model was

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1 developed initially on behalf of the United Airlines
2 MEC, pilot MEC back in the late '90s when United
3 Airlines was going to acquire U.S. Airways. We met
4 with the pilots --

5 Q Let me stop you for a second, because the
6 we is the important part of that sentence. Who is
7 the we?

8 A Yourself, Roger, Joe Meier and myself as
9 well as the group of pilots on the other side which
10 represented United MEC merger committee which was
11 called the Scenario Committee, three pilots. And it

12 dawned on us that there would be a way to measure
13 economic impact and trade-offs of the merger or any
14 merger and there would be a way to evaluate it
15 simply by writing a model which would constrain
16 various variables and predict group earnings over
17 time for the various pilot group up until the last
18 pilot retired.

19 Sounds like a fairly simple proposition,
20 however, if you look at the code that Mr. Salamat or
21 Joe Meier has written it gets fairly complicated.

22 Q What is it, again looking at the second

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1 bullet of page 2, what is it that the pilot earnings
2 model is not intended to predict and why is that so?

3 A Well, as an economist, reliability of
4 forecasts is really based on the understanding of
5 what the real world conditions are likely to be
6 based on historical empirical evidence. In this
7 case based on the way that pilots typically bid for
8 equipment, large pieces of equipment paying more
9 tends to attract the higher ranking pilots.

10 However, that being said, as opposed to
11 what Mr. Katz was talking about earlier, the various
12 pilot positions held by various pilots in the
13 future, it really doesn't in my mind equate to a
14 real world prediction of what any individual pilot
15 would hold, other than sort of taking an apples to
16 apples comparison of given what we know today, that
17 is certain types of equipment are being flown by

18 certain pilots, getting paid under the current
19 contract.

20 Taking that as a base footprint and
21 extending that forward as if that were the real
22 world, flying A330s in 2039 I don't think is a real

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1 world supposition. Flying planes under the same
2 contract 20 years from now is not a real world
3 supposition.

4 Therefore, to take individual pilots and
5 ascribe to them captaincies or various positions,
6 even not withstanding the fact that people sport bid
7 or under bid the positions based on lifestyle
8 choices, in order to run an earnings model it became
9 apparent that we would have to at least constrain it
10 and say this is really the potential value of the
11 jobs that are brought to the merger by each company
12 and, therefore, it is not a good predictor of actual
13 earnings potential or individual pilot potential.
14 It is group potential.

15 And I think Mr. Salamat, one of his
16 exhibits, Dr. Sick, talked about something that
17 economists learn in economics 101, which is trade
18 optimality, that is making one group of persons
19 better off while not hurting another person to make
20 that person better off.

21 That is the sort of analysis we are
22 looking at. How does the merger make someone else

1 better off by making someone else worse off? If
2 that is the case then it is not a trade optimal.
3 You want to make both participants better off, that
4 is trade optimal.

5 So, given that, this is a theoretical
6 apples to apples comparison of the potential value
7 of the jobs as we know them today with the equipment
8 as we know them today, going into the future.

9 And so that is a pretty large caveat, in
10 terms of what PEM is, but given that, that is what
11 we have got and that is what we can use. And I
12 think any other assumptions about individual pilot
13 predictability in terms of 20 years from now what
14 jobs they are going to hold is not a fair
15 representation of what any pilot would hold.

16 Q And I take it, and you will get into this
17 in more detail later, that the analysis that you
18 have done takes into account all the consequences of
19 the merger, that is changes wage rates, changing
20 fleet sizes, and the like, as compared to the two
21 airlines on a stand alone basis, is that right?

22 A That is boiled down in the purest form.

1 The pilot earnings model is trying to find out
2 whether there is an economic impact between the two
3 carriers running stand alone as if the merger never
4 occurred, versus the carriers merged and integrated.

5 Q Let's turn to Tab 3, please. Or page 3, I
6 am sorry.

7 Tell us why we have this page and how it
8 affects what we are about to see?

9 A Well, if you think about the premise that
10 I laid out. We are trying to evaluate essentially
11 the franchise's earnings potential. So the way I
12 look at it is sort of each pilot group has the
13 ability to maximize their revenue, their earnings,
14 the most senior guys bidding the most senior
15 positions as they become available.

16 So in terms of evaluating what the values
17 of those jobs that are brought to the merger we have
18 to decide how many jobs are brought to the merger,
19 what types of jobs are brought to the merger, how
20 many captaincies, what type of equipment, backed up
21 by the type of pay and work rule conditions that
22 those jobs bring in, who fills these jobs, are

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1 furlough pilots filling these jobs, are active
2 pilots filling these jobs, are people that are age
3 61 and above filling these jobs?

4 Those kinds of criteria are going to
5 become subject to analysis and constraint. What are
6 the economic values of these jobs? And, again that
7 is what are the values of these jobs, whether it is
8 held by pilot Tom, Dick or Harry, it is a pilot that
9 works on the east, it is a pilot that works on the
10 west, the maximum economic value of those jobs is

11 determined by, on a stand alone basis, the ability
12 to bid that job, the ability to hold that job and
13 the ability to get paid that job under the current
14 contract on either side of the fence.

15 Does the change in the fleet size affect
16 the jobs? That is another question and we will go
17 into it a little bit deeper about the change in
18 fleet size and the type of jobs. That is part of
19 the equation. I think we had a lot of horsepower
20 developing this model for the United-U.S. Airways
21 merger in which there were fleet forecasts out for
22 the next five years back in 2000 when everything was

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1 going gang busters that we had to predict and
2 forecast into the future periods.

3 In this case we really don't have that.
4 As you will see in 2008 we lock down the fleets and
5 we run the fleets as is for the next 34 years. So,
6 that, the bigger number, the number that runs for
7 34 years isn't affected by fleet size changes.

8 Q I do want to stop you, and I don't want
9 you to go too far ahead in answering this question.
10 But is it correct that the model does take into
11 account certain fleet size changes between the day
12 of the merger announcement and 2008?

13 A Yes.

14 Q Okay, we will come to those specific
15 changes as we go. Why don't you go back to page 3
16 and tell us --

17 A The last thing is really just what are the
18 impacts of these values, integration of the pilot
19 groups? That is, given the stand alone predictions
20 about how much earnings potential there are on each
21 side and how many jobs, what type of pay those jobs
22 would have, you can then look at the integrated

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1 pilot list, combine the two fleets and measure the
2 impacts of the various proposals versus the two
3 carrier stand alone.

4 So, in its core that is what PEM is about,
5 but I thought one of the important pieces of
6 information that a modeling process requires is
7 clear-cut development of assumptions, and sort of a
8 basis of those assumptions.

9 So the next I guess section is really
10 about the modeling methodology and in real sort of
11 simplistic form, and I apologize if it is too
12 simple, but I wanted to make it very clear cut so it
13 couldn't be mistaken, how the jobs are developed,
14 how the pay is included, how fleet changes affect
15 those jobs, those sorts of things, so we can go
16 through it as fast or slow as anybody wants.

17 Q Why don't you turn to page 4 and start us
18 from the first bullet?

19 A The first thing we try to do is figure out
20 how many total pilot jobs are there on each side of
21 the fence. And by that I mean how many pilot jobs
22 were held as of the date of the merger announcement

1 by the various groups.

2 And from the information that I received
3 from the pilot group on the west side, I was able to
4 get the certified seniority list as well as the
5 positions that were held as of May 2005, and find
6 out just how many captains and A320 jobs that were
7 held on each side of the fence, how many A330
8 captaincies were held as of May 2005 on the U.S.
9 Airways east side, and therefore, develop the number
10 of jobs by position and equipment type that each
11 side was bringing to the table.

12 Q You just mentioned two pieces of equipment
13 but I take it you have determined the number of jobs
14 on each piece of equipment?

15 A Right.

16 Q That was on the property as of May 15th,
17 2005?

18 A Right, those are just examples.

19 Q All right.

20 A And then so that the next challenge is
21 obviously pilot jobs are affected by the number of
22 pilot jobs, the number of pieces of equipment that

1 are flying. The number of cockpits that are out
2 there available to hold pilots determines the number

3 of pilots that an airline needs.

4 So the critical next step is to decide how
5 many pilots per airplane in each position there are
6 in terms of the fleet, as of May 2005 versus the
7 number of pilots that hold positions in each type of
8 equipment on each side of the fence.

9 So we develop a ratio as a critical
10 component. How many captains do you gain or lose by
11 adding a piece of equipment, how many first officers
12 do you gain or lose, as well as when someone retires
13 where does that person come from, how do they slot
14 into piece of equipment?

15 But that is based on the next bullet point
16 which is the desirability of jobs essentially to put
17 people from sort of a rational progression through
18 their career through the next components.

19 A330 pilots captains are not going to bid
20 for 737 first officers position. It is based on my
21 experience at ALPA, looking at bid lists. This case
22 is a little bit unique, and to go into it the

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1 uniform pay rates across the narrow body fleets is
2 somewhat unusual in that the choice of flying a 757,
3 for instance in the west, versus an A320 versus a
4 737 is not an economic one, it is more of a
5 route-based lifestyle choice that looking at what
6 the 757 flight doesn't pay any more than the A320.

7 Q On the west side?

8 A On the west. On the east side there are

9 differentiations on the wide body, but again the
10 majority of the fleet A320 and 737s pay the same, so
11 you don't have much differentiation between those
12 two aircraft types.

13 Q We are going to come to a slide later on
14 that ranks the, that shows how the model ranks the
15 pilot jobs, correct?

16 A Right. And if you imagine this concept,
17 and I don't want to jump ahead, but the stovepipe
18 that, in my mind the left-hand side of the argument
19 you have got all the positions that is need to be
20 filled, those are all jobs that U.S. Airways now
21 require pilots to fill.

22 They need 737 captains, A320 captains,

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1 A330 captains to fill these jobs. Who is going to
2 fill them is really the next question. And when
3 someone retires at a various spot in that job list,
4 where does that pilot get, you know, his position
5 filled?

