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1 BEFORE THE ALPA ARBITRATION BOARD

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5 THE CREW MEMBERS OF US :

6 AIRWAYS, :

7 Plaintiff, :

8 vs. :

9 THE CREW MEMBERS OF :

10 AMERICA WEST AIRLINES, :

11 Defendant. :

12 - - - - -x

13 HEARING VOLUME 16

14

15 GEORGE NICOLAU, Chairman

16 CAPTAIN STEVE GILLEN, Pilot Neutral

17 CAPTAIN JIM BRUCIA, Pilot Neutral

18

19 Washington, D. C.

20 Thursday, January 25, 2007

21 REPORTED BY:

22 DONALD R. THACKER

2745

1 Hearing before the ALPA Arbitration Board, on
2 Thursday, January 25, 2007, in Washington, D. C., at
3 the Mayflower Hotel, 1127 Connecticut Avenue
4 Northwest, at 10:05 a.m., before DONALD R. THACKER,
5 a Notary Public within and for the District of
6 Columbia, when were present on behalf of the
7 respective parties:

8

9 DANIEL M. KATZ, ESQ.
10 JASON WHITEMAN, ESQ.
11 Katz & Ranzman
12 5028 Wisconsin Avenue, Northwest, Suite 250
13 Washington, D.C. 22036
14 On behalf of US Airways

15
16 JEFFREY R. FREUND, ESQ.
17 LISA POWELL, ESQ.
18 ROGER POLLAK, ESQ.
19 Bredhoff & Kaiser, P. L. L. C.
20 805 15th Street, Northwest, Suite 1000
21 Washington, D.C. 20005
22 On behalf of America West Airline

2746

1 P R O C E E D I N G S

2 MR. FREUND: We are ready, should we go
3 back on the record and put on this piece?

4 CHAIRMAN NICOLAU: Yes.

5 MR. KATZ: Yes, we should. I have a
6 housekeeping matter but it can wait until we go back
7 on the record.

8 MR. FREUND: Good morning. While we were
9 off the record we passed out to the panel what we
10 are going to designate as a joint exhibit. I don't
11 remember what joint exhibit numbers we are up to.

12 MR. KATZ: We got up to 7.

13 MR. FREUND: 7, okay --

14 CHAIRMAN NICOLAU: This will be 8.

15 MR. FREUND: This will likely be 8.

16 MR. KATZ: That would be a good choice.

17 MR. FREUND: What it is, is the
18 November 30th, 2006, ALPA executive council's final
19 resolution regarding the treatment of pilots who,
20 and I think it is 15 pilots, at least according to
21 this resolution, whose names appear on both the
22 America West and the US Airways seniority lists, and
2747

1 it describes ALPA's position on how those dual
2 seniority list pilots should be treated, in the
3 context of this arbitration.

4 So we pass it to the panel for its use for
5 whatever purpose it thinks is appropriate.

6 CHAIRMAN NICOLAU: Okay.

7 MR. FREUND: We also passed out a CD-ROM
8 containing the FedEx-Flying Tigers-US Airways
9 shuttle and Alaska-Jet America arbitration awards,
10 and also said that in connection with briefing when
11 we, to the extent we cite additional cases we will
12 provide additional CDs that have those cases as
13 well.

14 CHAIRMAN NICOLAU: Very good. Dan, did
15 you have something?

16 MR. KATZ: Yes, just to mention a couple
17 of things. We supplied the Jet America-Alaska and
18 FedEx-Flying Tiger decision in hard copy. There
19 were some developments yesterday that I think
20 warrant mentioning.

21 MR. FREUND: Excuse me, is this related to
22 the testimony yesterday on the Hill?

2748

1 MR. KATZ: No, this is related to your
2 rebuttal testimony for today.

3 MR. FREUND: Okay.

4 MR. KATZ: One thing I wanted to say is
5 that Jeff ran by us and ALPA the letter from John
6 Prater that he wants to put in evidence, and we
7 don't have a problem with that letter, and won't
8 object to its admission in evidence.

9 However, Jeff also sent us, pursuant to
10 the ground rules, yesterday at 9:30 at proposed
11 testimony of Bob Mann who he is scheduling for
12 testifying as a rebuttal this morning, and this
13 morning the proposed testimony of Dan Akins who is
14 scheduled to be the witness for tomorrow morning.

15 And in both these areas, but let me start
16 with Mr. Mann's testimony, it seems to me that the
17 subjects, all of the subjects of his testimony are
18 either brand new like the Delta-US Air merger, or are
19 something other than rebuttal testimony. We do have
20 a ground rule, Number 6, that says the order, that
21 deals with the order of presentation.

22 Then it says, "Rebuttal shall be limited

2749

1 to evidence directly challenging evidence adduced by
2 an opponent during its direct case unless otherwise
3 permitted by the chairman." And we did talk about
4 this rule when we were establishing the ground rules
5 back in the mediation phase, and I thought everybody
6 understood that we, the US Airways merger committee
7 was reserving its position to object to proposed
8 rebuttal testimony that didn't comply with this
9 rule. And it seems to us that there is nothing in
10 the direct case of the US Air merger committee that

11 is addressed by the proposed exhibit of Mr. Mann.

12 And we don't object to him being a
13 witness, if he is talking about what is in our
14 direct case, but for instance if he is rebutting
15 things that were testified to by SH&E and Tim Phelan
16 earlier this week, that was in our rebuttal case and
17 that would make this surrebuttal, and we don't
18 really have a provision for surrebuttal testimony in
19 this case.

20 If we are going to change the rules and
21 have surrebuttal testimony for everyone that would
22 be one thing, but we don't think it is appropriate

2750

1 to have surrebuttal for one side and not the other,
2 nor to violate this ground rule if that is what we
3 are dealing with here.

4 MR. FREUND: I think Dan is just wrong
5 about the sense of what Mr. Mann's testimony is, and
6 Mr. Akins' testimony.

7 Mr. Mann is going to be testifying about a
8 number of issues which were raised either directly
9 or indirectly in the direct case of the US Airways
10 committee, it goes to the challenge by the committee
11 in the direct case and in the rebuttal case on the
12 cost structure and cost issues at America West prior
13 to the merger.

14 His testimony goes to the question of the
15 value of international flying, which was part and
16 parcel of the US Airways case, and it goes to the
17 effect of the list and proposal that they made in
18 their opening case. If and -- well, I mean that is
19 basically what it goes to. So it is directly

20 responsive.

21 Now, it is true that in discussing CASM he
22 is going to point out that Mr. Phelan was just --

2751

1 just got it wrong, you know, in his calculations,
2 and show why he got it wrong, but the fact of the
3 matter is that the question of US Airways and
4 America West's costs were a part of the US Airways
5 pilots direct case. I think it is directly
6 responsive.

7 And, having said that, even if it wasn't,
8 you will recall when we discussed the ground rules
9 that this subject came up, and you said, as I
10 recall, it may well be that the chairman wants to
11 hear the evidence even if it isn't directly
12 responsive. And I think that, I would think the
13 chairman would -- wants to hear testimony about that
14 actual CASM at America West as opposed to the
15 invented one that Mr. Phelan presented.

16 CHAIRMAN NICOLAU: Well, obviously I
17 haven't heard what you are going to present through
18 the testimony of those two witnesses. If there is a
19 problem with it I will have to deal with it. But
20 you know, I would much more prefer to have
21 everything I can on the table than exclude
22 something. So let's move forward with that caveat.

2752

1 Okay.

2 MR. FREUND: I will call Bob Mann.

3 I am going to pass out a notebook that
4 goes up to tab 50. Don't worry, we are never going

5 to get there.

6 Whereupon,

7 ROBERT W. MANN, JR.

8 was called as a witness and, having previously been

9 duly sworn, was examined and testified as follows:

10 DIRECT EXAMINATION

11 BY MR. FREUND:

12 Q You are still the same Bob Mann that
13 testified before us before?

14 A Yes.

15 Q And your CV remains the same as it was?

16 A Yes.

17 Q Except that you are now several days
18 older?

19 A Several days older.

20 Q Mr. Mann, during the course of much of
21 this case the questions about certain of the America
22 West operating metrics have been put into play, and

2753

1 you prepared some exhibits that deal with those
2 operational metrics?

3 A Yes, I have.

4 Q Why don't I ask you to turn to tab 34, and
5 walk us through what these exhibits look like, the
6 pages are not numbered, are bad, so if you can
7 describe the page that you are talking from as you
8 talk?

9 A Sure, I will do that.

10 Q The first one is obviously just a cover
11 sheet, doesn't contain any data, I take it, although
12 does it explain what we are about to see?

13 A It does in the sense that it tries to make
Page 7

14 a, to use Mr. Phelan's term, a true apples to apples
15 comparison of both time periods and the basis for
16 presentation of America West's unit revenue and unit
17 costs.

18 Q Okay. Let's talk to the first page, the
19 first chart or graph that is headed America West
20 Unit Measures With and Without Express Restatement.
21 Will you tell us what, before you describe what the
22 numbers are, what we are looking at?

2754

1 MR. GILLEN: What is the source material?

2 THE WITNESS: This is SEC filings by the
3 company.

4 MR. KATZ: I would like to renew my
5 objection, Mr. Nicolau. This is exactly what
6 Mr. Phelan was testifying about when he was here on
7 Monday, and that makes this not in compliance with
8 ground rule number 6 regarding rebuttal evidence,
9 responding to our rebuttal case rather than our
10 direct case.

11 CHAIRMAN NICOLAU: Your objection is
12 noted. Go ahead.

13 THE WITNESS: Well, the term Express
14 Restatement refers to in the first quarter of 2005,
15 and in its quarterly SEC filing the company elected
16 to change the basis of presentation of its America
17 West Express costs and revenues from a so-called net
18 basis of presentation to a gross, or let's call it
19 complete basis of presentation. And what is
20 important here is that it did not do so exclusively
21 in the first quarter.

22 And then going forward in quarters beyond

2755

1 the first quarter of 2005. It also gave guidance
2 often what these restatements would look like for
3 prior quarters during the year 2004.

4 So, for example, in the restatement that
5 was done in the first quarter of 2005 the company
6 also indicated what this restatement, what effect
7 this restatement would have on the results
8 previously filed for the first quarter of 2004. It
9 then subsequently did so in each quarter of 2005
10 such that by the time that was done one had a full
11 record of what the quarterly restated results would
12 have been for each quarter in 2004 as well as
13 quarters beyond 2004.

14 So in doing so what I have presented here
15 are the full or prior method of the statement of
16 unit costs and revenues, which are the top set of
17 two lines, the dark blue being revenue and the red
18 being unit cost. And then the bottom set of lines
19 being the unit cost and unit revenue excluding the
20 express restatement, in other words the full effect
21 of Express revenue and Express expense.

22 Now, what you see here of course is two

2756

1 sets of roughly parallel results, with the offset
2 between them being the effect on unit cost and
3 revenue of the gross or complete Express costs and
4 revenues.

5 And what we see there of course, is the
6 trend where during the first quarter of 2005 and
7 first quarter -- second quarter of 2005, revenue,

8 whether it is with or without the Express
9 restatement, exceeds unit costs as reported by the
10 company in its SEC filings. And that was a recovery
11 from what was a deficit between unit revenue and
12 unit cost during the latter part of 2004.

13 BY MR. FREUND:

14 Q Shall we turn to the next page?

15 A Sure. What this chart depicts is kind of
16 a serial set of exclusions that the company
17 typically likes to do for analysts to identify what
18 ultimately they view as being kind of the core
19 airline performance on unit costs. And what they do
20 in excluding various factors is to look at either
21 one-time items, so-called special items, the effect
22 of volatile cost factors, such as fuel costs and the

2757

1 effect of fuel hedging, and then in this one case,
2 because the Express issue has come up, adjusting for
3 Express as well.

4 So if we were to proceed down the chart
5 from the first red line and then down proceeding,
6 what we would see is the red line represents the
7 unit costs unadjusted, the blue line below it
8 represents unit costs excluding the complete effect
9 of Express costs.

