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BEFORE THE ALPA ARBITRATION BOARD

- - - - - - - - - - - - - -x
THE CREW MEMBERS OF US :
AIRWAYS :
Plaintiff, :
vs. :
THE CREW MEMBERS OF :
AMERICA WEST AIRLINES :
Defendant. :
- - - - - - - - - - - - - -x

HEARING, VOLUME 17

GEORGE NICOLAU, Chairman
CAPTAIN STEVE GILLEN, Pilot Neutral
CAPTAIN JIM BRUCIA, Pilot Neutral

Washington, D.C.
Friday, January 26, 2007

REPORTED BY:
DONALD R. THACKER

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Hearing before the ALPA Arbitration Board, on Friday, January 26, 2007, in Washington, D.C. at the Mayflower Hotel, 1127 Connecticut Avenue, Northwest, at 9:30 a.m. before DONALD R. THACKER, a Notary Public within and for the District of Columbia, when were present on behalf of the respective parties:

DANIEL M. KATZ, ESQ.

JASON WHITEMAN, ESQ.
Katz & Ranzman
5028 Wisconsin Avenue, Northwest, Suite 250
Washington, D.C. 22036
202-659-4656
danielmkatz@comcast.net
On behalf of US Airways

-- continued --

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APPEARANCES (Continued):

JEFFREY R. FREUND, ESQ.
LISA POWELL, ESQ.
ROGER POLLAK, ESQ.
Bredhoff & Kaiser, PLLC
805 15th Street, Northwest, Suite 1000
Washington, D.C. 20005
202-842-2600
jfreund@bredhoff.com
On behalf of America West Airlines

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P R O C E E D I N G S

CHAIRMAN NICOLAU: Are we ready.

MR. KATZ: Ready.

MR. FREUND: Ready. Before we call our last witness I have got just a couple documents that I want to put into evidence that I don't think really need witness sponsors.

What I am passing out can go behind tab 42, of our exhibits, is Senator Imhoff's Age 65 bill, and attached to it his remarks on introduction of that piece of legislation, that if adopted would raise the mandatory retirement age of pilots from age 60 to age 65.

Behind exhibit or tab 43, Dan and I already talked about their 1, on January 22nd Captain Prater, President of the Association, sent a memo to the ALPA board of directors about a number of things, most of them had no bearing on anything having to do with this case, and some of them were personal observations.

So rather than put the entire document in, Dan and I agreed that what I would do is excerpt the

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portion of his missive, which describes his meeting with FAA Administrator Marion Blakey, and what Ms.

Blakey told him at that meeting, namely that in the middle of the text it says, "She advised me that the FAA will put the current age 60 rule into an internal rule making process at the FAA which will result in a Notice of Proposed Rule Making and PRM sometime during the second half of this year," and goes on to describe what ALPA is going to do in order to kind of gear up for that.

MR. KATZ: I would just note that you ought to mark on the document that it is an excerpt because it was a much longer document and had, as Jeff said, a number of other issues that were discussed, all of which were irrelevant to what we are doing here.

CHAIRMAN NICOLAU: All right.

MR. FREUND: Behind tab 44, is a little study guide. What this document reflects is the relevant portions of ALPA merger policy that were in effect during prior US Airways mergers, seniority integrations. In particular, it reflects the

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evolution of the language in merger policy relating to the use of date of hire as a basis upon which lists could be integrated, and again, it is just for a little self-help for the panel, a little study guide.

CHAIRMAN NICOLAU: It has not changed since '91?

MR. FREUND: The last change with respect to the, anything having to do with ALPA merger policy was -- with anything having to do with date of hire, sorry, there's lots of changes with ALPA merger policy, but nothing has changed in that respect, on the date of hire issue since 1991, correct.

MR. KATZ: I don't have an objection to this. Let me say one thing about No. 44, though. We have a ground rule that says we can submit decisions to the panel, with copies to the other side, and we have done -- we have taken advantage of that and submitted some, we will submit others.

I think that without reading through this right now there may be clarifications or

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supplementations that are apparent from other decisions, and we reserve the right to do that. For example, I know that the Roberts award in the Republic-Northwest case preceded the language that is here, although, I guess it was the 1985 version, must have been modified in 1986, because I see that it is different words than what were applicable in the Northwest-Republic case.