6 Essentially we are trying to establish
7 some rationality so that the least desirable
8 position is the first thing to be filled by someone
9 off the street, and the most desirable position is
10 the last place most pilots want to be at the end of
11 their career.

12 Q What does the next bullet show on page 4,
13 please?

14 A We looked at, in this particular instance

15 the model starts running pretty much any date you
16 pick. We decided to pick May 19th, 2005, and run
17 the model as we are going to get to in two sort of
18 periods, out to the end of the last pilot on either
19 side's 60th birthday, the month in which they reach
20 their 60th birthday, which on the America West side
21 is in the year 2039.

22 Q Does the model run year by year or month

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1 by month?

2 A Month by month.

3 Q And we picked, I know that you picked
4 May 19th, 2005 because we told to you pick May 19,
5 2005, but is the underlying rationale for that, that
6 there were post announcement effects of the merger?

7 A Yes.

8 Q Okay? And finally, you have already
9 alluded to the last bullet on page 4?

10 A Right.

11 Q But why don't you just close the loop on
12 that piece, please?

13 A Again, I guess we have turned to page 5 we
14 can describe stove pipe bidding.

15 Q Fair enough.

16 A I think Mr. Salamat's model, the default
17 in this is that because of the range of equipment
18 types that pilots bid on from the seniority list, I
19 am sure this panel is familiar with the bar and
20 whiskers chart, about the majority that, the mean,

21 the 50 percent of pilots bidding for a piece of
22 equipment tend to be sort of rational according to

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1 the size of the pay of that piece of equipment.

2 So that for instance you would tend to see
3 in the seniority list, people that hold the highest,
4 most well paid positions, are the ones at the top.
5 The people that are holding the least desirable
6 positions, the entry level positions, are the ones
7 at the bottom.

8 But in and around that middle there is a
9 wide dispersion of people who are either what we
10 call sport bidding, junior pilots taking an
11 opportunity to bid up to captaincy that they
12 otherwise couldn't hold, but on the other side of
13 the fence you have got people who could hold
14 captaincies easily in the largest pieces of
15 equipment, that are holding captaincies in smaller
16 pieces of equipment or bidding to be first officers,
17 for whatever reason.

18 And so in order to look at the future,
19 given that constraint, it is very difficult to
20 include, and I think impossible to select subjective
21 choices that the pilots are making in terms of
22 lifestyle.

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1 So what we are trying to do with the
Page 22

2 stovepipe bidding is produce an apples to apples
3 evaluation, which is when a pilot leaves there is
4 some rationality to where that pilot would next go,
5 regardless of their past or current practices.

6 So that the next highest paid job is where
7 that guy is going to go, even if he wants to stay in
8 Phoenix or Philadelphia, he is going to go to the
9 next highest paid job.

10 So this eliminates that influence. And
11 also what I think it does is it captures the
12 economic value of those trade-offs, which is if
13 somebody is passing up a \$10,000 a year advance in
14 their career for whatever reason, that the value of
15 that lifestyle choice in an economists terms has to
16 be greater than that \$10,000 value. So what we do
17 is we eliminate, and Mr. Salamat model does the same
18 thing by default, and it makes things much more of
19 an apples to apples comparison.

20 Q To be clear, if I understand, what you are
21 saying, is when there is a vacancy created by a
22 retirement of a pilot who reaches age 60, that

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1 vacancy is filled by the next most senior pilot who
2 is not earning the earnings that the, that that
3 vacancy would produce?

4 A Right.

5 Q Okay?

6 A And it runs like that until the last
7 person is holding the last A330 supposedly captaincy

8 job in 2039, when no pilots are left.

9 And the important thing, too, is to
10 remember that jobs that are created after May 19th,
11 whether through growth, the new hires in off the
12 street aren't counted in this valuation. It is just
13 the active pilot list in the seniority list that
14 have been provided to us. So that we are not
15 including in it obviously an airline with 300
16 airplanes is going to have more than one pilot in
17 2039, but the only economic valuation we are doing
18 here is that one pilot in 2039.

19 Q You said you include only the active pilot
20 list, you mean --

21 A The seniority list.

22 Q So, on the east side that would include

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1 the 1900, how ever many, furloughed pilots?

2 A Yes.

3 Q All right. Next page is a place holder,
4 page 6, so let's, what are you going to tell us
5 about in the next --

6 A This is an attempt to sort of, you know,
7 we could hopefully apply the PEM analysis to other
8 mergers using the pages that are listed here, and
9 this is sort of the basic construct. And I will go
10 through it again, fairly quickly, because I think
11 the concepts are fairly user friendly in terms of
12 the assumptions that go into the model.

13 So, as we discussed the first page, I

14 guess it is page 7 of the structure of PEM, we again
15 take the number of jobs in May of '05 on each side,
16 we look at the number of aircraft by type and
17 position, and we create a pilot ratio by type and
18 position, five or six or seven captains for each
19 piece of equipment; five or six first officers for
20 each piece of equipment.

21 That is generally the range. The US
22 Airways equipment, long haul equipment has augmented

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1 crews, so it has almost twice as many first officers
2 as captaincies. So there is a bit of a difference
3 there, but most of the ratios are in the five to six
4 pilots per aircraft.

5 We take that and then multiply it back by
6 the number of aircraft and find out the number of
7 jobs. So essentially we are starting on the
8 left-hand side with the number of jobs and on the
9 bottom right-hand side we are ending up with the
10 same number of jobs, because at the start the fleet
11 is the same.

12 Pilot jobs at the given fleet, calculated
13 through pilot jobs at the same fleet doesn't change.
14 However, on the next page you will see that --

15 Q Page 8?

16 A -- page 8.

17 Q Page 8 would have looked very empty if we
18 had actually done a live power point slide, right?

19 A Yes, but we have a fly by.

20 The first part is looking at in the left
21 hand side this is presuming a ratio of five
22 captaincies per aircraft type, and these are widget

2050

1 aircraft. They are not anything specific, Embraers,
2 737s.

3 If, for instance, at the time of the
4 analysis there were two aircraft we would have
5 arrived at the total of 10 captain positions for
6 that aircraft type. So one aircraft equals five
7 captaincies, two aircraft equals 10 captaincies.
8 That would be the analysis for every single position
9 and every single piece of equipment held as of
10 May 2005.

11 Now, let's say at some point in the future
12 there is another aircraft added to that type. How
13 many jobs are created by the addition or deletion of
14 that type of equipment? Now we have got three
15 aircraft times five captains per aircraft, 15
16 captains. Fairly simple math and it is important to
17 understand this, because this sort of drives the
18 jobs, the number of jobs that are created in each
19 company.

20 Again, with the proviso that this is only
21 occurring, as we will get into it, in a very short
22 period. The changes in fleet are locked down as of

2051

1 January 2008 when we do our forecast, but this is
2 sort of the transition period between the
3 announcement of the merger and the start of what we
4 believe is the integrative forecast which would be
5 January 1st, 2008.

6 Q Page 9 is the page that you gave us kind
7 of a preface about when you were describing the
8 ranking of jobs earlier?

9 A Right.

10 Q Can you describe what page 9 shows us,
11 please?

12 A Again on the left-hand side, because the
13 pay by position doesn't always determine in a sort
14 of hierarchical fashion which pieces of equipment
15 are preferable to pilot groups. There are a couple
16 of other criteria that we can use to establish which
17 jobs are preferred in order to make our stovepipe
18 job bid list.

19 And that typically is pay by position;
20 larger piece of equipment, higher pay, more
21 desirable, on top of a piece of equipment with lower
22 pay, smaller, slower, ALPA contracts a lot of time

2052

1 will specify speed and weight pay.

2 So, if pay doesn't make the difference, if
3 it is a dollar to fly a 757 as well as a dollar to
4 fly an A320, then pilot preference can be determined
5 in sort of a proxy fashion by the maximum takeoff

6 weight; bigger equipment, more preferred type of a
7 job.

8 And finally we can actually look at the
9 seniority bid preferences, which is in actual fact
10 pilots bid for larger pieces of equipment with
11 higher pay. And in this case we have been able to
12 determine all three of these and essentially
13 establish what I think is a fairly rational
14 hierarchy of equipment flown of jobs desirability,
15 which is ranked on the right-hand side of the page.

16 Q That is the ranking that is used in
17 allocating jobs on a seniority basis in the model on
18 a going forward basis; is that right?

19 A Right.

20 Q Let's turn to page 10, please.

21 A Page 10, I tried to simplify this, and I
22 hope I didn't make it more confusing, but

2053

1 essentially --

2 Q It made it more confusing to me and at
3 first but --

4 A Yes, if you take a look at the left-hand
5 side, and this would go for Acme Airlines as well as
6 east or west here in this case, that there is a
7 person sitting in the number one spot on the
8 seniority list as of May 2005.

9 That person may or may not be sitting in
10 the number one position as we have ranked them. In
11 fact you will find that many times the number one

12 pilot isn't flying in the number one position. So
13 therefore you can see the line from the number one
14 pilot being drawn over on the right hand side to the
15 job rank. And in this particular instance, as an
16 example, I have drawn the line from the number one
17 pilot down to the 767 captaincy. So this particular
18 pilot would have not held the highest position that
19 they could have held at the beginning of the model
20 run.

21 And you will see that the second pilot is
22 really holding what we could consider to be the top

2054

1 job, the A330, in this case for U.S. Airways, and
2 for America West it would be the 757, so forth.

3 So you can see that essentially there is
4 no real sport bidding. But it is hard to diagram
5 adequately the degree to which pilots bid out of
6 seniority sequence, but it does happen. And
7 Mr. Salamat's model starts with the actual positions
8 held and we start with the actual positions held.

9 Q I was going to ask you two questions, but
10 you already answered one of the two that I was going
11 to ask you. First, just to be clear, page 10 is not
12 intended to show that the number one pilot on the
13 U.S. Airways list was actually holding the number
14 five position, this is simply a graphical
15 description of the fact that pilots aren't, as of
16 the beginning of the examination period, are not
17 necessarily holding the most senior equipment that

18 they could hold?