10 The black line, which is partially
11 shielded by the yellow line, the black line is unit
12 cost excluding fuel costs and the effect of fuel
13 hedging.

14 The reason I have included both of those
15 is because it is, it is not meaningful to exclude

16 fuel costs without -- well, without also excluding
17 the effect of fuel hedging, whether that be a
18 positive or negative offset. So, in doing so I have
19 combined those two effects, both effective fuel and
20 the effect of fuel hedging in the black line.

21 The yellow line which differs only
22 slightly in the fourth quarter of 2004 for these

2758

1 particular periods, excludes special items as well.
2 And then the bottom or white line is excluding all
3 those factors, and that is more or less the
4 performance of the core business excluding volatile
5 costs, special items and effect of Express. What we
6 see there, of course, is a unit cost which begins in
7 the first quarter of 2004 at about \$0.06, and the
8 comparable in the first quarter of 2005 is about 6.4
9 cents, 6.1 cents in the first quarter of 2004, 6.4
10 cents in the first quarter of 2005. And then the
11 comparison between the second quarter of 2004 and
12 second quarter of 2005 would be roughly \$0.06 versus
13 6.25 which I guess we will round up to 6.3.

14 So that is roughly the quarter versus
15 prior year quarter comparison that is relevant. It
16 is not particularly relevant to look at the serial
17 comparison of quarters, that is to say, third
18 quarter versus fourth quarter or fourth quarter
19 versus first quarter, given the understood
20 seasonality of both the business and costs that
21 result from that position.

22 Q Not finally but next turning to the page

2759

1 headed America West Core Unit Costs Were Stable, can

2 you show us what this depicts, please?

3 A Sure, this is actually a pullout of a
4 couple of the items from the prior chart, most
5 notably that white line is that unit cost excluding
6 fuel, effect of hedging, Express and special items,
7 with the yellow and the blue being just the unit
8 revenue and unit cost, pulling out Express.

9 The dotted line which, you know, has the,
10 I guess, the effect of looking a little bit like a
11 hockey stick there is, I really can't determine what
12 was the basis of the presentation for the hockey
13 stick we saw earlier in the week, but I presume that
14 what happened here is that the basis of that
15 presentation was excluding Express results from the
16 periods in 2005, while not excluding them in other
17 periods, essentially not going back and readjusting
18 the prior periods in 2004.

19 That is the only conclusion I can reach on
20 that, and I really don't have a sense beyond that as
21 to why that particular hockey stick would appear.
22 Because on the basis of a consistent presentation

2760

1 there was no such rise in unit costs.

2 Q Looking at this exhibit before we turn, or
3 this page before we turn to the next, to the last
4 page in this packet, does this depiction of America
5 West's CASM support the notion that America West was
6 losing the cost battle, cost advantage to the
7 carriers with which it competed?

8 A Well, of course this chart does not
9 compare unit costs to other carriers. This is

10 purely an America West chart. But I guess the sense
11 that we were left with was that somehow the company
12 had lost control of costs. And I guess what I am
13 trying to say here that is on a consistent basis
14 presentation the core unit costs were actually quite
15 stable. To the extent others have changed we don't
16 really show those here.

17 Q And then finally turning to the last page
18 of this first exhibit, 34, what does this reflect?

19 A Well, this reduces the unit cost
20 performance and those SEC filings in each of the
21 quarters to an effective operating margin. But as
22 reported, that being the light blue line at the

2761

1 bottom, excluding Express which would be the red
2 line above it, and then the operating margins that
3 go with each of those sets of exclusions that we
4 have previously referred to, if you go to the dark
5 blue line which starts at about a 20 percent
6 operating margin and consistently maintains that
7 through the first quarter of 2005, that is the
8 margin excluding fuel and effect of hedging.

9 The magenta line, which is largely
10 overlaid by the dark blue line, is excluding special
11 items as well. And then the yellow line is the
12 operating margins excluding fuel hedging, the effect
13 of special items and the Express operation.

14 So again this shows expanding margins, not
15 declining margins, which again was the, I think the
16 point that was offered earlier in the week.

17 Q Now, just to be clear, you are not
18 contending, and we are not contending, that America

19 West could have operated without having to buy fuel?

20 A No, not until we get to the hybrid mode --

21 Q And so one of these lines in fact

22 incorporates fuel but excludes the separate Express

2762

1 operations?

2 A Yes, that would be the red line.

3 Q And that, again to be clear, that

4 expresses, I don't want to use the word expresses

5 because I am confusing expresses with Express, that

6 sets out the margins enjoyed by America West's main

7 line operation taking into account all fuel issues;

8 that is costs and hedging, right?

9 A Well, actually the line I think you are
10 referring to is the red line which would exclude the
11 Express operation.

12 Q Yes, that is the one I was referring to.

13 CHAIRMAN NICOLAU: Yes.

14 THE WITNESS: The other lines that are
15 higher on the chart actually exclude the other
16 volatile items.

17 BY MR. FREUND:

18 Q So I guess my question is does the red
19 line include the fuel?

20 A The red line would include fuel for main
21 line, yes.

22 Q Red line includes revenues for main line

2763

1 only and fuel for main line, and all operating

2 expenses including fuel?

3 A Yes, that is the basis of the restatement

4 in the presentation.

5 Q Okay, thank you.

6 Turning to Exhibit 35, would you tell us
7 what this is, please?

8 A This is a transcript of the second quarter
9 2005 America West earnings conference call held with
10 analysts and the media on July 21st, 2005.

11 Q We earlier saw something comparable for
12 the first quarter, that is right?

13 A Yes.

14 Q This is the same, this is the transcript
15 of the call that the company has with analysts
16 attendant upon its release of its or its filing of
17 its second quarter 10Q?

18 A That is right, this is a quarterly call
19 that they hold, yes, sir.

20 Q Staying on the subject that we spent the
21 last few minutes on, mainly costs and revenue, I
22 would like you to turn to page 2, please, and tell

2764

1 us if there is anything on that page which bears on
2 this question?

3 A Well, in Mr. Parker's comments the last
4 sentence in the second to last paragraph on page 2,
5 he comments both on the absolute level of cost,
6 right in the 6.1 or .2 cent range, excluding fuel
7 and special items, and he also states that he
8 believes that will compare quite favorably to
9 competitors. That is perhaps his comment on the
10 question you earlier asked me.

11 Q Correct. And turning to page 3, this goes
12 to the revenue side. I guess this is Derek Kerr

13 speaking at the bottom of page 3; is that right?

14 A That is correct. He is commenting on the
15 revenue growth for the quarter, and again he
16 comments that operating revenues were \$833 million,
17 up 20 percent for the same period, I think he means
18 versus the same period, in 2004.

19 Q And then turning to page 4, I think that
20 there is a discussion, this is still Mr. Kerr
21 speaking on page 4?

22 A That is correct.

2765

1 Q I think there is a discussion by Mr. Kerr
2 of this whole, well, of CASM as well, if you would
3 direct our attention to it?

4 A Sure, roughly in the middle of the page
5 Mr. Kerr states "Our total operating expenses for
6 the quarter were 803 million, 20 percent higher than
7 a year ago. If you exclude special items our
8 operating unit cost was 9.7 percent higher at 8.49
9 cents, driven mainly by the increase in fuel, net of
10 realized gains. Excluding special items fuel
11 expense and realized gains on fuel hedging, our
12 operating cost per ASM increased 2.7 percent to 6.17
13 cents."

14 Q And does he continue to address CASM
15 generally at the bottom of the page?

16 A He gives some forward guidance in the
17 bottom paragraph. He states, "In terms of overall
18 unit cost, excluding fuel guidance, the remainder of
19 2005, we expected the full year to be up about 3 to
20 5 percent, third quarter to be flat, 2 percent

21 higher, and the fourth quarter to be 3 to 5 percent
22 higher.

2766

1 Q Turning then to the next page beginning
2 namely page 5, you have additional comments about
3 your various of the company's metrics?

4 A Well, he moves on to a discussion of cash,
5 which is one of those issues that was also addressed
6 in the first quarter call, and he confirmed what was
7 predicted in the first quarter call, which is an
8 increase in the cash position during the quarter
9 finishing with \$414 million of cash and short term
10 investments of which 322 million was unrestricted.
11 And he comments this is a good bit above the
12 guidance we gave last quarter.

13 Q Then Scott Kirby takes over?

14 A Correct.

15 Q And what does Mr. Kirby add to the mix of
16 discussions about metrics?

17 A Well, as the revenue officer he obviously
18 comments on many revenue issues, and in the second
19 paragraph of his commentary states "We were
20 obviously very pleased with our second quarter unit
21 revenue up 12 percent year over year. We think we
22 led the industry in year over year unit revenue

2767

1 performance, I am sorry, improvement, and we are
2 continuing to experience very strong revenue
3 environment. "

4 Q Does he talk about yields as well?

5 A He does, towards the, let's see, the last
6 phrase in the paragraph to the right of the center

7 punch in the page, that paragraph beginning
8 "Throughout the quarter, our RASM continued to
9 improve," but I think the last phrase of that
10 paragraph is probably what you are referring to. He
11 states, "We also saw an industry-leading 6.5 percent
12 increase in yield."

13 Q And did he have projections for the third
14 quarter as well?

15 A He did. In the last sentence of the
16 following paragraph he stated, "We expect the see
17 year over year unit revenue improvement in the third
18 quarter that is at least as good as the 12 percent
19 we saw in the second quarter."

20 Q Okay, jumping forward to page 10 when
21 questions started, I see that David Strine, whose
22 name we have heard before from Bear Stearns, probes

2768

1 that observation about the third quarter unit
2 revenue a bit. And what did Mr. Strine ask and what
3 did Mr. Kirby have to say?

4 MR. KATZ: What page are we on?

5 MR. FREUND: Page 10.

6 THE WITNESS: At the bottom of the page,
7 page 10, David Strine from Bear Stearns asks Scott
8 Kirby, "You mentioned pretty good acceleration of
9 unit revenue in the second quarter, and I am
10 wondering what your perception is of behavior as we
11 proceed through the third quarter? Are you
12 continuing to see that sort of acceleration into
13 July," and Mr. Kirby responds, "Yes, we are. July
14 will be -- July is coming in very strong, August

15 looks good. It is really too early to tell much
16 about September but at least for now the advance
17 bookings are fine and the advance book yield is
18 materially ahead of last year."

19 So then moving on to the next page he
20 continues, "So as I side in my scripted comments we
21 expect revenue momentum to continue and expect the
22 third quarter to be up on a year over year basis as

2769

1 least as much as the second quarter results."

2 BY MR. FREUND:

3 Q Thank you, Mr. Mann. On those points did
4 we have some recent expressions by Mr. Parker about
5 the cost structure at America West prior to the
6 acquisition of US Airways? On that I will invite
7 you to turn to tab 36?

8 A Right. Well, yes, very recent, in fact.

9 Q What is behind tab 36?

10 A Yes, sir. Tab 36 is the prepared
11 testimony of Mr. Doug Parker, now as his role as
12 chairman and CEO of US Airways Group, before the
13 Senate Committee on Commerce, Science and
14 Transportation yesterday morning, at about this
15 time. And he of course is talking a little bit
16 about the proposed deal with Delta.

17 But as background he is explaining how he
18 got, the track record essentially that the company
19 developed first as America West, minding its own
20 store, and then how it was able to export some of
21 those efficiencies into its acquisition of US
22 Airways.

2770

1 If we look at page 2, towards the bottom,
2 in the second to last paragraph, kind of the last
3 two, last two sentences of that paragraph, he kind
4 of summarizes by saying, "Not only did we simplify
5 those areas where passengers interact with the
6 airline, we also internally examined all of our
7 business processes and procedures, by eliminating
8 inefficiency and waste we were able to further lower
9 our costs."

10 And this of course is in addition to those
11 costs that were reduced earlier in the prior decade,
12 in the 1992, '3, '4 time frame.

13 Q The panel can read the entire document at
14 its leisure but before we leave it, did Mr. Parker
15 also have observations about the effects of his, of
16 America West's restructuring, restructuring is the
17 wrong word, its vigorous cost cutting efforts and
18 pricing policies on its revenue side and profit
19 side, turning to page 3, I guess?