But Tom Roberts sets out what the applicable provisions of the merger policy that apply to his decision were, in his decision. So, when we submit that decision that will supplement this by giving the next earlier ruling. And I think similarly there may be others that representatives of the America West and USAir merger committees may want to point you are attention to, in addition to this.

CHAIRMAN NICOLAU: Tom's award was sometime in '86.

MR. KATZ: Well, the award was in '89. The merger was announced in January '86.

CHAIRMAN NICOLAU: Oh, you are right.

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MR. FREUND: The merger policy that was in effect at the time of the announcement of the merger is what actually applied.

MR. KATZ: That is what we did in the Republic-Northwest case and it was a version that was a booklet that had been prepared in October 1985, and with modifications in 1986 Board of Directors. So it could be that USAir, PSA, and Piedmont-Empire which wasn't an ALPA merge, they may have been under the new policy.

I guess I would argue with the listing of Piedmont-Empire here for a couple of reasons, but those are I think legal arguments that can be made in the briefs rather than taking up valuable hearing time.

CHAIRMAN NICOLAU: Well, we aren't making those arguments now, we are just getting that two-page document.

MR. KATZ: Right.

MR. FREUND: And then we will pass out to the panel and to Dan and Mr. Akins, Exhibit 45 which Mr. Akins will testify to.

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MR. KATZ: For the record we have distributed Volume J which contains two exhibits requested by the Board, computer runs for 2009 and 2014 of the USAir merger committee's proposal.

CHAIRMAN NICOLAU: Okay.
MR. FREUND: Are you ready?
Whereupon,
DANIEL W. AKINS
was called as a witness and, having previously been duly sworn, was examined and testified as follows:
DIRECT EXAMINATION
BY MR. FREUND:
Q Dan, remind us of your name.
A My name is Daniel W. Akins, A-k-i-n-s.
Q Dan in a few minutes I am going to have you run through a set of exhibits, some slides, that you prepared which are now behind tab 45, that represent a run of the US Airways pilots integration proposal through the Pilots Earning Model, but before we run through the slides --
(Discussion off the record.)
BY MR. FREUND:
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Q Dan, before I ask you to go through the slides behind tab 45, since it has been a few days since you testified about what the Pilot Earning Model does, how it works and made sort of the assumptions and the like, just remind us please what it does?
A The PEM earnings model was created, again, in the late '90s, under the idea of presenting a valuation of the franchises for United and US Airways when their merger was proposed. It was to value the jobs that each side brought to the merger, based on the fleet and the fleet forecast for each of the companies. And considering that the main

determinant for the earnings for pilots, not individually but as a group, are the number of aircraft brought by each side into the merger, and the pay rates existing in each carriers' contract.

The main focus of any earnings model is really to look at two different scenarios, one scenario being what would the earnings look like for each franchise, meaning pilot group, under a stand-alone scenario versus what does the earnings

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picture look like for each pilot group on an integrated or merged scenario.

And the components of the PEM model in this case, each situation is a little different, we used on the stand-alone the actual fleets that were announced to be delivered as of the merger date, May 19th, 2005, and the jobs and the pay scales that were appropriate for each carrier, based on contractual rates that were in effect throughout the period.

The models typically, and PEM does this, runs through and assumes retirement date of age 60. We have also, as you will see today, run it through age 65. So it is fairly flexible. And the effect that has essentially is age 60 clears the list, opens up spots. And those spots are taken up by the next most senior pilot in a stovepipe fashion throughout the career of all pilots, and the model runs until the last most youngest pilot retires at age 60 sometime in the future. In this case with age 60 it is the year 2034.

Q In doing the comparisons you have

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described what the fleets and the jobs are on a stand-alone basis. In doing the comparisons what does PEM do with respect to the merged fleets and the merged jobs?

A Right. Again in its inelegant term, the merged fleet is essentially the fleet that actually exists after the corporate merger was announced as of May 19, 2005, which in this case is different than the stand-alone announcement before the merger announcement.

So the fleet actually drops in US Airways case from 270 to around 224 in the merged fleet, and it drops from 270 to 211 aircraft in the stand-alone. The opposite is true with the America West, given that the fleet as of the announcement date in May of 2005 was 144 aircraft, in the stand-alone case it built to 161 aircraft. In the merger fleet, it actually dropped to 133 aircraft.