19 A Right, and the odd thing that I think
20 comes out in this analysis, and it has to do with
21 the relative longevity of the U.S. Airways pilots,
22 is that the pay scales in terms of the modeling

2055

1 aspect of this, usually would be affected whether
2 you put people in positions by actual position or if
3 you ranked them by stovepipe.

4 And in the case of U.S. Airways, there
5 isn't much of a difference between the first pilot
6 holding the 5th job and the 5th pilot holding the
7 1st job, because they are both at the top of scale.
8 And someone is going to fly it.

9 It doesn't matter if it is John or Tom or
10 Paul or Suzy, they are all at the top of scale. So
11 the economic transfer, as far as a group valuation,
12 there isn't any delta; there is no difference.

13 As far as an individual pilot is
14 concerned, there is a difference, and they have made
15 a lifestyle choice in that and simply we have talked
16 about the evaluation of life style choices. But
17 this is where the model starts as of May 19th, the
18 positions held, but the impact, as we will talk
19 about, is fairly small.

20 Q All right. With that as a sort of a
21 starting point let's go to page 11.

22 A Right. This is where the model sort of

1 begins the real machinations of putting out earnings
2 estimates. First you have to understand that the
3 pilot jobs, who they are held by, on the hand side,
4 it is related to the hourly pay from the pay scale
5 as well as the position on the aircraft and the
6 length of service that particular pilot holds as of
7 that month.

8 So the job for instance on the previous
9 page held by pilot number one as a 767 captain, the
10 value of that would be determined by that aircraft
11 type, that position and that pilot's particular
12 length of service.

13 Q That is because the pay scales at the
14 airlines are length of service, are in addition to
15 being based on the piece of equipment and the
16 status, are based on the length of service of the
17 particular pilot holding the position, correct?

18 A Yes.

19 Q Okay. So to be clear, PEM uses both as a
20 starting point and throughout its running, not just
21 top of the scale number for the value of any job at
22 any given time, but the actual pay for the pilot

1 that is holding that job under the model based on
2 his or her length of service?

3 A Right, and that is determined by the
4 contract in force at various times.

5 America West's contract changes in the,
6 what we call the transition period between May
7 of 2005 through the end of 2008. There is a pay
8 raise that has just occurred as of January 1, 2007.

9 So that is both in terms of the horizontal
10 as well as a vertical analysis we are running
11 through time with the various pay scales and we are
12 running through the length of service in a step
13 fashion on the various pay scales from each side's
14 contract.

15 Q Paragraph or picture number six on page
16 11?

17 A Essentially the top we have determined
18 what the job is, who is going to hold that job, who
19 actually holds that job in the beginning, and what
20 the pilot pay is per hour. This doesn't include per
21 diem, it doesn't include any kind of additional
22 earnings, W-2 or not, that a pilot could make. This

2058

1 is strictly a pay scale-based model.

2 So on the right-hand side we take the
3 pilot pay per hour and multiply it by the number of
4 hours per month, which is standard across the model,
5 which is 85 in any given period. So we have at the
6 right-hand side a pilot pay per month for a
7 particular pilot in a position based on the
8 longevity and that piece of equipment being
9 available for a job to be filled.

10 Q Page 12, please?

11 A So then the next piece is starting to
12 build up across all of the pilots in the same type
13 of fashion. And we take each individual pilot, each
14 pay position, multiplying it by the number of hours
15 in a month, and we end up with monthly pay per
16 pilot.

17 The top, No. 7 essentially assimilates
18 this into a monthly valuation. The number of pilots
19 by position and aircraft type and the jobs they
20 actually would hold, equals the total pilot monthly
21 pay for all the pilots on either side of the fence.

22 And so on the right-hand side again we

2059

1 have got the total pilot group pay, for instance for
2 May of 2005, based on the jobs they actually held,
3 based on the pay that was in the contract, based on
4 85 hours per month, times the number of jobs that
5 are held by each side.

6 Then we go to the left hand side and --

7 Q Under 8?

8 A Under 8, and now we are taking it up to a
9 level where we can evaluate it in a more user
10 friendly fashion, which is the total pilot group pay
11 per month, for each of the 12 months, and now this
12 isn't just taking May and multiplying it by 12, it
13 is making May, June, July, August, September,
14 October, November, December.

15 Q So that is adding the actual values for
16 each pilot per month and each piece of equipment?

17 A Right, so then we end up at the bottom of
18 the barrel with the total --

19 Q Turn to page 13.

20 A Total pilot group pay is annualized and
21 evaluated for every year from 2005 through the 2039
22 time frame, which is when the last pilot reaches age

2060

1 60.

2 So you have got annual numbers for each
3 individual year for each individual pilot group
4 based on individual pilot earnings in positions and
5 types by month for something I think like 400 some
6 odd months. That gives you have the sum total pay
7 under whatever scenario you are looking at, either
8 integrated or stand alone. And we will talk about
9 what those terms actually mean in the model.

10 Then the next step of course is to
11 evaluate on a net present value much the way that
12 Mr. Salamat did. Net present valuations, as I am
13 sure you are familiar, are usually applied to
14 capital investments. In this case it is really a
15 proxy for diminishing value of money in the future,
16 and that can be evaluated anywhere from 2 to 5
17 percent, depending on the level of expected
18 inflation so.

19 We are not really discounting the capital
20 investment here, we are really discounting the
21 earnings potential based on what the value of those
22 earnings means today. And again, to caution you,

1 this is not the real world earnings that U.S.
2 Airways or America West pilots will eventually make.
3 This is simply trying to set up a modeling format
4 where you can readily appraise the values of the
5 franchises, the values of the jobs that were brought
6 in over a reasonable history, a reasonable forecast
7 based on the history of each pilot group.

8 So that is the last step. So then we have
9 a net present value sum for the total, much the way
10 Mr. Salamat had. So it is in billions, each year --

11 Q Let me be clear. I think it is evident,
12 but you used the same net present value discount
13 rate as Mr. Salamat did?

14 A Right. And, you know, the firms that I
15 have dealt with recently are using for their
16 discounting 7 to 10 percent based on cost of
17 capital. We are not talking about cost of capital
18 here, pilots aren't capital. And so you know, 3
19 percent seems like a reasonable proxy for cost of
20 earnings capital in terms of diminishing value of
21 earnings over time.

22 Q All right. Page 14, again that is leading

1 us into the next section of your presentation; is
2 that correct?

3 A Right.

4 Q What are you going to be telling us
5 generally about in the next section of the
6 presentation?

7 A Again that last section should be
8 applicable to any pilot merger. That is the layout,
9 that is the pay the PEM model runs. It is not
10 particular to this case. The next section is really
11 sort of giving you the highlights of what the
12 various criteria and components are that are used in
13 this PEM analysis; the number of hours, where the
14 pilot jobs came from, et cetera.

15 Q Let's go through those assumptions
16 starting on page 15, please?

17 A Sure. The basic assumption is that the
18 pilots that are included in the analysis are based
19 on the May 19th, 2005 certified lists that I believe
20 have been presented though evidence, before the
21 panel. It includes the U.S. Airways furlough
22 pilots, however, it excludes the CEL pilots.

2063

1 Q To be clear, does it exclude the CEL
2 pilots both on a stand alone basis and on a merged
3 integrated basis?

4 A Yes, yes, it is consistent. It is in the
5 stand alone, it is in the merged.

6 Q All right.

7 A The pilot jobs, again when you view this,
8 are based on the number of positions held with an

9 active pilot as of May 2005. And we are going to
10 talk about two different types of fleets at the
11 bottom here. One is what we consider the stand
12 alone fleet, and I think we are going to talk about
13 that in the next couple pages, but the next one is
14 the merger fleet.

15 And so on the predicate that pilot jobs
16 are related to at least in the short term the number
17 of pieces of equipment available to fill jobs, there
18 are differences in the number of pilot jobs,
19 differences in the number of earnings, but it is
20 fairly small, in terms of what we have been able to
21 find through a PEM analysis of those changes in
22 fleet.

2064

1 Q Next page please, page 16?

2 A These are the work rule assumptions.
3 Again I think Mr. Salamat used 85 hours per month.
4 However, we had a little bit of a difference here in
5 pilot pay rates and the stand alone scenario.
6 Again, this scenario is if the merger hadn't
7 occurred, what are the assumptions of the fleet and
8 the pay that each pilot group would get if
9 Mr. Parker and Mr. Lakefield hadn't gotten together
10 and decided to merge the two carriers?

11 So it is a look at what the carriers,
12 companies would look like based on whatever
13 knowledge we had about the stand alone plan for each
14 carrier. And the difference here I think between

15 what we have run and what Mr. Salamat's model ran,
16 was that all pay rates in the stand alone scenario
17 are based on individual pilot contracts; that the
18 U.S. Airways pilots get paid strictly based on
19 contract that they held and do hold today, and the
20 America West pilots get paid strictly on the
21 positions and aircraft pay on their contract.

22 Q And that is, again to be clear, that is on

2065

1 the stand alone analysis?

2 A Yes.

3 Q And it is your understanding, is it not,
4 that in Mr. Salamat's model for the stand alone
5 analysis that he used the higher wage rate of the
6 two contracts to value the net, ultimately the net
7 present value of the stand alone; is that right?

8 A Yes, that is what I understand. The most
9 important portion of the fleet at either carrier is
10 the A320, 737 grouping, the narrow body pay rates,
11 and they compose 40 to 50 percent of the total fleet
12 at either carrier.

13 The pay rates at America West now are
14 substantially higher than U.S. Airways, so therefore
15 applying the U.S. -- the America West rates to the
16 U.S. Airways stand alone would produce a much higher
17 stand alone value for U.S. Airways.