20 A Sure. I mean I guess his view is that it
21 has been a successful enterprise, and as a result
22 the combined performance of the two companies has

2771

1 been quite favorable.

2 Q Before looking at the combined performance
3 of the two companies, starting at the bottom of the
4 last part of page 2, and the first sentence of page
5 3, it appears to me at that point he was still
6 talking about America West stand-alone; is that
7 correct?

8 A Right, yes. Well, as I say, he exported,

9 basically he refined his own business process and
10 procedures and the result was, he was able to lower
11 fares, generate revenue and return to profitability.
12 So I think that was his point there.

13 Q On that same page, page 3, did he also
14 have a comment about US Airways on a stand-alone
15 basis?

16 A He did, and I guess that his view was
17 that, you know, it was an opportunity to export some
18 of those business practices perhaps on to a larger
19 stage and turn around a company that, although it
20 had some low costs on the input side of the
21 business, it was never able to achieve structurally
22 low costs on the output side of the business.

2772

1 Q Turning specifically to the third sentence
2 of that first full paragraph on page 3 --

3 A Right.

4 Q -- can you tell us what Mr. Parker had to
5 say?

6 A Well, again this is kind of a restatement
7 but, "Through its two bankruptcies the carrier had
8 made great strides in lowering its over all cost
9 structure, but given the inroads made by low cost
10 competitors in its core markets it was unclear that
11 US Airways would ever emerge from its second
12 bankruptcy. We believe that merger with US Airways
13 presented an opportunity to strengthen our own
14 company and provide a brighter future for the nearly
15 35,000 employees of US Airways and America West.

16 Q Thank you, Mr. Mann. I would like to turn
17 to tab 37 and change subjects with you a bit.

18 During the course of the US Airways
19 committee's case there was a fair amount of
20 testimony from the committee about US Airways
21 international wide-body flying and the importance to
22 that pilot group of that flying. The other day we

2773

1 saw where bidding for that flying falls on the US
2 Airways seniority list. We will put that aside and
3 I am not going to ask you about that. I am going to
4 ask you simply to walk us through these exhibits and
5 tell us what they reflect about the quantity and the
6 seasonality of US Airways international flying?

7 A Sure, be glad to do that.

8 Q Again, these pages aren't numbered, so we
9 will talk about them in connection with their titles
10 of the pages. And I think the first one -- well,
11 why don't you just take us through them?

12 A Sure. Well, the source of this data is
13 Official Airways Guide, second week of the months in
14 question. I am going to be focusing on a peak and a
15 trough month, peak being July month, trough being
16 the February month, kind of looking at the
17 seasonality of US Airways network between the U.S.
18 and Europe. This is again scheduled flying,
19 scheduled data.

20 The first slides would be, it is kind of
21 looking at the base winter 2005 flying, and the
22 cities served from the U.S. points of origin being

2774

1 Charlotte and Philadelphia, to the following points,
2 London Gatwick, Manchester, Paris, Charleroi,

3 Frankfurt, Munich, Madrid and Rome. So those were
4 the cities to which US Airways operated in the
5 winter period of, this would be 2004, so that would
6 be February 2005.

7 And then the next slide being the summer
8 2005 flying, which I will later show is actually
9 pretty highly seasonal, again points of origin are
10 common, Charlotte and Philadelphia. In addition to
11 those cities previously mentioned the summer flying
12 in that summer added Shannon, Dublin, Glasgow,
13 Venice and Barcelona.

14 Q Before we parse the seasonality piece, I
15 am reminded that we didn't include a couple of
16 slides that perhaps we should have, which describe
17 in gross terms the magnitude of international
18 flying, whether it is summer flying or winter
19 flying, either way, as compared to the domestic
20 flying on the US Airways system?

21 A Right, right. Well, I mean that is a --
22 that number is actually in comparison to airlines

2775

1 such as let's say United, Northwest, Delta,
2 American, Continental, it is pretty small numbers,
3 it is about 8 percent, on that order.

4 In terms of that is all international as
5 DOT defines it, all international ASM or block hours
6 versus total system block hours.

7 Q All right. So now we are going to look
8 with some specificity to the seasonality of that 8
9 percent, is that right?

10 A Right.

11 Q And the next page is headed US Airways

12 European Flying Is Increasingly Seasonal From 2005?

13 A Right.

14 Q Tell us what we are seeing here?

15 A Sure. This actually shows the February
16 and July scheduled flight activity between the
17 United States and Europe, for February and July
18 period 2004 through 2007. So obviously February '07
19 and July '07 are scheduled, and this read date was I
20 guess approximately probably three weeks ago. So to
21 the extent there have been schedule changes for
22 February or July since that there may be small

2776

1 differences here but I don't think they are
2 substantial.

3 And this shows a couple of metrics,
4 operations of flights, the number of seats, these
5 are all weekly measures, the number of operations
6 per week, number of seats per week, number of seat
7 miles per week, and then just shows a couple of both
8 the absolute change shown as delta ops, delta seats,
9 delta ASM, as well as the percent change in each.
10 And again this goes on a period to period basis, so
11 these are peak versus trough comparisons in each
12 case.

13 Q Rather than trying to parse through the
14 numbers, do the next set of charts depict them in
15 more graphic terms?

16 A They do, they do.

17 Q So let's, why don't we look at the slide
18 entitled US Airways European Flying Has Expanded
19 Increasingly Seasonal which shows a number of purple

20 bars?

21 A Sure. This shows graphically the flights
22 per week data in each of the February and July

2777

1 periods, 2004 through 2007. The wavy line kind of
2 depicts the seasonality, if you will, there which as
3 we note the number of February operations actually
4 declines over that period from year to year to year,
5 while number of July operations actually increases
6 from year to year to year.

7 The dashed red line actually shows the
8 trend in summer operations. But it is equally
9 interesting to note that the number of winter
10 operations is actually in the decline, so you get
11 this diverging series between winter and summer
12 levels of flying.

13 Q All right. The next slide, does that also
14 show that pattern?

15 A Well, this actually, in each pairing sets
16 the July level to an index of 100 or 1, and then
17 shows the relative size of the preceding February's
18 flying, so here we show the decline in winter or,
19 you know, baseline flying, if you will, in each
20 February period, versus the following summer's peak.

21 So we are down to in the February of 2007
22 time frame for example, less than half of the level

2778

1 of summer flying, February versus July; whereas in
2 February of '04 we were at about a 0.7 level of
3 winter versus summer flying.

4 Q And the next slide flips that indexing
5 around?

6 A Exactly. This shows the winter level
7 being the index of 100 or 1, and then the relative
8 size of the summer operation, such that in 2004, for
9 example the relationship, and that is pretty similar
10 in 2005, relationship is about 1.5-to-1, but as we
11 move into 2007 the projected level of summer versus
12 winter is about 2.25 times the winter level.

13 Q I don't know if you know the answer to
14 this question, because we didn't talk about it
15 before you got on the stand, and it is always risky
16 to ask a question that you don't know the answer to
17 of your own witness, but as a general matter do you
18 know what the summer season is as opposed to the
19 winter season in terms of when these, I mean your
20 metric for February and July, but obviously there
21 are other months than February and other months than
22 July?

2779

1 A Right. In a schedule planning perspective
2 the iota of summer schedule period tends to be June,
3 July, August. Then there are two shoulder seasons
4 which are roughly the following three months on each
5 side. Then there is the winter schedule which is
6 that series of months including February.

7 So, the idea here was to try to pick a
8 representative month, you know. It is conceivable
9 that August may have been slightly higher, but I
10 think the numbers would have been relatively
11 consistent with that.

12 Q And in the shoulder season you would have
13 expected to see a decline towards the winter season?

14 A Generally you see a buildup in the spring
15 and a decline from summer flying in the fall.
16 Sometimes the decline in the fall is quite
17 pronounced after middle of September, but in other
18 markets it doesn't decline that much, so it depends
19 on the market.

20 Q There are two more slides in this series,
21 one headed Winter, 84 to 122 Fewer Weekly Trips,
22 what are we really looking at?

2780

1 A This really shows the absolute change in
2 the number of flights in each week, July versus
3 February, in each year pairing. So, for example,
4 July of '04 you had 70 more operations per week than
5 you had in February of 2004. By February of '05 you
6 dropped to 84 flights per week, in July of '05 it
7 increased 84, down again 84 in February of '06, up
8 120 in July of '06, and then so on and so forth.

9 Q And then I take it that the next slide
10 simply translates those calculations into
11 percentages?

12 A Correct, correct, and you see this
13 diverging trend, as I have mentioned before, the
14 summer percent increases get greater over time and
15 the winter percent decreases also become greater
16 over time, so that eventually it will go to infinity
17 on the top and bottom as well. I am not sure what
18 that tells us, but the point is it is increasingly
19 seasonal, as the operation is expanding it is also
20 becoming increasingly seasonal.

21 Q I want to change subject to the possible
22 consequences of a merger with Delta. Obviously at

2781

1 the moment that, whether there will be or will not
2 be a merger with Delta is still unresolved, correct?

3 A Correct.

4 Q And there was a fair amount of discussion
5 about that on Capitol Hill yesterday, correct?

6 A That is right.

7 MR. KATZ: I am going to object to any
8 questioning about the Delta merger. I just don't
9 see how that is either relevant or in response to
10 any direct evidence that the US Air merger committee
11 introduced.

12 MR. FREUND: It is directly responsive to
13 the seniority list that they had proposed which puts
14 the vast majority of America West pilots on the
15 bottom of the list subject to the consequences,
16 potential consequences, of reductions occasioned by
17 the -- possible reductions occasioned by a merger
18 with Delta.

19 CHAIRMAN NICOLAU: Just tell us what the
20 red and blue lines are, in the chart.

21 THE WITNESS: Sure. The red line is the
22 actual number of retirements per year from 2006

2782

1 through 2036 off the Delta system seniority list,
2 dated November 1st, 2006, which comprises 6833
3 pilots. And the blue line is the distribution, or
4 the cumulative distribution of those retirements
5 across that period.

6 BY MR. FREUND:

7 Q Now, there is very few, on a relative

8 basis and on an absolute basis, retirements of
9 Delta, at least age 60 retirements, off the Delta
10 seniority list in the early years, correct?

11 MR. KATZ: Mr. Nicolau, I am going to
12 repeat my objection.

13 CHAIRMAN NICOLAU: Yes, let's take a
14 break, okay. I want to discuss it with my friends
15 here.

16 MR. KATZ: All right.

17 (10:58 a.m. -- recess -- 10:12 a.m.)

18 CHAIRMAN NICOLAU: Mr. Freund, is Mr.
19 Mann's subsequent testimony related solely to Delta?

20 MR. FREUND: Well, these next two slides
21 are related to Delta, then there was one other
22 subject.

2783

1 CHAIRMAN NICOLAU: Well, you know, the
2 Board is aware of the world out there, but we do not
3 need to hear about what might happen with respect to
4 Delta, any more than we said anything about what age
5 people are going to retire. So, if there is another
6 subject, turn to it.

7 BY MR. FREUND:

8 Q Mr. Mann, in the US Airways pilots' case
9 they took substantial issue with the question of
10 whether the fleet plan that projected America West
11 going to 161 aircraft through the A320 quarter
12 acquisition would take place, and pointed only,
13 pointed to the investor relations updates that we
14 introduced, and in addition pointed to a subsequent
15 investor relations update in June of 2005, which had
16 a little footnote in it, do you recall that?

17 A Yes, I do.

18 Q Now, in addition to the investor update
19 that was introduced in our case, were there other
20 documents prior to the merger announcement that
21 reflected the fleet plan of 161?

22 MR. KATZ: I am going to object, the best

2784

1 evidence of whether there are other documents are
2 the documents themselves.

3 MR. FREUND: We can produce them and I am
4 happy to, and I actually want to. We just didn't
5 make copies of them before this morning, so --

6 MR. KATZ: I think the way to proceed is
7 to put the documents in and not have the witness
8 testify about what the documents say.