So on the one hand, the stand-alone, US Airways would have had a smaller fleet, America West could have had a bigger fleet. On the merged America West has a smaller fleet than otherwise and

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US Airways has a bigger fleet than otherwise it would have had. That is the premise on which the model was based.

And I think it was really important to go over with the panel the assumptions that were made in terms of the context of the model, periods of the model that it forecasts, and provision that the model does not in any way reflect a prediction of what an individual pilot would hold at any given time.

Given the nature of the pilot bidding being so subjective that it is virtually impossible to forecast individual pilots, but I think it is a much more confident task to undertake a valuation of the potential earnings of each group, given the jobs and the pay scales that are in place.

Q You may have said it, but just to be clear, in the stand-alone I think you testified that in the stand-alone case you used the contractual pay rates at, that were negotiated and would be in place and then held constant at the last negotiated wage rate through the entire period; is that correct?

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A Yes, yes.

Q And on the merged or integrated case as I understand it, you used in running the PEM model the highest rate from each of the contracts --

A Right.

Q -- and again the ultimate rate held constant until the end of time, without thereby trying to predict either any wage increases that might be negotiated or wage decreases that might be negotiated?

A Right, and we don't know exactly what the wage rates or work rules will be, but we know it will be the same for all pilots once the carrier gets that sorted out, who coincidentally were the people that were sitting next to us in the restaurant last night.

That provision, I think, takes out any sort of guesswork as to the fairness of the merged scenario in that we are assuming that each side gets the benefit of the other carrier's higher rates.

Q In your testimony when you were here with us last time you showed us a number of exhibits

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which demonstrated the effect of the America West pilots' proposed integration methodology on the earnings of the America West pilots and the earnings of the US Airways pilots as compared to what they would have been on a stand-alone basis, correct?

A Yes.

Q So for purposes of today's exercise, did you go through the same or for purposes of today's testimony did you go through the same exercise using the US Airways pilots' proposed integration methodology?

A Yes.

Q Let's take us, why don't you take us through your slides. Obviously page 1 is a cover page. Page 2 is scenario 3, so this I take it is the beginning of the description of the demonstration of the stand-alone earnings of the two pilot groups versus the earnings that would be obtained under the east proposal?

A Right and the reason it is scenario 3 is remember my prior testimony, scenario 1 was a run of each groups, essentially the fleet change and the

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impact in the transition period; the second one was a stand-alone versus a merger earnings prediction, based on the west's proposed integration methodology, and now this one is actually running scenario 3 which is something we haven't looked at before, which is comparing the earnings potential for each group under the east's proposal with their restrictions and their list.

Q Okay, which takes us to page 3, and some of these numbers we have seen before, but why don't you just remind us what they are?

A Right, the two bars on the left represent, this is now for the America West, the west's comparison. So if you take a look on the left-hand side the stand-alone prediction from the last time we looked at these, this would be scenario 2. America West pilots were believed to be able to earn $2.75 billion over the course of the period between May of '05 through the end of '04, when the last pilot retires, so -- I am sorry, May of 2034.

The west proposal here is essentially what would happen under the west proposal where the

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integrated scenario, the merger fleet, compared to the stand-alone. So these two numbers were presented under scenario 2, and that gap represents an increase in America West earnings under the west's proposed integration methodology.

MR. BRUCIA: Excuse me, Jeff. You said 2034, did you mean 2039?

THE WITNESS: Whenever the last pilot retires.

MR. BRUCIA: Right, it is on the bottom. Just making sure.

THE WITNESS: Yes.

MR. FREUND: It is the same run in each --

THE WITNESS: Age 60, 2039, I misspoke.

So the new piece of information here is essentially applying the methodology and the fences that were given us in the west proposal, and that --

BY MR. FREUND:

Q East.

A -- east proposal, and that includes a slightly different list of pilots, and we will get into that later on.

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Under the east's proposal the west would earn significantly less in the integrated scenario versus the stand-alone, which is different from obviously the west proposal, which proposes to create more earnings potential for the west pilots.

Q Let's look at Tab 4, please, or slide 4?

A Slide 4, this is, again, the first two bars moving from the left are bars that we have seen in scenario No. 2 presented earlier. The stand-alone case for the east, again given the east pay rates in the contract and the east fleet that we assumed would be at 211 aircraft, would be $3.5 billion over the period of time from May '05 until 2039.