18 Q 40 to 50 percent or even more?

19 A Even more. But it is a significant
20 component. If it is the A330, there is only nine of

21 them. I mean it is not a big difference when you
22 compare how many pilot jobs are generated off the

2066

1 thousands and thousands of jobs that are available
2 in the narrow bodies at each carrier.

3 Q So, that is the stand alone, scenario,
4 stand alone scenario uses the actual for the Airways
5 model and the contract rates for the west stand
6 alone?

7 A That is correct.

8 Q Now, for the integrated scenario?

9 A The integrated scenario, I am getting into
10 some terms we are going to have to review in the
11 next slide, I guess, which is the integrated
12 scenario has two components. The transition period,
13 that is the period between May of '05 until when we
14 begin the forecast. And we think the integrated
15 list should be effective, January of '08, we use the
16 current contractual rates.

17 The forecast period, which is the January
18 '08 for 2039, we used the highest of the two
19 contracts, and we are using the international pay
20 rates for U.S. Airways on the 76 and the A330. We
21 are using America West pay rates across the board on
22 the narrow bodies in that forecast and we are using

2067

1 the domestic 757s for each side.

2 So it is, in a sense, using the best of
3 the two sides in the forecast period and comparing
4 the two what the stand alone would have been using
5 each side, each side's pay rates.

6 Q During the transition period, however, if
7 I understand the model correctly, the east fleets,
8 flown by east pilots and is paid the east rates, the
9 west pilot, the west equipment stays separate and is
10 flown by west pilots and they are paid the west
11 rate, right?

12 A Right.

13 Q And again that is so for the period
14 May 19th to January 1st, '08?

15 A Right.

16 Q The last bullet is a constraint, vacancies
17 are created on the list and the ability for pilot up
18 bid is based the assumption that in each month we
19 are validating whether that pilot --

20 11:50 a.m. -- recess -- 12:10 p.m.)

21 BY MR. FREUND:

22 Q Dan, we were transitioning between, if

2068

1 that is an appropriate word, we were transitioning
2 between slide 16 and slide 17. You have already
3 told us in broad strokes about what slide 17 shows
4 about the nature of the analysis, but let's just be
5 clear using the slide.

6 A Just by virtue of the way that we are
7 looking at east versus west, there are lots of

8 numbers that come in two's. For example, two
9 scenarios over two time frames with two different
10 fleet assumptions.

11 So the first we are going to explore here
12 is the transition period, which is the first time
13 frame, and we didn't really know what to call it,
14 interim period, whatever, and this is what has come
15 out, and I hope it is pretty clear that the
16 transition period from the PEM modeling component is
17 always the period between May of '05 and
18 December 31st of 2007.

19 That is the period before which the
20 integrated list is applicable. It could be
21 applicable, as Mr. Salamat has suggested, at some
22 point differently, but we believe that, you know,

2069

1 the likelihood that it would be applicable before
2 January 2008 is less likely than sometime after
3 that.

4 So we start our forecast with a forecast
5 of when the integration would likely occur. So the
6 bookends on the first period are May of '05 to
7 December 31st, '07.

8 Q Then the second period, forecast period?

9 A The forecast period is really the period
10 that Mr. Salamat looked at, albeit from a different
11 starting date, but essentially no interim analysis,
12 but just what fleet, what number of jobs are
13 predicted, based on the constraints that we have

14 already gone over from January 1st of 2008, in each
15 month therefrom, until the time the last pilot
16 retires and turns age 60, which is in the year 2039.

17 Q And just to be clear then, the model is
18 sufficiently flexible so that the transition period
19 could cut off at any date that was decided, correct?

20 A Right. We just cut it off at a different
21 month, or begin the forecast period at a different
22 month. But understanding the concept that we are

2070

1 dealing with something a little bit different than
2 Mr. Salamat, in that we are measuring the impacts
3 from the merger preintegrated list.

4 Q Okay, let's turn to page 18?

5 A So now we have got the fleet scenarios,
6 and I think this is another sort of bedrock
7 assumption about the model, is that what are the
8 differences in the fleets between the point of view
9 of the stand alone without the merger, on the top
10 half, being the west would have had a fleet starting
11 at the fleet that they held in May of '05, 144 total
12 aircraft and growing to 161 aircraft within the
13 transition period, certainly by the start of the
14 forecast period of '08.

15 East, on the other hand, started with a
16 fleet of 270 total aircraft in May and reduced to
17 211, or would reduce in our belief to 211 airplanes
18 on a stand alone basis.

19 Q In point of fact, well, you are not a

20 witness to testify on this point, there are a number
21 of witnesses who have testified in our case, as I am
22 sure you know, that U.S. Airways wouldn't have

2071

1 continued to stand alone at all, correct?

2 A Right.

3 Q But nevertheless for a stand alone
4 analysis you used the 211 fleet number on and after
5 reducing from 270?

6 A Right.

7 Q Okay?

8 A So the big take away would be that on a
9 stand alone basis America West would be expanding,
10 U.S. Airways would be contracting.

11 The next would be, you know, sort of an
12 inelegant description of what the next section is,
13 which is merger fleets. This is not the combined
14 fleets. This is essentially the fleets that are
15 left after the merger announcement and the impacts
16 that that merger announcement had on the various
17 fleet numbers, the various aircraft numbers at each,
18 west and east. That is different from a stand
19 alone.

20 So on the west side the fleet starts at
21 144 and instead of growing to 161 it actually
22 reduces by 11 aircraft in the transition period.

2072

1 The east side instead of reducing from 270
2 down to 211, it actually reduces down to a point of
3 about 224, in the latter part of 2006, and then
4 begins to grow as a result of adding 12 Embraers
5 which have already been started to be delivered over
6 the next year.

7 And so the difference again in the east
8 side is that moving from 270 to 211 on the stand
9 alone. Under the merger fleets, the impact of the
10 corporate announcement and the decisions that Doug
11 Parker is now making, as opposed to U.S. Airways in
12 Washington, the east fleet is starting at 270
13 reducing down to 236 rather than 211.

14 Q Do you know if in that 224, that 224 which
15 is a part of the road to 236, if that includes a
16 reduction down to 221 and then the addition of three
17 757 aircraft and then the Embraers?

18 A Right. There were I believe 31 757s as of
19 May of '05 and that grows to 34 in the middle of the
20 transition period.

21 CHAIRMAN NICOLAU: Excuse me, I just want
22 to make sure. Both of these assumptions, fleet

2073

1 assumptions, end at 12-31-07?

2 THE WITNESS: Yes.

3 CHAIRMAN NICOLAU: What the fleet would be
4 either stand alone or merged on that date?

5 THE WITNESS: Right.

6 CHAIRMAN NICOLAU: Okay. I just wanted to
7 make sure.

8 THE WITNESS: And I think the next set of
9 slides will sort of firmly implant that.

10 BY MR. FREUND:

11 Q So why don't you tell us about 19 and 20?

12 A I like to look at things visually, and I
13 think looking at the fleet counts visually helps
14 understand the beginning and end points of the
15 transition period. Again this is on the left hand
16 side, May of '05 through the beginning of January of
17 '08.

18 And again, looking at the left-hand side,
19 again on the stand alone basis, the top of the page,
20 which that should be a blue line is actually a
21 purple line, 270 aircraft held by the east as part
22 of their fleet that they brought to the merger as of

2074

1 the merger announcement, and 144 at the starting
2 point of the west.

3 And at various times across these months
4 the west side was adding equipment, according to a
5 delivery schedule, and the east side had equipment
6 being taken out. So you have got two different
7 effects here in this transition period.

8 The important other thing is that the
9 January of '08 period, essentially, locks down those
10 fleets on a stand alone basis for the forecast
11 period. So there isn't any other changes related to

12 changes in fleet evaluation. Pilot jobs are based
13 on 211 active aircraft on the east side, 161 on the
14 west side.

15 Q Page 20?

16 A The second of the fleet assumptions is
17 again this merger fleet assumption which is not the
18 combined fleets, it is essentially the impact of the
19 merger on the fleets. And again you will see the
20 same starting point of 270 on the east, 144 on the
21 west, based on the equipment held in May of '05.

22 And east drops down to around 220, 221, up

2075

1 until point of around January of '07, when the
2 Embraers start to be delivered and it ramps up to
3 236 aircraft in the east, and the west actually
4 loses airplanes over a period of time throughout the
5 transition period from 144 down to 133.

6 So again, on the one hand we have got
7 stand alone fleet assumptions running through the
8 transition period, and also running through the
9 forecast period, to determine the stand alone jobs
10 and the values of those jobs.

11 Then on the other hand we have the merger
12 fleet assumption, and we will talk about how we use
13 the merger fleet assumptions to evaluate the impact
14 of the integrated list as opposed to the stand alone
15 carriers without the merger.

16 Q Again, I think you may have said it
17 already, but on the merger, on the stand alone fleet

18 assumptions you said it was locked down at
19 January 1st, 2008, and runs out to the end of the
20 forecast period. The same is true with respect to
21 the merger fleet assumptions, correct?

22 A That is right. This is the fleet that

2076

1 goes into the integration analysis.

2 Q Slide 21, please?

3 A So now we are looking at the last of the
4 twosomes, which is the scenarios. We have talked
5 about two time periods, two aircraft fleets. Now we
6 are going to talk about how those two time periods
7 and two aircraft fleets fit into the analyses.

8 There are two analyses. Essentially there
9 are analyses that are distinctly different in that
10 the first analysis is looking at the impact of the
11 merger on the valuation of jobs during the
12 transition period, and that would be, how do the
13 changes in fleets during this period stand alone as
14 we have seen them, versus merger as we have seen
15 them, affect the earnings potential of either side
16 during the period May of '05 to December 31st of
17 '07?

18 This is a period that the east side, that
19 Mr. Salamat's model did not evaluate or incorporate.
20 So this is sort of the starting chunk, which should
21 be the historical chunk of data that precedes the
22 forecast period once the integration occurs.

1 So we are talking about roughly a 31-month
2 period, I believe, in terms of the valuation. And
3 again this 31-month period is going to pale in
4 comparison to a 34 or longer year period in terms of
5 total value, but there is an impact and we have
6 measured those impacts.