9 MR. FREUND: Well, why don't we just have
10 him tell us what the documents are and then we will
11 produce the documents, just identify what the
12 documents are, that is all I care about.

13 CHAIRMAN NICOLAU: If there any
14 discrepancy between the witness's testimony and the
15 documents we will be able to ascertain.

16 MR. KATZ: Sure, I don't object to him
17 providing a list of the documents.

18 BY MR. FREUND:

19 Q Can you tell us what those documents were?

20 A Those documents would be three prior
21 America West investor updates going back to the
22 first quarter of 2004, which establish initially in

2785

1 the first quarter of 2004 a fleet size of 154

2 aircraft by 2007, followed in the second quarter an
3 update establishing 160 aircraft by the end of 2006,
4 continuing into 2007, and then in the first quarter
5 2005 a, that document was previously introduced
6 which shows 160 aircraft by 2006, 161st aircraft in
7 January of 2007.

8 In addition there are the third quarter of
9 2004 SEC quarterly filings, as amended, which shows
10 that on July 30th, 2004, the company amended its
11 aircraft purchase agreement with Airbus to show 22
12 firm order aircraft. So that the sequence generally
13 is the 154 fleet plan of the first quarter, the 160
14 fleet plan of the second quarter, followed or
15 probably in the same time frame as the AVSA or the
16 Airbus Purchase Agreement Amendment showing an order
17 of 22, and then the first quarter of 2005 an update
18 showing the 161 aircraft by of 2007.

19 Q Finally, calling on your expertise as
20 someone who can add, subtract, multiply and divide,
21 what would be the growth rate at America West had it
22 in fact acquired the 22 aircraft that were on order?

2786

1 A If one compares the four quarters, well,
2 any four quarters in the recent couple of years
3 total ASM production, total available seat mile
4 production at America West, and then added 22 Airbus
5 aircraft at their individual unit productivity of
6 ASM per day multiplied out to the effect of a year,
7 you would add roughly 18 percent to the capacity of
8 the airline through the introduction of the 22
9 additional A320 size aircraft.

10 MR. FREUND: Thank you, Mr. Mann, that is
Page 31

11 all I have.

12 CHAIRMAN NICOLAU: Other exhibits in here?

13 MR. FREUND: Will be for our next witness.

14 CHAIRMAN NICOLAU: All right, the record
15 should reflect that we are not going to consider tab
16 38.

17 MR. KATZ: I would like to have a break
18 before we cross-examine.

19 CHAIRMAN NICOLAU: Sure, what do you need,
20 half an hour?

21 MR. KATZ: I think a half hour is fine.

22 MR. FREUND: We will also try to --

2787

1 CHAIRMAN NICOLAU: Get those documents.

2 MR. FREUND: Yes, although the SEC forms
3 are going to be fairly massive. I don't know that
4 our "little engine that could" printer is going to
5 be able to produce huge numbers of those SEC
6 documents.

7 MR. KATZ: Well, see if you can crank out
8 one of each of these and bring it over to our room.

9 (Discussion off the record.)

10 CHAIRMAN NICOLAU: Let's show up again
11 around noon.

12 MR. KATZ: Okay.

13 (11:20 a.m. -- recess -- 12:30 p.m.)

14 MR. FREUND: I am distributing four
15 documents, the first quarter 2004 investor relations
16 update that Mr. Mann referred to, the second quarter
17 of 2004 investor relations updates that Mr. Mann
18 referred to, first quarter of 2005 investor

19 relations update that Mr. Mann referred to, and just
20 the relevant text of the 10-27-04 10Q that Mr. Mann
21 referred to, and I have e-mailed to Dan the full
22 document, full 10Q, and I think we probably ought to
2788

1 put them in that order behind tab 40.

2 CHAIRMAN NICOLAU: Very good. Mr. Mann is
3 being turned over for cross-examination at this
4 point?

5 MR. FREUND: Yes, most assuredly.

6 MR. KATZ: Okay.

7 CROSS-EXAMINATION

8 BY MR. KATZ:

9 Q Let's start with the Exhibit 34 and in
10 this series the Exhibit 34, the first page is kind
11 of a title and then there are three pages about
12 cost; is that correct?

13 A There are both revenue and cost on two of
14 the three, but all three include cost data, yes.

15 Q And then the last page of 34 is about
16 operating margins, correct?

17 A That is correct.

18 Q And if one were interested in evaluating
19 the cash position of airline, Mr. Mann, it would be
20 relevant to inquire about all of the costs that the
21 airline was going to be incurring; isn't that true?

22 A None of these charts comment on cash.

2789

1 They are operating unit costs and margin measures.

2 Q But if one were to be examining and
3 evaluating the cash position of airline the relevant
4 issue would be all of the expenses rather than just

5 the expenses other than fuel, for example?

6 A Well, you would want to be looking at the
7 balance sheet, not at the income statement. And
8 these are income statements measures.

9 Q And the income statement has an effect on
10 the balance sheet, does it not?

11 A From period to period, yes.

12 Q In the third of your pages with graphs on
13 them in the Exhibit 34, I believe you suggested that
14 it was important to look at the year over year
15 comparison in order to avoid the impact of
16 seasonality; is that correct?

17 A Yes, that is correct, the same quarter
18 year over year.

19 Q So, if you look at the first quarter of
20 2004 and compare it to the first quarter of 2005
21 there was an increase of 34/100 of a cent in the
22 bottom line entry of costs per available seat mile;

2790

1 is that correct?

2 A Right, that is correct, and on the revenue
3 line, which is the yellow trace, there is
4 approximately a 0.6 or 60/100 improvement in
5 revenue. Just, you know, again quarter versus
6 quarter, same period.

7 Q And the increase in cost from the first
8 quarter of 2004 to the first quarter of 2005 is 6
9 percent then; is that right?

10 A On which line, sir?

11 Q CASM XF/H/E/I?

12 A So from 609 to 643?

13 Q Right.

14 A Let's see, 34 on 6, between 5 and 6,
15 right; between 5 and 6 percent, yes.

16 Q On the next page, when you look at
17 operating margin, is it true that doesn't reflect
18 the expense that America West incurs for interest
19 and the cost of aircraft leases?

20 A It would include any above the operating
21 line expenses. So for example, rentals, lease
22 payments typically would be included. The below the

2791

1 line expenses, interest and taxes, for example, no,
2 they were -- none of these periods, in none of these
3 periods was America West taxable, so chiefly
4 interest and other nonoperating measures would be
5 below the line. As I think you have pointed out,
6 America West leases most of its equipment so
7 therefore the lease expense would be above the
8 operating line.

9 Q Capital leases would be below the line,
10 wouldn't they?

11 A Capital leases would be below, yes.

12 Q America West didn't pay taxes because they
13 lost money at these various times?

14 A Actually they have net operating loss
15 carry forwards to cover most of the periods, so to
16 the extent they were profitable they would have had
17 operating loss carry forward.

18 Q Do you know whether they made money?

19 A At the operating line they made money.

20 Q The net line?

21 A Quarter by quarter, some quarters were

22 profitable, some they were not.

2792

1 Q You pay taxes on the year, don't you?

2 A In '04 I believe they did not. In '05,
3 half of which was after the transaction was
4 announced, I simply don't recall. I am sure it is
5 included here somewhere but not in this example.

6 Q We actually have it in an exhibit that we
7 put into evidence?

8 A Yes.

9 Q Correct. So, for convenience, this is
10 from our Exhibit G-5, and I've got several copies,
11 if you could pass several of them across to the
12 other America West representatives, and, we don't
13 need to mark this because it is already an exhibit,
14 but this is from the 2005 10K, and it does show on
15 the operating income line that for the full year
16 2005 was a loss of \$120 million, was it not?

17 A It does, and again as I pointed out, at
18 least two of those quarters and part of the third
19 quarter were periods in which the company was
20 operating after the announcement of the merger and
21 in one particular quarter, the fourth quarter, it
22 was post the closing of the merger.

2793

1 So yes, I mean I think the majority of
2 this has to be looked at in the context of where did
3 these results occur relative to the announcement
4 date or the closing date.

5 Q What would be the impact of the
6 announcement of the merger on America West's

7 operating loss?

8 A Well, in particular the company indicated
9 later on that it had started to reduce capacity and
10 that since it had not reduced costs commensurate
11 with its reduction in capacity, essentially moved
12 off of its growth plan. That would have generated a
13 loss, drove up unit costs and could have resulted in
14 a loss, so I think once you start to see the company
15 managed as if it will be in a transaction mode you
16 will see different results than might have occurred
17 had the company persisted and management been as a
18 stand-alone.

19 Q But it but it was also saving cash by
20 reducing the size of its operation, wasn't it?

21 A I don't think I would be able to comment
22 on that. It is hard to know what its view was

2794

1 there, or whether it actually built or consumed cash
2 by those short term actions.

3 Q Well, let me just show you in our
4 cross-examination exhibits, G-4 is another one of
5 these investor updates. I didn't make copies of
6 this, but it does say on June 2, 2005, that "America
7 West has negotiated to return aircraft to lessor's
8 and defer some aircraft deliveries whether or not
9 the merger closes." Isn't that what the management
10 of America West told the investing public on June 2?

11 A Right, after the transaction was
12 announced. And I think these are, you know, good
13 examples of how the company is already thinking in
14 business combination mode as opposed to managing a
15 stand-alone business plan.

16 Q And it says they were doing that whether
17 or not the merger closes. It doesn't say whether it
18 was doing it to save cash or not though, does it?

19 A No, I don't believe there is any comment
20 of that sort here.

21 Q And you don't really know what the
22 internal thinking of US -- of America West

2795

1 management was at that time, do you?

2 A Only what is announced here, which is once
3 they enter negotiations with lessor's, and I think
4 they probably also mean Airbus here, as a lessor,
5 that they are starting to manage the company in
6 combination mode. I mean you get to the table with
7 Airbus to do these things by virtue of the
8 announcement, and whether you choose to do the
9 transaction or not, it is the fact that you announce
10 this and started to negotiate based on it that gets
11 you to the table to make these sorts of changes.

12 Q Well, America West had the flexibility to
13 return aircraft to lessor's throughout the period of
14 time, did it not?

15 A It did and so, therefore, it would not
16 have had to negotiate with them as stated here.

17 Q In this exhibit that I gave you, G-5, the
18 2005 10K statement of operations, it also shows a
19 net loss of \$195 million before the cumulative
20 effect of the change in the accounting principles,
21 doesn't it?

22 A Yes, that is correct.

2796

1 Q And that is substantially worse than 2004,
2 isn't it, where the company only lost \$85 million?

3 A Well, as I say, if you were to look at
4 this quarter by quarter I think you will find that
5 through the second quarter these results are quite
6 favorable, and once we reach the third and fourth
7 quarters where you have a substantial amount of
8 transaction-related costs and dollar value thereof
9 and where the company starts to manage the business
10 on a combination basis that the results change
11 markedly.

12 Q You also have an increase in fuel prices
13 don't you, in the third quarter?

14 A That is correct.

15 Q And the only way the 2003 showed a net
16 profit was as a result of \$81 million in federal
17 government assistance; is that correct?

18 A Well, it shows operating income.

19 Q Operating income of 37 million?

20 A Right.

21 Q But it has net interest expense of
22 \$87 million?

2797

1 A Uh-huh; correct.

2 Q So that if it weren't for the 81 million
3 from the U.S. government the company would have had
4 another net loss in 2003?

5 A Right, but I mean going back to your
6 initial question, I don't think this has any --
7 these numbers don't have a substantial bearing on
8 whether or not the company was, for example, cash
9 flow positive or whether it produced cash on a

10 balance sheet, so --

11 Q Would you agree that one quarter doesn't
12 make a whole year?

13 MR. FREUND: I will stipulate to that.

14 THE WITNESS: Yes, I think so.

15 BY MR. KATZ:

16 Q We were talking about these airplanes,
17 there is one other document which comes from our
18 exhibits, E-7, this is the 10K for the previous
19 year, 2004, and again this is already in evidence.
20 First let me just ask you to compare this to the
21 excerpt that is now the last page of America West
22 pilots' Exhibit 40?