The west proposal would in fact create more value under the scenarios that we have put forth under scenario 2 of about $270 million. And the results would predict an earnings potential of about $3.77 billion in the west's proposed integration methodology.

So again, we talked about this earlier, but this is the pareto optimal result. This is

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benefiting both sides by virtue of the merger, and the reasons why this exists is mainly based on their opportunities for increased earnings presented by each side to the other. And what I mean by that is, of course, the America West pay rates for the vast majority of the aircraft that are flown by the east pilots are higher. There is a benefit there of several hundred million dollars.

There is a benefit to the west pilots in that the east holds aircraft that the west do not operate, that is a larger piece of equipment that pays more and flies international routes. So there is a benefit from the east to get higher pay rates essentially and a benefit to the west to hold seats in bigger equipment that pay higher than the biggest piece of equipment that the west now holds.

So, those are the two impacts that our integration methodology, being the west's integration methodology extracts and, therefore, both pilots groups benefits versus the stand-alone.

Q The last bar on this page, on page 4, is the effect on the east pilots from the operation of

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the east proposal; is that right?

A Right, and that would be different again, because the fleets are a different, the -- not in our scenario, the fleets aren't different in our scenario. The number of pilots are slightly different, and the position on the list and their ability to bid for higher jobs, with the fences is different, so that there is a bigger benefit to the east pilots versus the stand-alone than under our proposal.

And the next page, page 5 essentially measures those gaps. First this is an exact copy of one of the slides that we saw under scenario 2 which simply shows under the west's proposal the west is benefited an estimated $107 million versus stand-alone by virtue of our integration technique and proposal. The east is benefited about $271 million. We have seen it before.

Q So that is what you just described as the pareto optimal --

A Right.

Q -- result of the west proposal. Page 6 is

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what?

A Page 6 then takes that same analysis and measures the differences between the east proposal, an integrated scenario, versus the stand-alone scenario. And of course we see that under the east proposal, the west is made worse off by around $286 million and the east pilots are better off in the stand-alone case by around $695 million.

This is again with age 60 being the retirement date and all the fences and conditions and restrictions.

Q Now, before we turn over to the next

little section of your presentation, I guess it is fair to say that the conclusion one draws from this is that under the PEM analysis the west proposal benefits both pilot groups, the east proposal disadvantages the west pilot group and super advantages the east pilot group, right?

A Yes, that is the prediction for the group, and this again would not be a pareto optimal result. Within that nest of west pilots there may be some pilots who actually benefit and some east pilots who

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disbenefit, but overall the groups, one group benefits while the other group disbenefits from the integration proposal.

Q I asked you, I think, I not only think, I know, I asked you to look at the earnings changes over time, since this is a stream, the net present value measures a stream of earnings over a long period of time, correct?

A Yes.

Q Does your next set of slides begin to describe that?

A Right, and again if you look at the way the model analyzes data, it is done on a monthly basis, summed to a nominal annual figure. I take those figures and apply the net present value of 3 percent, and discount it back essentially to the announcement in May 2005, so we get sort of a picture of what the values are in the future as of May 2005.

However each of those values is collected in a number of ways, and one of the ways that we were able to collect it, obviously, is the net

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present value in each of the years going forward. And that is what this analysis does. It simply takes the dollars that we have seen in these larger buckets at the end of the day and spread them out over the number of years in which they are paid.

Q Each one, nevertheless, being net present value?

A Right.

Q Okay. And would you agree with the proposition that whatever risks there are in trying to predict the future, the risks are greater the farther out you go into the future?

A Yes, in any sort of forecasting endeavor, the more near term, the closer to reality the likelihood of that forecast is. I have done a number of forecasts for airports and airlines about traffic and it is much more confident to predict next years traffic than it is five years from now.

In fact, I have seen a number of cases in bankruptcy courts where the companies are pretty much put in business fast forward by saying we think this is going to happen, but the likelihood of these

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conditions existing in the future are subject to a number of changes beyond our control.

So when you look at these forecasts again, in the real world, is the A330 going to be flown by the youngest pilot at age 60 as a captain? No, it will be the A335, derivative B, that also goes, you know, interplanetary. Essentially we can't sort of forecast that level of detail.

So, again this is essentially taking what we know today and forecasting out into the future. What we know with today and tomorrow is a little bit better than what we know about today and 30 years from now. So again, the premise being that forecasting is subject to risk and the risks are growing over time the further out the forecasts go; the variability gets greater.