7 The assumptions are, again the period
8 being that period we described as the transition
9 period. The fleet is the stand alone fleet and the
10 jobs that accrue to each side with the stand alone
11 fleet, based on the pilot ratios and equipment at
12 each particular carrier, as well as comparing that
13 to the merger fleet, based upon the separate pay
14 rates and seniority lists at each carrier.

15 So we are setting up a scenario that is a
16 nonintegrated analysis, but is an analysis of the
17 stand alone seniority lists with the stand alone
18 contracts and the stand alone fleets versus that
19 same analysis, however, instead of stand alone
20 fleets, a merger fleet.

21 Q Again the merger fleet takes into account
22 the actual changes that occurred during that

1 transi ti on peri od?

2 A Right.

3 Q All right. No. 2 on page 21?

4 A So this is really the comparison that is
 Page 48

5 more like the east model developed by Mr. Salamat,
6 which is we are trying to find out in general with
7 the PEM model what the forecast valuation of pilot
8 earnings is, in a future period, with an integrated
9 list, as opposed to what those earnings would look
10 like in a future period with a stand alone fleet and
11 a stand alone separate list.

12 Because we are looking at a period that
13 predates what Mr. Salamat had presented we are going
14 to look at two different components of this
15 integrated scenario, the first of which is looking
16 at the stand alone case with the stand alone fleet,
17 and respective pay, from May of '05 all the way
18 through the last pilot retires in 2039, as opposed
19 to the integrated case which includes the transition
20 period, as well as the forecast period.

21 And that integrated case is always based
22 on the merger fleet, but one of the things that is

2079

1 different is that as of January of '08 the merger
2 fleet is accompanied by the higher applicable pay
3 rates in either contract.

4 So, you have got a very, very short window
5 of 30 some odd months followed by 400 months in
6 which the higher of the two pay scales is being
7 applied.

8 Q So again 30 some odd months, the west pay
9 rate is applicable to the east pilots the east pay
10 rate is applicable to the west pilots and they are

11 after that starting in January 1st, 2008, the higher
12 of the two sets of rates, be it east or west for the
13 piece of equipment that is at work?

14 A Right.

15 Q And there is a last bullet on this page
16 21?

17 A The model is capable of producing a number
18 of different criteria. In this case one of the
19 criteria is the fence on the A330. Again it is a
20 big deal for pilots in terms of these types of,
21 there is fairly traditional. I know you all know
22 that various integration scenarios are premised on

2080

1 conditions and predictions, but it doesn't really
2 have a big impact on valuation over time for the
3 first two years because again we are talking about
4 34 years, and so it is poor for bid purposes, but in
5 terms of valuation these types of fences really
6 don't create too much of a change in the valuation.

7 Q Page 22 is again a place holder for what I
8 are about to describe to us, and I gather what you
9 are about to describe to us is after all the input
10 has been put in and the cranks have been cranked and
11 the buttons have been pushed, what is the dollars
12 that are produced?

13 A Right, and I would like to go over it
14 again in a sort of sequential fashion that we
15 describe two different scenarios. The first I want
16 to describe is again that change in pilot earnings

17 during the transition period using the standard
18 contract pay for each side, using a stand alone
19 which is a merger fleet.

20 Q Okay?

21 A So in the first instance the first number
22 we are going to look at again, this is a summary of

2081

1 all of the pilot jobs and the pay for the pilots who
2 would hold those jobs during the May 19th, 2005 to
3 December 31st, 2007, with the stand alone fleet.

4 The west side indicates that \$491 million
5 would be earned on a net present value basis. On
6 the east side it indicates that \$680 million would
7 be earned. And again the relative size of the fleet
8 is really determining the relative scale here; U.S.
9 Airways being bigger, more jobs, larger fleet, that
10 is what is determining the difference there.

11 Then we go to the next slide which is with
12 the assumptions of the merger fleet that we have
13 outlined, of course America West having a smaller
14 fleet than they would under stand alone, U.S.
15 Airways having a larger fleet than they would
16 otherwise in a stand alone; the numbers change,
17 reducing down for the west side 473 million,
18 increasing to 705 million in the east.

19 And again this is the values of those jobs
20 with the separate pay scales with the merger fleet
21 assumptions and the jobs that accrue from those
22 assumptions.

1 Q Page 26, I don't want to go through this
2 too fast, but the next several slides I gather
3 summarize what you have described to us about the
4 transition period?

5 A Right, and the first two slides we have
6 looked at each carrier, east versus west, now we are
7 just going to look at west. Stand alone valuation,
8 \$491 million in the transition period, with the
9 stand alone fleet versus \$473 million, they are the
10 same numbers we have just seen only I am setting
11 them side by side.

12 Q Again that is just a graphic display of
13 the reduction caused I take it principally if not
14 exclusively by the smaller size of the fleet during
15 the transition period than predicted under the stand
16 alone?

17 A That is right, right.

18 Q Okay.

19 A The east side, on the other hand, with the
20 stand alone valuations of the jobs that they would
21 have held with the fleet transitioning from 270 to
22 211 represents the left-hand side, \$680 million,

1 whereas the merger fleet with the larger fleet
2 components we have seen up to 236 airplanes would

3 produce \$705 million in the scenario with the merger
4 fleet.

5 So transition, U.S. Airways gets
6 essentially more than they would have got with the
7 stand alone; America West gets less. And the next
8 page measures that valuation for each group.

9 Q Next page is page 28?

10 A Right.

11 Q And the numbers speak for themselves, why
12 don't you just record it for the record?

13 A \$17.2 million is the difference between
14 what the west side would have earned, under a stand
15 alone, and \$17.2 million less under the merged
16 fleet. And U.S. Airways the east side would have
17 earned \$25 million more, during that transition
18 period, simply based on the number of jobs that were
19 made available as a result of an increased fleets
20 versus stand alone.

21 Q Page 29, Scenario 2, reads stand alone
22 versus integrated. Roger just whispered in my ear,

2084

1 I think we made it clear, but the integrated
2 scenario that you utilized is the proposed
3 integrated seniority list proposed by the west
4 pilots, correct?

5 A That is right.

6 Q And it is, when you received it, it was, I
7 know you got it electronically and saw it visually,
8 but it was the pink and purple insertion of pilots

9 generated by Bob Mann, correct?

10 A Yes, that is correct. So this is the sort
11 of real purpose of PEM is to generate the forecast
12 of overall earnings per group.

13 Q I said pink and purple, it is actually
14 pink and gray, I misspoke.

15 A It is a colored list. And at the time we
16 received it I remember talking to you guys about the
17 model, not being able to differentiate pilot groups
18 by color of font, but Bob solved that with the
19 seniority or with the employee pay numbers beginning
20 with "P" on the west, so it was an easy separation.

21 So we are going to talk about the real
22 sort of purpose of PEM, in terms of valuing the

2085

1 potential optimized pilot group earnings over the
2 period from May of '05 through the last month in
3 which the last pilot reaches age 60 in the seniority
4 list.

5 Q Okay, and turn to page 30.

6 A So the, again the forecast period for this
7 is the period from May of '05 to 2039. So by
8 default it includes both the transition as well as
9 what I have called the forecast period here. That
10 period that begins in January '08.

11 Q And it encompasses and takes in for the
12 transition period the numbers that you have looked
13 at that you showed us in the earlier slides,
14 correct?

15 A Right, right. And the value here, as you
16 can see, is on the stand alone basis the west pilots
17 prediction would be with the forecast as well as the
18 transition period, would come up to about
19 \$2.7 billion worth of earnings, again based on the
20 stand alone fleet, stand alone contract.

21 The integrated side, again, given what we
22 have described as the integrated list, would both

2086

1 include the merger valuation during the transition
2 period, as well as the integrated valuation, post
3 transition period. So you have got a piece of it
4 that would be prior to December 31st, 2007, as well
5 as the piece after that. So it has got sort of two
6 components in it, one with the integrated list and
7 the merger fleet, one without the integrate the list
8 and the merger fleet.

9 So it is a tracking over a period of time
10 which is somewhat historical but also much more in
11 the future period. There is a difference here as we
12 described between the integrated lists, which
13 appears to generate more earnings for the America
14 West side versus the stand alone, and we can talk
15 about that as to why that is happening. But in the
16 integration the America West pilots propose they are
17 actually coming out better than stand alone.

18 Q Okay, page 30 -- I am sorry, page 31?

19 A Page 31 is a similar description of what
20 is going on on the east side. The original chart

21 that we produced for the east pilots to look at had
22 an error in it, and I think that is probably part of

2087

1 what some of their concern was about. We didn't
2 include in the stand alone case the transition
3 period earnings, so it didn't look like 3.5 it
4 looked something less than that.

5 So if you look at the stand alone earnings
6 during the stand alone period, I think there is \$680
7 million worth of stand alone values that weren't in
8 there.

9 So the mistake was that it didn't include
10 on the graph the transition period, which was there
11 on the graph, it just didn't include it when it drew
12 the graph.

13 So again, looking at the west proposal
14 with the stand alone U.S. Airways fleet, stand alone
15 U.S. Airways in the transition period through 2039
16 versus the pay and value of their merger fleet, both
17 in the transition period as well as the forecast
18 period, you can see that U.S. Airways as well
19 benefits from the proposed integrated list submitted
20 by the west pilots.

21 Q How can it be that both pilot groups
22 benefit by this seniority integration?

2088

1 A Well, on the one hand there is a number of
Page 56

2 factors. Obviously on the east side there is a
3 larger fleet in the integrated than you would
4 otherwise have in the merger. There is also a very
5 large, several hundred million dollars increase in
6 the effect of applying America West pay rates in the
7 integrated to the U.S. Airways narrow body jobs.
8 And, there are several thousand jobs associated with
9 those increases.

10 On the west side, although the fleet is
11 smaller the west guys would benefit from the obvious
12 final positions in their career being on large
13 pieces of equipment with much higher pay, 76s and
14 A330s.