2798

1 A I actually don't have those. I could use
2 a copy.

3 Q We ought to get you a copy of that.

4 A Thank you.

5 Q It looks to be that first sentence below
6 the chart is very similar, if not identical, to the
7 first sentence of the paragraph on C-7?

8 A Correct. Yes, this language actually
9 appeared in the amended third quarter 10Q.

10 Q Right, I saw the same language there. We
11 have this in evidence already, it seemed simpler to
12 do it that way.

13 A Sure.

14 Q At the end of the paragraph the company
15 alerts the reader America West also secured
16 extensive flexibility from Airbus with respect to
17 its existing 318 order, allowing America West to

18 better react to market conditions enabling it to
19 amend its 15 A318 delivery positions to A319s and
20 A320s, if it so desires, or to take no additional
21 aircraft under certain conditions. In fact, America
22 West doesn't have any A318s and never took any;
2799

1 isn't that correct?

2 A Right, it generally tended to up size its
3 capacity to 319s and 320s when it took deliveries.
4 Other than Frontier Airlines I am not aware of any
5 U.S. carriers that fly the 318.

6 Q You refer to these 22 Airbus aircraft as
7 being on firm order, but actually the language in
8 the part you have quoted at the very start of this
9 paragraph refers to amending aircraft purchase
10 contract to acquire 22 Airbus A320 family aircraft
11 and does not use the word firm order in connection
12 with those 22 aircraft, does it?

13 A The firm order language actually appears
14 in the attachment which is the amendment number 7 to
15 that purchase contract. So that is where the firm
16 order language appears. This is an ellipsis or
17 summary of it.

18 Q Can you explain why down below they show
19 the firm orders remaining at the end of the year
20 2004 and they only show 14 Airbus aircraft, not 22?

21 A Well, it is entirely possible that there
22 were deliveries in the meantime. However I, you
2800

1 know, I mean given this is a year end and given the
2 other was in October, which was actually executed on
3 July 30th, dated July 30th, it states here it was

4 August 2004, I suspect that there may have been
5 deliveries in the interim.

6 Q Well, the Exhibit C-7 is talking about all
7 of these deliveries in the future, isn't it?

8 A That is as of -- what is C-7? C-7 is the
9 10K?

10 Q Right, for 2004?

11 A Right, for 2004, which is August,
12 September, October, November, December, five months
13 after the agreement was executed with Airbus and it
14 is entirely possible that since these are end of
15 year 2005 firm orders remaining in 2006 that we have
16 had deliveries in 2004 calendar year that
17 represented the balance of them.

18 Q And down below the chart at the bottom of
19 the page the company points out that it has the
20 ability to return 52 aircraft at the end of their
21 leases in the years 2005 through 2008, right?

22 A Right. That is the kind of flexibility

2801

1 that was just good fleet planning practice. You
2 know, actually, when I read their chart that you
3 have got on C-7 or that the company has on C-7 that
4 you have introduced as C-7, the way I actually read
5 that chart that is there are 14 firm orders
6 remaining at end of year 2005.

7 So indeed, it is very likely that during
8 the five months of 2004 and 12 months of 2005 that,
9 you know, there would have been the remaining eight
10 aircraft delivered, so --

11 Q That is a strange way to read it, Mr.

12 Mann. Above the chart it says the following table
13 illustrates America West's committed orders,
14 scheduled lease expirations and lessor call and put
15 options as of December 31, 2004. Why would you read
16 that as showing firm orders as of the end of 2005?

17 A Because the line on the table, that row of
18 the table reads firm orders remaining paren EOY,
19 which I will guess is end of year. And then the
20 first entry is 2005 with 13 firm orders remaining at
21 the end of year 2005. This doesn't comment on what
22 has happened in the intervening period for the

2802

1 balance of 2004 or frankly in the 12 months of 2005
2 that precede the end of year. That would be my
3 reading.

4 Q Would you read scheduled expiration of
5 leases 2005, eight, as meaning that there were eight
6 aircraft on lease to America West as of December 31,
7 2004 that had lease expirations during the year
8 2005?

9 A Given that one doesn't say end of year I
10 would say that is probably spread throughout 2005.

11 Q And would you similarly read the nine in
12 the next entry under 2006 as meaning that during
13 calendar year 2006 America West had nine aircraft
14 with leases expiring?

15 A Yes, again given that there is no end of
16 year qualifier there, that is the way I would read
17 it.

18 Q Let me ask you to turn back to your
19 Exhibit 37, the analysis of the seasonality of U.S.
20 flying. First of all you said something in here

21 about, I guess we could turn to the first page, the
22 first route system with the red lines going across

2803

1 the Atlantic Ocean, and you said something about
2 their being a small percentage of US Airways
3 international flying based on the DOT definition.
4 Do you recall saying that on direct examination?

5 A Yes, that is correct.

6 Q And comparing it to United, American,
7 Delta, Northwest and Continental?

8 A Right, that comparison was at the level of
9 DOT international versus system. It was not
10 exclusively Europe.

11 Q What is the DOT definition of
12 international?

13 A It would be the sum of Latin America,
14 Atlantic and Pacific flying, as the system excluding
15 domestic, and there are some, for example, San Juan
16 I believe and U.S. Virgin Islands is considered
17 domestic, some transborder Canada within 200 miles
18 is considered domestic, and I believe there is some
19 Mexico version of that, too.

20 So it is not, it is not all simply
21 U.S.-foreign points, it is a different definition
22 than we have here for U.S.-Europe. These charts

2804

1 focus exclusively on U.S.-Europe flying which is for
2 a large part of what we are talking about in the US
3 Airways pilots' direct case.

4 Q Have you analyzed the flying from the
5 United States to the Caribbean including San Juan

6 that Captain Kirch testified was done in the winter
7 with the same airplanes that fly to Europe in the
8 summer?

9 A I have not, and you know, I suspect that
10 is about the only use for them, given this sort of
11 seasonality that we see here.

12 Q You don't know what increase there is in
13 the winter season in that flying for these pilots,
14 do you?

15 A I don't. It would be part of the domestic
16 number, it would not be part of the international
17 flying, either by DOT definition or on the
18 U.S.-Europe definition.

19 Q What is the percentage of international
20 flying that Continental does based on the DOT
21 definition?

22 A Recently I would say they are above
2805
1 35 percent and climbing.

2 Q And the other carriers you mentioned, are
3 they in the same range?

4 A In a range of 1/3 to 35 percent, yes, I
5 think that is probably about right.

6 Q And what is America West's percentage of
7 international flying by DOT definition?

8 A It is less than US Airways. It is
9 probably about 2 percent.

10 Q That would be to Mexico?

11 A Correct.

12 Q Possibly a route or two to Canada?

13 A Costa Rica, yes.

14 Q Costa Rica?

15 A Yes, I don't think there is any long haul
16 Canada that would get beyond the 200-mile exclusion.

17 Q Now, you have done the analysis that is
18 set forth in this exhibit based on the number of
19 operations. That is mostly what you used, isn't it,
20 is the number of operations? You also showed seats
21 and ASM on one page, but you focused on operations
22 in the series of bar charts that you showed the

2806

1 panel, correct?

2 A Yes, I did. In the absence of a real
3 block hour measure, which is really the measure on
4 which pilot requirements would be driven, I just
5 used operations.

6 Q And you didn't try to look at the number
7 of pilots' positions for this flying, did you?

8 A I don't think we have ever seen a list of
9 pilot positions that would exclusively be assigned
10 to U.S.-Europe flying, so no, I am not aware of any
11 data of that sort.

12 Q Well, you could have looked at the A330
13 and 767 international figures, couldn't you?

14 A If I had February versus July, I suppose I
15 could have, but again I don't believe I have ever
16 seen data of that sort over this time span that
17 would have permitted that. And in any case,
18 although it is dictated to be A330 is presumed
19 international and 76-1 is presumed international, it
20 doesn't say where they are flying even if they have
21 got a bid line. It doesn't tell you whether they
22 are actually assigned to international service or

2807

1 whether they were simply flying something else in
2 the off peak, as I think that has already been
3 testified to.

4 Q Well, Captain Kirch testified that he had
5 flown the 727 international and was almost
6 exclusively flying back and forth to Europe except
7 for occasional flying down to the Caribbean in the
8 winter. Do you have any evidence that would
9 contradict Captain Kirch on that point?

10 A When seasonality is like 2-to-1 summer
11 versus winter there are some people who aren't doing
12 that all year round, I can reasonably say that.

13 Q Looking at the first series of bar charts
14 after the table with numbers in it, your conclusion
15 is that the operations were becoming increasingly
16 seasonal, did I hear you right on that?

17 A Correct.

18 Q But it is also true, that you if you look
19 at it on annual basis USAir's transatlantic flying
20 is increasing every single year, isn't it?

21 A It has expanded and it also shows much
22 wider seasonal variation as the years go on, yes.

2808

1 Q So the company is continually adding
2 routes in Europe to its transatlantic flying; isn't
3 that correct?

4 A In the summer it has added, in the winter,
5 the winter '07 levels are actually below the winter
6 2004 levels.

7 Q Well, the operations dropped from 154 in
8 February '04 to 140 in February '05, and then isn't

9 it true that February '05, February '06 and February
10 '07 are essentially the same?

11 A February '07 is 138, versus 140, so
12 numerically that is a reduction.

13 Q Is that material to anything that we are
14 doing here, difference between 140 and 138?

15 A In the sense that it shows a continuing
16 trend that I have been pointing out, I think it is.

17 Q Your conclusion is that is a trend of
18 declining operations in the winter, is that what you
19 are saying?

20 A It is increasingly seasonal, trough to
21 peak or peak to trough, yes, absolutely.

22 Q This OAG data reports scheduled flights?

2809

1 A It does.

2 Q You used SEC data for your cost analyst in
3 Exhibit 34; is that right?

4 A Yes, these are from the quarterly or
5 annual reports.

6 Q Did you look at the Form 41 data to try to
7 verify the SH&E analysis?

8 A Given that Form 41 data is not restated
9 generally after it is filed, for this sort of a
10 basis of presentation it would not have been
11 consistent.

12 Q So you didn't look at it?

13 A So I was using a consistent set of SEC
14 data as opposed to some mix-match set of data.

15 Q So you didn't look at the Form 41 data
16 that SH&E used?

17 A I did not look at Form 41 at all except to
18 look at ASM. That is the exclusive use of Form 41.

19 Q Exhibit 36, Mr. Mann, on the second page
20 Mr. Parker points out that since 2001 there have
21 been 24 domestic Chapter 11 filings. Is that
22 accurate to the best of your knowledge?

2810

1 A I am not sure I come up with 24, but I am
2 not sure what the scope of airline filings is. We
3 have everything from National, to who knows what,
4 Larry's Flying Service up in Alaska. I have no
5 reason to doubt that though.

6 Q Page 3, Mr. Parker says here at the bottom
7 of the first full paragraph, that "the company
8 believed that a merger with US Airways presented an
9 opportunity to strengthen our own company and
10 provide a brighter future for the nearly 35,000
11 employees of US Airways and America West." You
12 don't have any doubt that the management of what is
13 now called US Airways believes that their employees
14 are better off as a result of this merger, do you?

15 A I think that has been Mr. Parker's
16 statement consistently. I guess the question is,
17 you know, where did each side of the ledger start,
18 and that is really kind of the focus of kind of the
19 focus, one of the pieces of the focus of this
20 arbitration, in other words, a rising tide floats
21 all boats, but the question is who was on the rocks
22 and who was not. I guess that's yes.

2811

1 Q In the next paragraph he quotes the phrase
2 that you are claiming credit for, project Dumbbell,

3 and then says that he is proud to say that for our
4 employees, shareholders and customers, the foolish
5 bet has paid off handsomely. There is no question
6 in your mind that Mr. Parker is committed to that
7 proposition, are you?

8 A Well, I think he is not only committed to
9 that proposition, he is -- he was obviously in
10 committee stating that he would like to expand that
11 bet, if you will, on to a yet larger operation.