15 There aren't that many jobs compared to
16 the number of 737, 767s and A320s, but the upside at
17 the end of the west pilot careers would be that they
18 would be flying in a wide body higher piece of
19 equipment, even though the total numbers of
20 equipment held would be smaller than the stand
21 alone, that more than offsets that negative
22 component.

2089

1 So you know, backing away from the
2 analysis, it makes sense that this is the result.
3 And again when I first saw this result I sort of
4 stepped back and thought, well how can that be, how
5 can one side be generating more revenue and the
6 other side generating more revenue, as a result of
7 the integration given all the mixes of crews and pay

8 scale? And I kind of stepped back and looked at the
9 model and sort of saw what was happening.

10 And we saw that a lot of the benefit was
11 at the end of the career for the America West pilots
12 and a lot of the benefits of the east was during the
13 middle of their career when people are flying A330s
14 and 737s.

15 Again, that value of paying the U.S.
16 Airways pilots America West rates for the narrow
17 bodies applies to the larger component by far of the
18 U.S. Airways fleet, and it generates hundreds of
19 millions of dollars in that present value for the
20 U.S. Airways pilots, just by virtue of -- it is a
21 pretty big one. I think it is over \$16 right now an
22 hour.

2090

1 Q Finally slide 32?

2 A So this, the last slide, is simply the
3 difference between the two towers we saw on the
4 previous pages, the red side being that the west
5 side is benefiting from the integration over the
6 transition forecast period with the merger fleet,
7 \$107 million more than the stand alone, with even a
8 larger fleet, and again we have talked about why
9 that is.

10 The U.S. Airways pilots on the right-hand
11 side are benefiting \$271 million as a result of the
12 integration and the ability to get paid higher for
13 the vast majority of the fleet and the narrow body.

14 So in context, you know, the United-U.S. Airways
15 model runs that we did didn't look like this.

16 There were billions, and the pilot list I
17 think was 16,000 at that point, but when we were
18 running the models there was also someone who made
19 out and lost out, and that is a much more
20 complicated airline scenario.

21 But I didn't expect this and when I saw
22 this I went back and looked at the article that

2091

1 Mr. Salamat had submitted from Dr. Sick, and of
2 course as I mentioned, this is a paradigm of optimal
3 group solution, that is the pilot groups aren't made
4 worse off to benefit the other. There isn't really
5 a loss that translates into a gain for somebody
6 else. Both parties gain as a result of this
7 integration.

8 And so, while I didn't expect this result
9 I was surprised by it, but it is understandable
10 under the context in which these carriers are
11 merging.

12 MR. FREUND: Thank you, Dan. I have no
13 further questions.

14 (11:37 a.m. -- recess -- 11:52 a.m.)

15 CHAIRMAN NICOLAU: Dan, Jeff has a couple
16 questions that he missed.

17 BY MR. FREUND:

18 Q Dan, open up to page 30, please, just to
19 put us in the right place in time and chronology

20 here. The number on the left, the bar on the left,
21 the 2.75 billion, is if I understand your testimony
22 correctly, the net present value of the west fleet

2092

1 and seniority list on a stand alone basis from
2 May 19th, 2005, until the end of time, basically,
3 correct?

4 A Right.

5 Q And again, as a predicate for my next
6 question, that includes a transition, what you have
7 described as the transition period, that is the
8 period of time from May 19th, 2005 until the
9 beginning of the running of the seniority list,
10 correct?

11 A Yes.

12 Q So I am looking at U.S. Airways
13 Exhibit 33, I don't think the panel needs to get
14 this out at the moment, I will just represent --
15 well, before I ask you the question, your
16 understanding of Mr. Salamat's model was that
17 putting aside assumption differences and the like,
18 that one difference in terms of the period of time
19 measured, was that Mr. Salamat's model didn't
20 include the period of time from May 19th, 2005 to
21 the beginning of the run of the model, correct?

22 A Right.

2093

1 Q So I am looking at Exhibit No. 33, and
2 that is a data sheet that shows off a lot of numbers
3 from Mr. Salamat's model. Do you remember seeing
4 his exhibit at one point?

5 A Yes.

6 MR. KATZ: What was the exhibit number?

7 MR. FREUND: Exhibit 33.

8 MR. KATZ: F-33.

9 MR. FREUND: E-33.

10 MR. KATZ: What is the name of volume E?

11 MR. FREUND: Name, its name is E.

12 Contracting staffing grouping and seniority
13 methodology.

14 MR. KATZ: Okay.

15 BY MR. FREUND:

16 Q So I am just going to read to you the
17 calculation that Mr. Salamat's model did for the
18 west fleet on stand alone basis from, for the future
19 period, which my recollection was that it was
20 July 1st, 2006, was 2,459,000,000, 2.459 billion, as
21 compared to the number that you ran of a stand alone
22 America West fleet of 2.75 billion, right?

2094

1 A Right.

2 Q What is that, what if anything do the
3 comparison of those two numbers tell you?

4 A That we are somewhat after 30 or 40 years
5 in the same ballpark, and there are sort of ways to

6 look at the impacts of the difference in start of
7 the forecast periods, which is the difference
8 between starting in 2008 versus starting in May of
9 '05 or whenever Mr. Salamat's model started.

10 Each year represents several hundred
11 million dollars in pilot earnings. So the gap here
12 being about what, 200 -- 300 some odd million
13 dollars would be made up largely by the difference
14 in the forecast start date.

15 Q Your slide 26 shows a transition, the
16 value of the transition period of \$491 million,
17 correct?

18 A Right.

19 Q That would be included in this 2.75
20 billion?

21 A Right. But again that transition period
22 isn't the same supposed transition period

2095

1 Mr. Salamat used.

2 Q I understand. On the stand alone west
3 analysis, aside from the length of the transition
4 period and the fleet difference, the wage rates that
5 you used for the west stand alone were the same that
6 Mr. Salamat used for the west stand alone?

7 A Yes, I believe.

8 Q Now, I am not going to parse the east side
9 to the same degree I just parsed the west side, but
10 am I correct that a fundamental difference between
11 your evaluation of the east side, or the assumptions

12 that were in your evaluation of the east side and
13 the assumptions that were in Mr. Salamat's
14 evaluation of the east side, was you used on a stand
15 alone basis, you used the U.S. Airways rates and
16 Mr. Salamat used for the narrow body?

17 A Right.

18 Q And Mr. Salamat used America West on a
19 stand alone basis for the east side, is that it?

20 A Yes.

21 Q Then my last question is, in your model,
22 you know at that time U.S. Airways pilots have

2096

1 proposed a different integration scenario; is that
2 right?

3 A That is correct.

4 Q The PEM model is fully capable of taking
5 that model, taking that proposal, and running it
6 through the hoops, correct?

7 A Yes, as I believe would Mr. Salamat's
8 model be capable of running our proposal.

9 MR. FREUND: Okay, thank you. That is all
10 I have.

11 CHAIRMAN NICOLAU: Did you run the PEM
12 model based upon the east list?

13 THE WITNESS: That is to be decided, I
14 guess. We just got it and put it together. It is
15 capable.

16 CHAIRMAN NICOLAU: Just asked.

17 MR. FREUND: You may see it.

18 CHAIRMAN NICOLAU: Dan, you had a few
19 questions beforehand.

20 MR. KATZ: Yes, I think it makes sense to
21 start out with a few questions before taking a break
22 to go over this.

2097

1 CROSS EXAMINATION

2 BY MR. KATZ:

3 Q And I think the last clarifying question
4 Jeff just asked actually confused things a little
5 bit, because it changed your testimony when you
6 agreed with Jeff on the wage rates. The way I
7 understood your testimony in the stand alone version
8 of the west scenario, you used the America West
9 pilots collective bargaining contract rates?

10 A Right.

11 Q That is one rate for everything?

12 A Well, it is one rate for captain, one rate
13 for first officers, yes.

14 Q And different rates for different
15 longevity steps going out to 15 years, every
16 airplane pays the same?

17 A By position.

18 Q In the same position. And in fact, Rikk
19 used the better of the two rates uniformly in the
20 unmerged and merged scenarios, are you aware of
21 that?

22 A Is the terminology unmerged, is that

1 integrated versus stand alone?

2 Q Yes, wasn't that your understanding?

3 A Would you repeat it again, so I can --

4 Q Wasn't it your understanding that Rikk
5 Salamat used in analyzing the west stand alone, the
6 better of the two rates for each airplane in each
7 status?

8 CHAIRMAN NICOLAU: In other words, if the
9 east had a better rate for a particular aircraft
10 that was used as opposed to west rate.

11 THE WITNESS: Right, I think the 75s might
12 be --

13 BY MR. KATZ:

14 Q Right, so the 757 at U.S. Airways is a
15 better pay rate than the 757 or the other airplanes
16 at America West?

17 A Right.

18 Q So in order to take the pay rates out of
19 the analysis, he used the better of the two rates to
20 both carrier stand alones and for the merged
21 operation, isn't that your recollection?

22 A Yes.

1 Q So that there is that difference in the
2 757 captain and co-pilot pay. You didn't use the
3 same rate as Rikk in analyzing stand alones?

4 A No, we used the stand alone contracts for
Page 65

5 each applicable carrier.

6 Q Now, was it your intention or Joe Meier's
7 intention to evaluate the fairness of different
8 methods of integrating seniority lists by looking at
9 the stand alone and merged earnings that those lists
10 would produce?

11 A No.

12 Q That wasn't the effort?

13 A No.

14 Q Because it is a fact, isn't it, that what
15 you have produced here in these exhibits is the
16 earnings of each group are affected by a variety of
17 things other than the particular list methodology
18 that is selected for analysis, correct?

19 A Yes.

20 Q It is affected in this case by the
21 transition period which we are not under a merged
22 list, right?

2100

1 A Correct.

2 Q It is affected by the pay rates, what we
3 just talked about?

4 A Yes.

5 Q Even if you changed the pay rates from the
6 stand alone to the merged operation, any increases
7 that go into effect would not be a product of
8 greater earnings derived from the seniority
9 integration methodology, it would be earnings
10 derived from the enhanced pay rates; true?

11 A Right, yes.

12 Q Similarly, when you added airplanes, the
13 Embraers and other airplanes to the merged fleet,
14 that increased earnings of both groups?

15 A Right.

16 Q And you also have in here earnings that
17 you have projected would be secured by furloughs
18 at U.S. Air who would be recalled earlier under the
19 merged scenario due to the greater number of
20 airplanes and jobs?

21 A Right.

22 Q Right?

2101

1 A Yes.

2 Q And that doesn't depend on the seniority
3 integration methodology, does it?

4 A No.

5 Q They would be recalled whenever you add
6 airplanes and jobs, they will be recalled earlier
7 and generate additional earnings?

8 A Right, and the number of vacancies without
9 that pretty much is stable because people turn age
10 sixty at the same times under both scenarios, so the
11 two ways vacancies are created are increase in
12 aircraft and retirement under this model.

13 Q Because you have assumed no growth in this
14 particular model?

15 A Right.

16 Q And that is the same as what Rick Salamat

17 did in his analysis?

18 A Yes.

19 Q Also, when there are America West pilots
20 who get to 767 international and A330 captain jobs
21 that would include people who get them after all the
22 U.S. Air pilots have already got similar jobs, out

2102

1 in the future?

2 A I don't understand the question, sorry.

3 Q The question is, don't the earnings that
4 you calculated include earnings for America West
5 pilots who fly, who are given earnings for flying
6 767 international and A330 captains positions?

7 A Yes.

8 Q And they get those earnings even after all
9 the remaining U.S. Air pilots are also in those
10 positions, if you are looking out to the --

11 A After all the U.S. Airways pilots who
12 previously held those positions have retired the
13 list is top heavy with America West in say 2030,
14 yes, that is correct.

15 Q And those earnings don't really come at
16 the expense of any U.S. Air pilots do they?

17 A No.

18 Q So that is another way in which the
19 integration methodology is not being analyzed by the
20 PEM model, because they get those jobs under these
21 assumptions no matter how the lists are merged?

22 A Correct, it is the difference in age.

1 Q Right. I didn't understand, I mean I
2 guess I heard you say two different things, so let
3 me ask you to clarify it?

4 A Sure.

5 Q In terms of the starting points for the
6 operation, at one point you said you start with the
7 May 19th, 2005 list, just as they are with the
8 pilots holding whatever jobs they are actually
9 holding on May 19th, 2005, and then I saw one slide,
10 let me just show you which one it is so you can see
11 what it was that confused me?

12 A Sure.

13 Q Page 11, Item No. 5, this light blue box
14 where you are talking about pilot hourly pay by
15 aircraft type and position?

16 A Right.

17 Q You say pilot job held by stovepipe, to
18 fill ranked jobs?

19 A Right, that is sort of after the first
20 months. The starting point is where they hold it,
21 the next thing is on a monthly basis we do what
22 Mr. Salamat did, which is if a vacancy occurs the

1 next most capable less paid less senior pilot goes
2 into that spot.

3 So essentially it begins the stovepiping
4 almost immediately with whoever retires in the first
5 month, let's say June of '05. And I think
6 Mr. Salamat would agree with this premise, that we
7 ran a stovepipe and we ran a bid position start, and
8 the differences after 40 years were like 89,000 in
9 net present value, very small. And the reason being
10 that U.S. Airways pilots on the one hand are so very
11 senior, that when you take out a very senior 30-year
12 captain and you move into that person another very
13 senior 30-year first officer or captain, that
14 everyone is being paid pretty close to top of scale,
15 especially when you consider that some of the
16 furlough people aren't getting recalled until
17 several years on when the values of the years of
18 service is greater at that point.

19 So it is, what I think would be a
20 significant difference if you were modeling a
21 carrier that had a wider range of length of service
22 and pilot retirement dates, a younger carrier like

2105

1 say Southwest, you would see an impact from sport
2 bidding to stovepiping start. But in this case it
3 really isn't, and I think it is understandable why
4 that is, and we have run it both ways in trying to
5 eliminate differences from the two models.

6 We had a choice, neither one made really a
7 difference, so we started it with Mr. Salamat's, and
8 this would represent sort of the starting point.

9 They are there, the first vacancy that opens up is
10 in a stovepipe fashion, so I think it is the
11 language here that confused you, Dan. It is sort of
12 really how the model runs once those pilots are
13 assigned in the way that the previous chart, chart 4
14 --

15 Q Yes, let's go to page 10 where you have
16 got an example of this laid out, and pilot A is
17 bidding for whatever reason to 767 international
18 captain, instead of A330 captain which he could
19 hold?

20 A Right.

21 Q And so as long as pilots 1, 2, 3, and 4
22 remain under the age of 60 --

2106

1 A Right.

2 Q -- you left pilots 1, 2, 3, and 4 in this
3 example in the A330 captain's position?

4 A Yes.

5 Q And then whenever any of them hit age 60,
6 that particular month, that pilot would come out and
7 pilot A would upgrade to A330 captain?

8 A Would take the job, if that is the next
9 best highest position available, he is the most
10 qualified, the most senior, the longest longevity so
11 he would take it.

12 Q And then it is your description of the
13 model that each month you would calculate for the
14 pilots in whatever positions they were in, a monthly

15 rate based on what you have described, times how
16 many hours?

17 A 85.

18 Q 85 hours?

19 A Which again is the same that Mr. Salamat
20 used across the fleet.

21 Q You did not use any 401(k) earnings?

22 A No.

2107

1 Q You didn't include anything for profit
2 sharing?

3 A No.

4 Q You didn't include anything for stock
5 grants or options that either pilot group may earn?

6 A No.

7 Q So it is just the base hourly rate that
8 you calculate?

9 A Right.

10 Q Did you use all of May? You said you
11 started at May 19, 2005, did you give them a half
12 month or full month?

13 A Yes, that is what we started with,
14 whatever 19th, May 30th.

15 Q That fraction?

16 A Yes, I would go back and check, but we
17 didn't use the whole month. And convention I think
18 is the net present value. We didn't get the model
19 to run for that half month, so that the actual net
20 present value was as of May 2005, taking the month

21 as a full month. So that is, it is not much of a
22 difference --

2108

1 Q You used a discount for present value back
2 to May 2005?

3 A Right, which I think again is different
4 than what Mr. Salamat used which was back to the
5 beginning of the forecast, I believe, which was July
6 of '06.

7 Q The exhibit that Mr. Mann -- looking at
8 the exhibits Mr. Mann put in and do you, let me just
9 show you the -- this is his Exhibit 25, it is the
10 first page?

11 A Okay.

12 Q At the top of the page he has got the west
13 airplanes and staffing?

14 A Right.

15 Q And can you add up those three numbers of
16 airplanes?

17 A Should be 144.

18 Q That is what I got. And then if you add
19 19 airplanes to 144 what do you get?

20 A 163.

21 Q Right. And your papers say 161 airplanes?

22 A Right.

2109

1 Q And I have calculated out in that both the
Page 73

2 staffing rates for each of those airplanes --

3 A Right.

4 Q -- and then on the next page the staffing
5 rates for the America West -- for the U.S. Air
6 airplanes. In each case the America West staffing
7 was higher for the same airplanes?

8 A Yes.

9 Q Does that inject an element of unfairness
10 on both of these airlines that operate under the
11 same contract eventually?

12 A Yes, I believe that is the direction that
13 they will be going in. But again, the impact of the
14 crew ratioing, if you are measuring again stand
15 alone with the particular ratio with merger fleet or
16 integrated for this particular ratio, there is no
17 impact.

18 It would just change the level of the
19 number of jobs. The differences should stay the
20 same. And if you think you are using 10 captains
21 for 757 on the one hand and stand alone and 10
22 captains for 757 on an integrated list, there is no

2110

1 difference in those two.

2 So what PEM does is, it doesn't take
3 either side, it essentially neutralizes it by saying
4 if U.S. Airways brings in five captain jobs and they
5 have got 10 airplanes, that is 50 captain jobs. If
6 America West brings in six captain jobs, and they
7 have got 10 airplanes, the mix of the two is what

8 determines the integrated ratio.

9 So out of that there would be 50 captain
10 jobs for 10 airplanes from U.S. Airways and 60 jobs
11 from America West. The mix of those would be you
12 would have 110 positions as captain on those 20
13 airplanes, so it would neutralize that.

14 And essentially we haven't had to make
15 that call, which is a different one, to decide how
16 is the airline going to staff this new unintegrated,
17 amalgamated mix of airplane types and pilot basing
18 two years from now. And you can suppose whatever
19 you want in terms of is America West integration, is
20 this ratio going to be correct, or is it the U.S.
21 Airways ratio or is it something in between? And I
22 would suggest it is probably something in between.

2111

1 So that is kind of our solution, not to
2 deal with the effects of this merged carrier, but it
3 is to keep them separate, and keep the sort of
4 apples to apples mix the same. So there is not a
5 lesser or greater amount of jobs created by simply
6 merging the two, it is the same number. It is just
7 added together.

8 Q If you use a number in between the America
9 West staffing and the US Air staffing --

10 A Right.

11 Q -- you would get a different number of
12 jobs for the merged airline, wouldn't you?

13 A No. Because if that is the weighted

14 average --

15 Q You used weighted average?

16 A That is what essentially I described.

17 Q So you would get a different merged list,
18 if you used the same assumption about staffing in
19 creating the captain ratio at the top of the list,
20 wouldn't you?

21 A I have lost you, I think we are in
22 different terminology.

2112

1 Q If you are merging captains with
2 captains --

3 A You are talking about the actual seniority
4 list, not the jobs?

5 Q The actual seniority list, and you inflate
6 the number of captains on one side by using a higher
7 staffing than is going to be the case in the future,
8 and you diminish the number of captains on the other
9 side by using a lower number of captains per
10 aircraft than is going to be the case, when you put
11 the list together you will end up weighting the top
12 part of the list towards the side that has got the
13 over staffing?