12 Q And he told them he wasn't expecting any
13 of the Delta people to take a pay cut; right?

14 A I think what he said is that all crafts
15 and classes of employees would move to highest
16 contract rates.

17 MR. KATZ: That is all the questions I
18 have for Mr. Mann.

19 CHAIRMAN NICOLAU: Anything?

20 MR. FREUND: I just have one question, I
21 think, which will turn into two because I can't ask
22 one question.

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REDIRECT EXAMINATION

3

BY MR. FREUND:

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Q Look at Exhibit 37 please, for a moment,
and if you will look at the fourth page of that
exhibit, which is the chart, the actual statistics
on which at least some of your subsequent charts are
based?

9

A Yes.

10

Q Focusing on the July to July comparisons,

11 namely the peak summer international seasons, I am
12 seeing July 2004, which was a date before the merger
13 and the merger announcement, correct?

14 A Correct.

15 Q With 224 operations, correct?

16 A Yes.

17 Q And then July 2005, which was after the
18 merger announcement but before the merger, staying
19 flat at 224 operations?

20 A Correct.

21 Q And then July 2006 and July 2007 which
22 clearly were and clearly will be dates after the

2813

1 merger closed, arising from 224 operations to 260
2 operations and from 260 operations to 380
3 operations, correct?

4 A Correct.

5 Q So, Lisa just told me that from 224 to 260
6 is a 15 percent increase and from 260 to 308 is a
7 15 percent increase or perhaps more accurately
8 spread out over the two years the average is
9 15 percent per year, does that sound about right?

10 A Sounds about right.

11 MR. FREUND: So my one question turned
12 into about six. That is all I have.

13 MR. KATZ: I will follow up with a
14 question or two.

15 RE CROSS EXAMINATION

16 BY MR. KATZ:

17 Q It looks to me like you have got an
18 increase of 84 operations from July '05 to July '07
19 on a base of 224, if you divide 224 into 84 and get

20 the exact percentage, I don't have a calculator with
21 me, but can you do that one in your mind?

22 A I am sorry, I didn't follow you follow

2814

1 your word problem.

2 Q 36 additional operations in '06 and then
3 48 more in '07, is a total of 84 in the two years,
4 and we divide 84 by 224, whatever that is will give
5 you the percentage increase of those years?

6 A A little less than 30 percent -- I am
7 sorry, a little more than 30 percent.

8 Q Okay, and aren't you aware, Mr. Mann, that
9 many of these European routes require applications
10 by a carrier years in advance in order to secure the
11 route authority, the other various operating
12 authorities that are necessary to expand your
13 international route system?

14 A Actually it is a declining number due to
15 the advent of open skies in most of these markets.
16 You know, those agreements outside of a couple of
17 the core markets like the UK, Japan, China are
18 largely open skies. There may be logistical issues
19 associated with lining up the appropriate airport
20 facilities, but it is largely not licensing or
21 regulatory, it is mostly just pure logistics.

22 Q Well, you have listed as places that were

2815

1 added, as I understand it, in '05, Venice and
2 Barcelona?

3 A Uh-huh.

4 Q Can any airline that wants go in and start

5 flying to Venice and Barcelona?

6 A I have no idea what the status of the
7 U.S.-Italy or Spain bilateral is.

8 Q Those are not open skies treaties, are
9 they?

10 A As I said, I don't have any idea what the
11 status of the markets is.

12 Q You know it took years to get the
13 authority for United and for Continental and USAir
14 to get the flying rights to Italy, those are very
15 closely held, aren't they?

16 A As I stated, I simply don't know what the
17 status of the U.S.-Italy flying is.

18 Q In addition to getting the route rights
19 under the bilateral treaty it is necessary to get a
20 designation from the U.S. Department of State in
21 order to fly to those countries, isn't it?

22 A Well, I think as I have answered

2816

1 previously in respect of Italy, I don't know what
2 the status of the bilateral would be. My comment
3 earlier was that markets are increasingly
4 deregulated, the subject of open skies, which
5 require basically the arrangement of logistics as
6 opposed to the arrangement of authorities, I would
7 expect that to continue as trade increases.

8 Q You haven't done any analysis at all of
9 the status of US Airways applications before the
10 merger was announced to fly to any of these places,
11 have you?

12 A I have not, no.

13 MR. KATZ: I don't have anything further
Page 53

14 for this witness.

15 CHAIRMAN NICOLAU: Anythi ng?

16 MR. FREUND: No.

17 CHAIRMAN NICOLAU: Thank you, Mr. Mann.

18 So are we recessed until tomorrow.

19 MR. FREUND: Oh, I have two more

20 witnesses.

21 CHAIRMAN NICOLAU: Oh, now?

22 MR. FREUND: I frankly di dn' t thi nk we

2817

1 would be on this long with Mr. Mann.

2 CHAIRMAN NICOLAU: Let's go off the record

3 for a moment.

4 (Di scussi on off the record.)

5 CHAIRMAN NICOLAU: 2:15, is that all

6 right?

7 MR. KATZ: Yes.

8 (Whereupon, at 1:14 p.m., the hearing was

9 recessed, to be reconvened at 2:15 p.m. this same

10 day.)

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1 AFTERNOON SESSION (2: 32 p. m.)

2 CHAIRMAN NICOLAU: Are we ready?

3 MR. FREUND: We are ready. Our next
4 witness is Ken Stravers, and Lisa Powell is going to
5 present his testimony.

6 Whereupon,

7 KENNETH JOHN STRAVERS

8 was called as a witness and, having previously been
9 duly sworn, was examined and testified as follows:

10 DIRECT EXAMINATION

11 BY MS. POWELL:

12 Q State your name for the record please?

13 A Kenneth John Stravers.

14 Q You have already testified so I won't walk
15 you through your biography but I take you are still
16 an America West captain on the merger committee?

17 A That is correct.

18 Q Have you evaluated the distribution of
19 retirements from the US Airways and the America West
20 seniority list?

21 A Yes, we have.

22 Q Did you notice a difference in how

2819

1 retirements are distributed off of those lists?

2 A Yes, we noticed a disparity.

3 Q Generally speaking what did you see?

4 A Generally speaking we see the heavy
5 majority, if not all, retirements on the west side
6 are coming out of the captain range and it is
7 dispersed across the entire seniority list on the

8 east side.

9 Q Do you have charts that illustrate this
10 phenomenon?

11 A Yes, I do.

12 Q Please turn to Exhibit 39. Taking a look
13 at the chart for 2005, the first chart in the
14 series, across the Y axis you have percentages, does
15 this show retirements broken down into categories
16 but not actual numbers of retirements; is that
17 correct?

18 A That is correct. We are looking at the
19 percent damage of breakdown on a stand-alone basis
20 for the west as well as for the east.

21 Q And are there positions indicated, are
22 these people's actual or predicted positions or are

2820

1 they positions assigned on a stovepipe basis?

2 A No, these positions were assigned on a
3 stovepipe basis for both the west and the east.

4 Q So to illustrate, I think everyone knows
5 what a stovepipe basis is but if, for example, an
6 America West pilot retires in seniority number 20 he
7 would be assigned wide-body captain position even if
8 he happened to be holding a narrow body --

9 A That is correct, he would be considered a
10 wide-body captain on the west and he would be
11 considered a wide-body captain on the east as well.

12 Q Does this attempt to take any attrition
13 besides age 60 attrition or is this based solely on
14 age 60?

15 A This is solely on age 60 alone.

16 Q Would you go through the categories here
17 and explain what they encompass?

18 A If you look at the small boxed area to the
19 right of the graph, starting out with the wide-body
20 captain, the magenta color, we have the wide-body
21 captain would encompass the A330-767 and 757
22 captains. The next box down being the blue

2821

1 narrow-body captain, would encompass the A320 and
2 the 737 captains.

3 Same, following the same format, wide-body
4 FOs would be your A330, 76-75, first officer, and
5 the narrow-body FOs obviously are A320 and 737 in
6 the yellow.

7 The bottom box being the furloughed pilots
8 in the purple.

9 Q Where did you get the number of positions
10 for each category that build your stovepipe?

11 A For the west we used the May 2005 PBS
12 data, and for the east we used bid 0507.

13 Q And that is the same data used for the
14 ratio construction but there is no fleet adjustment
15 here, is that correct?

16 A That is correct, it is based on a static
17 fleet.

18 Q And then as you advance through the years
19 the number of positions was kept constant, not any
20 predictions for growth or shrinking aircrafts or
21 positions?

22 A That is correct. The same number of

2822

1 positions based upon a static fleet.

2 Q And of course by extension, there are no
3 Embraer positions on any of these graphs?

4 A No, there are not.

5 Q Could you go to the first chart and tell
6 us what we see?

7 A If you look at the west on the first
8 chart, 2005, you can see that of 100 percent of our
9 retirements that 20 percent, or approximately
10 20 percent of the retirements are coming from the
11 wide-body captain range, and 80 percent are coming
12 from the narrow-body captain range.

13 Conversely, if we look over to the east
14 you see that less than half of the captains, the
15 captain range, is retiring off of the east whereas
16 you have approximately one-third of the retirements
17 are coming out of the furlough range.

18 Q So, on the east side more than half of the
19 retirements would be unlikely to provide anyone an
20 opportunity for captain upgrade; is that correct?

21 A That is correct.

22 Q And some of the retirements don't create
2823

1 any vacancy whatsoever, right, approximately a third
2 of them?

3 A That is correct, they wouldn't provide any
4 advancement opportunity for a west pilot for the
5 third of the pilots who are retiring out of the
6 furlough range.

7 Q Okay. And a retirement of any active
8 pilot, if you happen to be an east pilot on
9 furlough, however, would provide those east pilots

10 the opportunity for recall to a vacancy created?

11 A That is correct. They would, the
12 furloughed pilots would gain full benefit of
13 retirement, whether it is captain range or in the FO
14 range.

15 Q We won't walk through all the other charts
16 in detail but they are all constructed in the same
17 manner; is that correct?

18 A That is correct.

19 Q And do you see a similar patterning go
20 from 2006, 2007, 2008, 2009, and finally into 2010?

21 A Yes, what you see is that the majority, if
22 not all, of the retirements on the west side are

2824

1 coming out of the captain range, and whereas on the
2 east it is widely distributed throughout the entire
3 seniority list through all of the charts that we
4 have produced.

5 Q Just to clarify, each year as we, to
6 construct the next chart, the people who turned age
7 60 in the preceding year were extracted and everyone
8 moved up a position?

9 A That is correct. We aged out each year on
10 a stovepipe basis so people could possibly move into
11 the next range, depending upon where they were in
12 the range below that.

13 MS. POWELL: No further questions.

14 MR. KATZ: Well, I have a request before I
15 ask any questions. All we have got really are five
16 or six pictures. There is no numbers, no names, and
17 in order to drive these pictures there must be
18 computer printout somewhere that has absolute

19 numbers and names on it. It seems to me it would be
20 fair to give us that before we ask any questions.

21 MS. POWELL: We actually don't have
22 anything -- names on it, we do have a data sheet of

2825

1 the numbers.

2 CHAIRMAN NICOLAU: Do you have the
3 numbers?

4 MS. POWELL: Yes.

5 CHAIRMAN NICOLAU: They ought to see them.

6 MR. KATZ: Well, let's take a break for 10
7 minutes while I copy this off and make it an exhibit
8 and come back with some questions for Captain
9 Stravers.

10 CHAIRMAN NICOLAU: Very good.

11 (2:42 p.m. -- recess -- 2:58 p.m.)

12 CHAIRMAN NICOLAU: Are you ready, Dan?

13 CROSS EXAMINATION

14 BY MR. KATZ:

15 Q Yes. We copied up the document that Lisa
16 just gave us with the actual numbers on it, and this
17 is what you prepared to support the exits in the
18 book, Captain Stravers?

19 A Yes, it looks like a correct document.

20 Q And what we have got is the jobs according
21 to the bid from February 2006 for defining where you
22 mark the end of each category for the USAir pilots,

2826

1 right?