14 A No, no. No, we are not --

15 MR. GILLEN: Who gains from the weighting,
16 if you pick a middle number?

17 BY MR. KATZ:

18 Q If you are trying to project into the
19 future --

20 A Right.

21 Q And you build the list, with more captains
22 on one side than you are going to need and fewer

2113

1 captains on the other side than you are going to
2 need, then you have got the top part of the list
3 filled with more of the pilots from the over
4 staffed --

5 A You don't have that situation though,
6 because you will have, in my example 50 lesser, 55
7 to 1 ratio pilots, let's say to the east, and 6 to
8 1. You end up with the same number of jobs so there
9 isn't any captaincies given or taken away. There
10 would only be differences if you decided to choose a
11 higher and lower.

12 Essentially if you have got 110 captaincy
13 jobs related to 20 pieces of equipment it is the
14 same as having 60 captains for 10 on one side and 50
15 on the other.

16 Q So it is not the same individual pilots if
17 you have more from one side who are older?

18 A Right. And that is I think taking out a
19 component which will be impacted by a change in the
20 staffing ratio of either side. Together they form
21 110 and separately they form 110. There isn't any
22 shift in that.

2114

1 MR. FREUND: I don't mind Dan asking these
2 questions, but those questions go to the
3 construction of the seniority list, not to the
4 building and the running of the model.

5 MR. KATZ: I think this would be a good
6 time to take a break.

7 CHAIRMAN NICOLAU: It is 12:20, Dan, what
8 time do you need.

9 MR. KATZ: Could we come back at 2:00?

10 CHAIRMAN NICOLAU: 2:00.

11 (12:19 p.m. -- recess -- 2:01 p.m.)

12 CHAIRMAN NICOLAU: Go ahead, Dan.

13 BY MR. KATZ:

14 Q Okay. There is a restriction on the A330
15 programmed into the model, right?

16 A I didn't do it, but the model is supposed
17 to have an ability to restrict seats or equipment
18 types or bases, and I didn't do it, Dan. It is my
19 understanding that the model is programmed to do it
20 but I didn't do it.

21 Q So Joe Meier's did that?

22 A Yes.

2115

1 Q Does it apply to co-pilots as well as
2 captains?

3 A I would have to look at my notes. I would
4 think whatever the proposal is from the west it
5 applies.

6 Q We haven't seen the proposal yet?

7 MR. FREUND: Yes, you have, absolutely.

8 You saw it on the last day of your case.

9 MR. KATZ: There is no language in the
10 restrictions.

11 MR. FREUND: Absolutely. 24 months.

12 CHAIRMAN NICOLAU: Yes.

13 MR. FREUND: By its terms it applies to
14 captains.

15 BY MR. KATZ:

16 Q It doesn't pertain to co-pilots?

17 A Correct.

18 Q But the language of the condition is not
19 here. All it says is "in addition to the previously
20 agreed conditions and restrictions reserved for U.S.
21 Airways pilots, all captain vacancies on the nine
22 A330 aircraft operating on the U.S. Airways

2116

1 operating certificate as of May 19, 2005, for two
2 years from the effective date of the integrated
3 seniority list or until July 1, 2009, whichever
4 comes first." So do you know what is programmed in
5 there?

6 A I think it is the first two years of
7 2000 -- after 2008, but I don't know the code or how
8 it was done. But in terms of telling Joe to use
9 certain pay rates and certain restrictions and
10 certain fleet types and ratios, you know, it is
11 supposed to be there.

12 Q Well, if it went for two years after
13 January 1, 2008, that would be longer than what the
14 America West merger committee put in on December 14,
15 because they said for two years from May 19, 2005,
16 they said for two years from the effective date of
17 the integrated list or until July 1, 2009, whichever
18 comes first.

19 A So we would have it in there for
20 essentially six months longer than that proposal,
21 2007 -- no, I guess it would be --

22 CHAIRMAN NICOLAU: I thought it was 2010.

2117

1 THE WITNESS: All of 2008, all of 2009
2 then be cut off December 31st, 2009.

3 CHAIRMAN NICOLAU: Yes.

4 THE WITNESS: It is 24 months since the
5 beginning of the integrated list, whenever that was.
6 In this case it was January 1st of '08 until
7 December 31st of '09.

8 BY MR. KATZ:

9 Q But the proposal says whichever comes
10 first, or until July 1, 2009, whichever comes first?

11 A Right. So if the integration didn't take
12 place until July of 2008 it would be two years from
13 July of 2008. That would come at the same time as
14 the expiration of that which would be July 2009.

15 MR. BRUCIA: No.

16 BY MR. KATZ:

17 Q I guess what we should really be doing is

18 asking for Mr. Meier to tell us what the program,
19 the model says?

20 A Right, or what he did, but --

21 CHAIRMAN NICOLAU: Yes. My assumption
22 based on the exhibit that we put in this morning,

2118

1 that it was going to be up until the last day 2009.

2 THE WITNESS: That is the way it is.

3 CHAIRMAN NICOLAU: Is that the proposal?

4 MR. FREUND: The proposal is as read. The
5 model is six months off in that regard.

6 CHAIRMAN NICOLAU: Okay, all right.

7 BY MR. KATZ:

8 Q At that point the America West pilots who
9 were senior enough are able to bid into the A330
10 left seat?

11 A If there are vacancies under the next
12 available most senior list, yes.

13 Q So the vacancies occur when pilots holding
14 the A330 captain seat reach age 60?

15 A Right.

16 Q And the next month, the next most senior
17 pilot would be able to bid the job?

18 A In the stand alone that would be the case.
19 In the date of hire or the integrated list it
20 wouldn't run off date of hire and most senior. It
21 would actually be the next highest person on that
22 ranking.

1 Q The next person toward the top of the
2 seniority list?

3 A Right, which isn't based on date of hire.

4 Q I was asking based, whether somebody
5 senior based on their position on the list?

6 A The position on the integrated list?

7 Q Yes.

8 A Yes, yes.

9 Q When I took the numbers that you put into
10 your exhibit and did some arithmetic, you had
11 combined the figures for transition and the forecast
12 period, right?

13 A For the stand alone versus integrated, the
14 scenario two.

15 Q So when I took the numbers you provided in
16 page a 31, and page 30 --

17 A Right.

18 Q -- and then I subtracted out the stand
19 alone and the numbers you had in pages 24 and 28 --

20 A Right.

21 Q -- the \$110 million gain for the America
22 West pilots, which you show on the last page of your

1 exhibits?

2 A Uh-huh, 107.

3 Q That increased by 17 million to 124.3?

4 A Right.

5 Q That is what you got?

6 A Right.

7 Q And on the east side the 271 million for
8 the east, when you take out the transition period
9 and get 245.9 million?

10 A 25 million less, yes.

11 Q So it is a little less than double. The
12 east's gain is a little less than double the west's
13 gain, according to your numbers?

14 A 17 versus 25.

15 Q No, 124.3 to 245.9?

16 A When you just take the forecast period?

17 Q I am just looking at the forecast period,
18 yes?

19 A Right.

20 Q And the forecast period for the U.S. Air
21 pilots would cover all 5098 U.S. Air pilots who
22 remain on the list as of any given day?

2121

1 A It would contain everybody who is on the
2 stand alone list who wasn't medical or was on the
3 list otherwise.

4 Q And the America West group is less than
5 1900?

6 A Something around 1900, yes.

7 Q So that on a per capita basis there is
8 more of again for the west pilots than the east
9 pilots?

10 A If you divide it --

11 Q During the forecast period?

12 A Yes.

13 MR. KATZ: That is all the questions I
14 have for Mr. Akins.

15 MR. FREUND: You weren't kidding about his
16 catching his flight.

17 CHAIRMAN NICOLAU: Do you need a little
18 time?

19 MR. FREUND: Yes, not much, but just take
20 a minute or two.

21 CHAIRMAN NICOLAU: Go ahead.

22 (2:10 p.m. -- recess -- 2:16 p.m.)

2122

1 CHAIRMAN NICOLAU: Any questions?

2 MR. FREUND: Buckle down for a long flight
3 home. We have no questions.

4 CHAIRMAN NICOLAU: Anything?

5 MR. BRUCIA: Nothing, sir.

6 CHAIRMAN NICOLAU: Thank you.

7 THE WITNESS: Thank you.

8 MR. FREUND: As I said when I began, I
9 don't have the intention of putting Joe Meier on
10 affirmatively but he is available for
11 cross-examination.

12 MR. KATZ: Can he answer that question
13 about the 767 -- I mean A330 questions?

14 MR. FREUND: We thought you might ask that
15 question, and the answer is he can answer it, but he
16 can't answer it. He would have to go back and look

17 through the code. We can supply you with that
18 answer.

19 MR. KATZ: Okay, why don't you supply it
20 for the record so it will be on the record whenever
21 you find out what the answer is.

22 MR. FREUND: Fair enough.

2123

1 And I would make the following offer,
2 consistent with Dan's offer when Rikk Salamat
3 finished testifying. We are perfectly happy to
4 offer up Dan and Joe to the panel along with Rikk,
5 however the panel wants to proceed, in terms of for
6 whatever use you might choose to put them to.

7 CHAIRMAN NICOLAU: Okay.

8 Let's go off the record for a moment.

9 (Discussion off the record.)

10 CHAIRMAN NICOLAU: Okay, see you at 9:30.

11 (Whereupon, at 2:38 p.m., the hearing was
12 recessed, to be reconvened at 9:30 a.m., on Tuesday,
13 January 16, 2007.)

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1	C O N T E N T S	
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3	WITNESS	EXAMINATION
4	DANIEL W. AKINS	
5	By Mr. Freund	DX 2029
6	By Mr. Katz	CX 2097
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