2 A Yes; correct.

3 Q And then what did you call that, the

4 May 2005 jobs for the America West pilots are what
5 you are tracking, is that right?

6 A For the west side we used the May 2005 PBS
7 data.

8 Q PBS, right?

9 A Yes.

10 Q And then if somebody retires in 2010 in
11 the America West side you are still using his
12 May 2005 job?

13 A We are looking at the retirements for the
14 year, for each year that we have charted so the
15 entire retirement in 2005 through 2010.

16 Q So you spread the jobs as they existed in
17 May 2005 to the people who are left on the list in
18 2010 to calculate the 2010 list?

19 A We took the -- we assigned the positions
20 based on where each pilot was on his own seniority
21 list in relative position, so if you were number 50
22 on the east or west list, regardless of what

2827

1 position you were currently holding, we assigned you
2 a position of captain, going under the same way that
3 we did the distribution of jobs for our seniority
4 integration methodology.

5 So we gave the wide-body the A330
6 positions, we assigned those number of positions
7 would be A330 wide-body captain as well as 757-767
8 wide-body captains. So, if you fell within that
9 range we assigned you a position of captain in that
10 range.

11 Q That is not what Dan Akins said about the
12 way your computer program worked, the PEM model

13 supposedly started with the job everybody held on
14 those days?

15 A Yes, he was looking at the earning
16 standpoint. We are looking at strictly trying to
17 show where the dispersment is in the retirements of
18 one company versus the other company stand-alone.

19 Q So you didn't start out with everybody in
20 their actual jobs?

21 A No, we did not.

22 Q You gave the top whatever number of jobs

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1 there were on the 757 at America West you called
2 those wide-body captains. In this case 2005 it
3 appears there were seven wide-body captains; is that
4 right?

5 A Let me look under -- yes, 2005 on the west
6 side you are showing wide-body captains of seven.

7 Q That is how many retired from that entire
8 list?

9 A That is how many people we retire within
10 that range.

11 Q And that range would be whatever number
12 757 captains you had according --

13 A We had --

14 Q Let me finish the question so he can take
15 it down before you answer.

16 A I'm sorry.

17 Q You look at the PBS data from May 19,
18 2005, count, is that however many 757 captains
19 there were and those would be considered wide-body
20 captains, seven of whom retired in 2005; is that

21 right?

22 A Based on a percentage, correct, based on a
2829

1 percentage of total retirements for the year, out of
2 100 percent retirements that would create, the seven
3 would create 20 percent of our retirements that
4 would come out of the wide-body captain position.

5 And then we stovepiped from that point
6 forward after we assigned the positions, we
7 stovepiped everyone each year. We aged each graph,
8 each year, so if someone was at the top of the west
9 retirement narrow-body captain list, he could move
10 into the next range because the positions would stay
11 the same, into a wide-body captain retirement for
12 the following year.

13 Q I think, I am not sure what you meant to
14 say, but it doesn't sound like what you said is what
15 is shown on the piece of paper. There are seven
16 wide-body captains, absolute number of retirements
17 shown in 2005 on the west. So you had seven in that
18 top range on your list reach age 60. But down below
19 the percentage of what you call wide-body captains
20 is almost 20 percent, just shy of 20 percent. So
21 that is the percentage of the total age 60 events
22 who fell in the top portion of the list, right?

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1 A The seven number there is representing the
2 actual number of retirements off of the wide-body
3 captains, seven in relation to the total retirements
4 in 2005 of 36, would be your range right there of
5 your captains --

6 Q Right.

7 A -- of your wide-body captains.

8 Q So you can't tell from this how many
9 wide-body captains you took credit for in 2005, can
10 we?

11 A On the graphs that we have here we are not
12 displaying it in numerical value, we are just trying
13 to show the dispersement of retirements in a
14 percentage basis of where they are coming across the
15 scenario. So we are not looking at it from a
16 numerical value, we are looking at it from
17 percentage value.

18 Q Right, and you also don't know what
19 percentage of wide-body captains retired, do you?

20 A Well, the retirement here in 2005 only on
21 the west side approximately 20 percent, of our
22 retirements under the stovepipe would be retiring
2831
1 out of the wide-body captains.

2 Q 20 percent of the retirements come from
3 the top, some number of jobs on the list, is what
4 you are trying to say, I believe, 19.44 percent?

5 A Based on a static fleet and constant
6 positions for each aircraft.

7 Q Marching through the years let's look down
8 to 2009, I am still looking at Exhibit G-12, the
9 numbers.

10 A Oh, I am sorry.

11 Q The chart shows 13 of the 48 retirements
12 at America West come from the top part of the list,
13 right?

14 A That appears to be correct.

15 Q And that is, according to your numbers
16 that is 27 percent of the retirements come from the
17 top part of the list?

18 A That looks correct. I don't have a
19 calculator but 13 in relation to the total number of
20 retirements in 2009 of 48 will be very close to that
21 percentage.

22 Q And you held that number constant,

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1 whatever that number was of the 757 captains you
2 had, you held that constant throughout all these
3 years?

4 A Yes, sir, we did, we held it constant
5 based on constant number of positions and a static
6 fleet.

7 Q And the total of 48 retirements during the
8 year 2009 projected for the America West pilots is,
9 what would you say, about 20 percent of the total
10 number of retirements at US Airways; you projected
11 246?

12 A That looks like that would be an
13 approximate percentage, yes.

14 Q So in that year there are four US Airways
15 pilots who leave the list due to age 60 for every
16 one America West pilot who leaves the list based on
17 age 60 retirement?

18 A Yes, that is true, due to the size and the
19 age difference of the airlines, those numbers
20 reflect that. But once again, we are trying to show
21 the dispersment across the seniority list on where
22 the retirements are coming from. This isn't trying

2833

1 to show any disparity in numbers. The numbers are
2 what they are, but the various ranges that the
3 pilots are retiring from shows a definite disparity
4 on where the advancement opportunities are.

5 Q So let's look at the 31 on the 2009
6 column, going across on the east side, that relates
7 to how many you contend are in the furlough range,
8 right, the 31. It doesn't exactly line up on the
9 piece of paper, but I assume that 31 has to go with
10 furlough; isn't that true?

11 A That 31 is under the furlough column,
12 right.

13 Q But they are not on furlough anymore in
14 2009, are they?

15 A Once again we are basing this on a
16 stovepipe analysis, so that once you take the
17 relative positions of where everyone is on the
18 seniority list each year, the list gets aged, so the
19 entire group continues to move up in relative
20 position. So if there are 10 retirements off your
21 side you move up 10 positions into what could
22 possibly put you into the next range.

2834

1 Q We know by then everybody on the US
2 Airways furlough list down through Ettore Varini is
3 going to have the opportunity to be recalled to the
4 main line if they want to?

5 A Once again we are basing this on a static
6 fleet with no growth, although America West, we knew
7 we were growing and obviously, you know, USAir was
8 continuing to shrink, but to keep the numbers in

9 perspective we based it on a growth static fleet,
10 static number of positions, so with the amount of
11 furloughs you could see that even in 2010 there
12 would still be furloughs that would be on the east
13 side.

14 Q But we know that there isn't really going
15 to be anybody left on furlough, don't we?

16 A Once again, this is -- the charts are just
17 speaking of where the percentages are coming from,
18 and in a no growth.

19 CHAIRMAN NICOLAU: But isn't Mr. Katz
20 right, that it is a percentage of those who were on
21 furlough back in 2005, but who may not have been on
22 furlough in 2009 or 10?

2835

1 THE WITNESS: No. No, if you look, it is
2 where the age of the furloughed pilot is, and then
3 you have your total number of furloughed pilots that
4 will have to move up. If you look at the total
5 number of, if you have your grand total of pilots
6 retiring from the east that number does not reach
7 the grand total of the furlough pilots in 2005 of
8 over 1700 pilots. The grand total of these six
9 years do not equal over 1700 pilots.

10 So that is why we still have a small
11 percentage of furlough pilots under this scenario
12 that have yet to, that still would be retiring as a
13 furlough pilot, in the furlough range, if you will,
14 and until they exhaust the number of over 1700.

15 MR. GILLEN: So you are not discounting
16 then for the bypass rate?

17 THE WITNESS: No, we are not. This is a
Page 67

18 strict stovepipe --

19 MR. GILLEN: In every analysis we have
20 seen of when the most junior east pilot returns from
21 furlough there has been some factor, has there not,
22 of historical return or, you know, where you said

2836

1 about 1-for-3? It is my impression that most of the
2 data that we have seen have been based on real data
3 of bypass, and it seems to me that in this
4 particular case with the stovepipe you are not
5 discounting that 1-for-3.

6 THE WITNESS: Yes.

7 MR. GILLEN: So, while historical pattern
8 may show that that furloughed pilot returned earlier
9 than that, you are not incorporating that in this
10 particular model, you are just saying position,
11 position, position?

12 THE WITNESS: Correct, we didn't want to
13 change, we wanted to stay on the same theory of a
14 stovepipe treating all the ranges the same, so you
15 wouldn't have a bypass on one range and not have
16 bypass on the other.

17 BY MR. KATZ:

18 Q Captain Stravers, there is a couple of
19 other things that you are not taking in to account
20 as well, aren't there? For example, when you start
21 with the people who are there on the list in
22 May 2005, we know that a lot of them have left the

2837

1 list even in that two-year period of time, slightly
2 less than two-year period of time, that has taken

3 place, don't we?

4 A Well, we are taking the total number of
5 retirements starting out the year of 2005, and
6 putting them in the range where they would be
7 relative to their own seniority list.

8 Q Let me just focus you on this question.
9 You haven't taken into account the fact that we know
10 many of the people who were actually on the list in
11 May 2005, have left the list through one reason or
12 another as of January 2007, as we are sitting here
13 now?

14 A No, sir. No, sir, we were figuring age 60
15 retirement only.

16 Q And you haven't taken into account, by
17 your last answer, it is clear you haven't taken into
18 account any projection for retirements or leaving
19 the list other than age 60, such as medical
20 retirements, right?

21 A No, we did not.

22 Q Or deaths before age 60?

2838

1 A Correct.

2 Q Or early retirement?

3 A Just age 60 alone, because we felt that
4 would be an equal comparison for both sides. You
5 are using the same comparative information for one
6 group versus another.

7 Q And while you indicated that somebody who
8 is in the furlough range doesn't, who reaches age
9 60, doesn't, what you said was provide for the
10 advancement of someone else on the list --

11 A No, I -- if I am correct, what I stated

12 was it doesn't, a furlough retirement does not
13 provide any advancement for a west pilot.

14 Q Oh, for a west pilot, I see?

15 CHAIRMAN NICOLAU: Yes.

16 BY MR. KATZ:

17 Q But it does provide advancement for
18 people junior to him on the US Airways list?

19 A Yes, it could move him up further up on
20 the furlough list.

21 Q And move him up closer to a captain
22 position during the course of his career, correct?

2839

1 A Yes, since it is stovepipe everyone moves
2 north.

3 Q And in the six years you have indicated
4 here there is something like 1200 USAir pilots who
5 retire from one position or another, thereby moving
6 Mr. Varini at the bottom of the list, 1200 or so
7 numbers closer to captain position, correct?

8 A We did not include the CDL pilots in this
9 analysis.

10 Q Well, whoever the junior pilot is on the
11 list has been moved 1200 numbers forward toward the
12 captain position, right?

13 A Correct.

14 Q One last area, Captain Stravers. Were you
15 here when Rikk Salamat testified, I think it was the
16 middle of December, and explained the computer
17 analysis that his firm has put together?

18 A Yes.

19 Q And his computer analysis assigned a

20 position to each pilot on the list as of July 1,
21 2006, his actual position, and then removed pilots
22 when they reached age 60 from whatever position they
2840

1 held. Is there anything in your analysis that
2 challenges the accuracy of Rikk Salamat's software
3 compared to attrition?

4 A No, sir. We are just trying to show one
5 thing alone on these charts that we are putting
6 here, is that the west retirements primarily come
7 out of the captain range and the east retirements
8 cover the full gamut of the seniority list.

9 MR. KATZ: I have nothing further for
10 Captain Stravers.

11 CHAIRMAN NICOLAU: Lisa?

12 MS. POWELL: I just have a few quick
13 questions.

14 REDIRECT EXAMINATION

15 BY MS. POWELL:

16 Q Just to be clear on that last question,
17 you didn't analyze Mr. Salamat's computer software
18 one way or the other, did you?

19 A No, we only used the two sources of
20 information that I said to construct these charts.

21 Q Now, as we discussed, this chart shows
22 distribution but it doesn't try to make any

2841

1 predictions about where people will actually sit
2 when they retire; is that correct?

3 A No, this is just to show the ranges and
4 not to make projections into the future of where
5 people will sit.

6 Q And so just as it doesn't show other
7 attrition besides age 60 attrition, it also doesn't
8 show a scenario for age 65 if it were to become the
9 law, right?

10 A That is correct.

11 Q And it doesn't show what might happen if
12 there were a deal with Delta and the airline
13 downsized somewhat and perhaps furloughed pilots?

14 A No, we did not use that information.

15 Q And of course it doesn't show what would
16 have happened if America West had continued to grow
17 and US Airways had continued to downsize?

18 A No, this is based on the static fleet.

19 Q And if US Airways had liquidated it
20 doesn't what would have happened in that scenario?

21 A That is correct.

22 Q It is just distribution of retirements?

2842

1 A That is correct.

2 MS. POWELL: That is all I have.

3 MR. KATZ: Nothing further.

4 CHAIRMAN NICOLAU: Thank you, Captain.

5 THE WITNESS: Thank you.

6 CHAIRMAN NICOLAU: I will return as
7 quickly as I can.

8 BY MR. BRUCIA:

9 Q Sorry, Ken. I have got a quick question
10 for you, Ken. We are still on the record.

11 You said you used May '05 PBS data in the
12 analysis.

13 A Yes.

14 Q And used the 0507 bid for the east
15 analysis?

16 A Yes.

17 Q Could you decipher 0507 bid?

18 A That is for February 2006.

19 Q I am glad I asked you to decipher that.
20 Okay, February of 2006. Are either of those in
21 evidence anywhere?

22 A No.

2843

1 MR. BRUCIA: We would like them to be.

2 MS. POWELL: The bids themselves aren't,
3 the numbers --

4 MR. BRUCIA: The numbers are fine.

5 MS. POWELL: -- on the exhibit are
6 produced with the actual list proposal --

7 MR. BRUCIA: Yes.

8 MS. POWELL: -- explaining the ratio
9 construction contains the numbers?

10 MR. BRUCIA: Right, I would like to see
11 the actual basis nor those numbers, the document
12 that those numbers are derived from, in both cases,
13 okay?

14 MS. POWELL: All right.

15 (3:20 p.m. -- recess -- 3:55 p.m.)

16 CHAIRMAN NICOLAU: Okay.

17 Whereupon,

18 RUSSELL PAYNE

19 was called as a witness and, having previously been
20 duly sworn, was examined and testified as follows:

21 DIRECT EXAMINATION

22 BY MR. FREUND:

2844

1 Q You are the same Russ Payne who was here
2 whenever you were last here?

3 A I am.

4 Q Russ, in the US Airways pilots committees'
5 case you heard them question the likelihood or the
6 prospects of the America West fleet increasing to
7 161 aircraft, correct?

8 A Correct.

9 Q And you have already heard and seen
10 evidence from the investor relations reports
11 regarding the size of the fleet, we heard testimony
12 from Mike Shinn about the hiring pool that was
13 created, and the cutting off of that hiring pool and
14 the hiring process just prior to the merger
15 announcement.

16 In addition to ordering aircraft and
17 hiring pilots in anticipation of the quicker growth,
18 what else does an airline have to do to accommodate
19 the growth?

20 A Well, to cover the training growth you
21 need more check airmen.

22 Q I am going to ask you some questions about

2845

1 check airmen. This is not for the purpose of the
2 ongoing exercise we are having about trying to
3 identify who the supervisors are.

4 Can you tell me just in broad base terms
5 how the check airman system works at America West?

6 A Sure, basically when they are looking for
7 additional airmen they will put a notice out for

8 pilots and they have an interview process then if
9 you are accepted, however many they decide to hire
10 you then operate as a check airman under a Letter of
11 Agreement that covers the check airmen, which has
12 its own separate seniority list.

13 Q So, when you come on to the check airman
14 universe you are put on the check airman seniority
15 list, correct?

16 A Correct.

17 Q And when you are removed or released from
18 check airman status you are removed in the check
19 airman, furloughed off of the check airman seniority
20 list?

21 A Yes, you are furloughed from that and then
22 you return as a line pilot.

2846

1 Q Holding your regular seniority?

2 A Yes.

3 CHAIRMAN NICOLAU: I just want to make
4 sure I am following it. When you said put out a
5 notice to pilots, these are pilots that haven't been
6 hired yet?

7 THE WITNESS: No, these are current
8 pilots, because there are some minimums, you have to
9 be on the aircraft for a certain amount of time, you
10 have to be a captain for a certain amount of time.

11 CHAIRMAN NICOLAU: But you used the word
12 hire, which is what confused me. You just mean
13 transferred over?

14 THE WITNESS: Designated as a check airman
15 or selected as a check airman. That is what you are
16 doing. These are not new pilots.

17 MR. BRUCIA: And while we are parsing
18 words, when you said furloughed, you don't really
19 mean furloughed, do you?

20 THE WITNESS: Well, they are. They
21 consider it, as a matter of fact the contract's
22 language covering the check airmen specifically has

2847

1 a section discussing being furloughed from the check
2 airmen seniority list, because that is a separate
3 list, but you are not furloughed to the street, you
4 are just furloughed from the check airmen rank and
5 you go back to being a line pilot.

6 CHAIRMAN NICOLAU: But all this time you
7 have kept your number over here --

8 THE WITNESS: Yes, that does not change.

9 CHAIRMAN NICOLAU: And that is when you go
10 back, okay.

11 THE WITNESS: Yes. None of this affects
12 your normal seniority on the larger seniority list
13 covering all pilots.

14 CHAIRMAN NICOLAU: Okay.

15 BY MR. FREUND:

16 Q I am going to pass out three documents,
17 probably should have, we can put them all under the
18 same tab, 41.

19 Russ, I have just passed out three
20 exhibits, you have them in front of you. I want to
21 look at the one that has the 2-27-04 date on the
22 upper left-hand corner. Is this the Airbus check

2848

1 airman seniority list that was in effect in February

2 of 2004?

3 A Yes, it is.

4 Q And what is it, this sort of --

5 A These are basically the pilots that are
6 designated check airmen with the company on the
7 Airbus, and if you look at that first column you
8 will see that is their check airmen seniority
9 number, or correction, actually the second column is
10 their check airman seniority number.

11 The first column is the bid position on
12 the Airbus, check airman. The third column is their
13 company seniority, which is on the larger seniority
14 list itself. And then, of course, it has their
15 employee number, name, equipment, and also when they
16 did their initial check airman ground school.

17 Q And so this is a seniority list effective
18 February 27th, 2004?

19 A Correct.

20 Q How many names are on it?

21 A 39.

22 Q Now, did the company spool up the Airbus
2849

1 check airmen seniority list in anticipation of the
2 delivery of the additional A320 aircraft?

3 A Yes, they did.

4 Q Look at the second page of the three pages
5 that I gave you, it is one that is dated
6 January 10th, 2005. I take it, it looks to be in
7 the same format, can you just describe it?

8 A Yes, it is similar to the one from 2004,
9 except this one is January 10th, 2005, and you will
10 see they have added an additional eight Airbus check

11 airmen bringing it to a total of 47.

12 Q So, it increased from 39 to 47 over the
13 course of that time period?

14 A That is correct.

15 Q And then finally let's turn to the last
16 page of the three page exhibits, the three pages of
17 exhibits, can you tell me what that is, please?

18 A This is a memo, Flight Standards Memo from
19 Captain Ron Arston, who is the Director of Flight
20 Standards, to pilot timekeeping informing them that
21 they would be furloughing a number of check airmen,
22 and below it has listed the equipment and the names

2850

1 of the check airmen and the effective dates of when
2 they would be furloughed and the date on this
3 document is May 12th, 2005.

4 Q Some seven days before the merger
5 announcement?

6 A That is correct.

7 Q And I think it is intuitive or
8 self-evident, but the names and numbers that appear
9 in the text of the memo, the 320, is that as you
10 understand it referring to A320 check airmen?

11 A Yes, each of the pilots listed under the
12 320, you will find them on the check airmen
13 seniority list. And as you can see, it pretty much
14 works from the bottom up, since they furlough in
15 inverse seniority order, and they are each listed on
16 here. There are a couple exceptions to that, but
17 all of the pilots on this memo are on the Airbus
18 check airman seniority list.

19 Q So, from these documents it appears that
20 between 2004 and 2005 the company increased its A320
21 check airmen by eight check airmen and seven days
22 before the merger was announced, announced a

2851

1 furlough or reduction of A320 check airmen by what
2 is it, 12 check airmen?

3 CHAIRMAN NICOLAU: 12.

4 BY MR. FREUND:

5 Q 12 check airmen?

6 A That is correct.

7 MR. FREUND: I have no further questions.

8 MR. KATZ: I would like to take a
9 five-minute break to talk to my pilots committee.

10 CHAIRMAN NICOLAU: Very good.

11 (4:05 p.m. -- recess -- 4:13 p.m.)

12 CROSS-EXAMINATION

13 BY MR. KATZ:

14 Q These columns here on the charts of check
15 airmen, you understand, Captain Payne, the initial
16 check airman date to mean that -- let's look at the
17 first page, that these people from Mike Deles --

18 A Which sheet are you looking at?

19 Q The first page?

20 A '04 list?

21 CHAIRMAN NICOLAU: Yes.

22 BY MR. KATZ:

2852

1 Q Yes, the '04 list. Mike Deles down to
2 John Middleton, all of them started work with the
3 company as a check airman in the year 2000?

4 MR. GILLEN: Numbers 31 through 38, is
Page 79

5 that where you are referencing?

6 MR. KATZ: Yes, it is. Thank you.

7 THE WITNESS: I believe that is what that
8 would indicate would be the first time they were --

9 BY MR. KATZ:

10 Q Serving as a check airman?

11 A -- serving as a check airman.

12 Q And when you look at their longevity date,
13 it is a check airman longevity date, so is it your
14 understanding that those same people served straight
15 through as check airmen continuously from that date
16 in 2000 until the date this document was issued,
17 February 27, 2004?

18 A That may be. I don't know actually how
19 they determine that column. I don't know what is
20 used to determine that column, but I would assume
21 that is probably correct.

22 Q And the bottom two here, Middleton and

2853

1 Stuart, any guess about why they got kept on and
2 people senior to them got furloughed from check
3 airman positions?

4 A I believe they held other positions other
5 than check airmen.

6 Q Like a management position?

7 A Yes, some type of a management. John
8 Middleton, I know he is a senior, he is Airbus
9 Senior Check Airman, I believe, is his title. So I
10 know he held some other position in addition to just
11 being a check airman. And that may be true with Jay
12 Stuart, but I can't recall what his position was.

13 MR. KATZ: Okay, nothing further.
 14 CHAIRMAN NICOLAU: Nothing else today?
 15 MR. FREUND: That is it for today.
 16 CHAIRMAN NICOLAU: 9:30 tomorrow.
 17 (Whereupon, at 4:16 p.m., the hearing was
 18 recessed, to be reconvened at 9:30 a.m., on January
 19 26, 2007.)
 20
 21
 22
 2854

C O N T E N T S

1		
2		
3	WITNESS	EXAMINATION
4	ROBERT W. MANN, JR.	
5	By Mr. Freund	DX 2752, RDX 2812
6	By Mr. Katz	CX 2788, RCX 2813
7		
8	KENNETH JOHN STRAVERS	
9	By Ms. Powell	DX 2818, RDX 2840
10	By Mr. Katz	CX 2825
11		
12	RUSSELL PAYNE	
13	By Mr. Freund	DX 2843
14	By Mr. Katz	CX 2851
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