Q With that in mind, the next set of slides I found I don't want to say complicated, but even though there is only a couple of lines on each of them they are busy, they are busy with information.

A Right.

Q So if you could work us through slide 8

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first in some detail and then that will help us understand the rest of the slides?

A Right, if you take a look at slide 8 of the next 10 slides or eight slides look a lot like this, essentially on the left hand side we have got the annualized net present value earnings generated by the stand-alone in the PEM model stand-alone case. The blue line always being east and red line always being west. And you notice at the bottom it stretches from 2005 to 2039.

What you will notice also about all of these lines that is there is a distinct jump from 2005 to the beginning point in 2006, and a slope downward from 2007 to 2039. The jump up is essentially the period of time in which the 2005 did not include a full year, was starting at May. So in order to run the model through the transition period, we don't have that full year of 2005, hence that number is less than 2006 or '07. So that is sort of what you are going to see in all of these charts. But really the full year, the first full year is 2006.

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And you can see for a number of reasons the slope goes down, one of which is the discounting; that a year in the future is discounted by several more years than a year nearer term. So for instance the 2026 is discounted by 20 years of 3 percent valuations, and that would create a negative slope, and that is what you will see throughout the exhibits.

Q The other reason it is going down is that pilots are peeling off of the seniority list --

A Right.

Q -- because they are attaining age 60, right?

A Right, the pool of pilots flying is getting less. And again, the model's assumption is that if there is a job left behind by a pilot who just moved up, that job isn't filled or counted as a predictor of earnings for the groups here today.

Q And just to pick up on the point that you have made at the very beginning, and that you have said a couple times, PEM is running and calculating essentially every day from May 19th, 2005 to the, I

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don't want to say the end of time, but until the last pilot hits age 65, right?

A Age 60.

Q I am sorry, age 60, right.

So with that as an explanation, slide 8 may be entirely intuitive but why don't you just describe for us what the data tells us.

A I didn't want to make it any harder on our eyes so I decided that in order to make the conclusion slide a little bit easier to read I decided to put the integrated analysis of annual earnings each year into dots, so you can compare. Any line that is solid is a stand-alone, any line that is dotted is an integrated proposal. This happens to be the annual earnings generated by PEM for each year under the west's proposal.

Q Slide 9?

A Slide 9, sorry. The integrated annual earnings back to net present value 2005. And you can see just looking at it, it looks fairly similar to the previous slide, but the next slide actually compares it on an annual basis, the earnings

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differential by year of the stand-alone versus the integrate the earnings. And you can see then --

Q When you say the next slide, just so the record is clear, we are looking at slide 10?

A Slide 10. And as the title indicates, this is, the solid lines being the stand-alone case, blue being east, red being west; versus the west proposed integration methodology which is the dotted line.

And you can see essentially where the sort of net present value benefit to each side is generated; the blue line is above the stand-alone, the dotted blue line representing integrated east earnings potential, is above the solid blue line for the next about 10 years, from 2006 to about 2017.

And that largely is generated by a number of factors, one being a larger fleet for US Airways than in the stand-alone, the other being higher pay rates in the integrated merged scenario. And again it is really an important factor to note that the US Airways fleet is largely made up of those types of aircraft which would benefit from higher pay.

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On the other hand you have got the red line in the bottom being representing the west stand-alone versus the dotted red line representing the west proposed integrated earnings, and you can see that the gap between the dotted line and the solid red line is a little about bit less.

It occurs during the same period of time and I would assume again that one of the drivers for this is that under our scenario the stand-alone fleet and the merger fleet are a little different, and the pay represented by the larger pieces of equipment at US Airways, benefits the America West pilots during the first 10 years.

And again, you have got pilots retiring throughout this period so these lines are all slanting from the left down to the right until the time when no current pilot is under age 60.

Q Consistent with what you told me before about your confidence of predicting farther out in the future than closer in time, would it be fair to say that you are more confident about the numbers in 2008 and 2009 than you are about the numbers in 2018

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and 2019?

A Yes, absolutely.

Q When I say confident, I don't mean your confidence in the math but your confidence in the world looking like the world looks like today?

A Right.

Q So then let's look at slide 11, and help us understand what we are seeing here?

A Well, slide 11 is a visual representation of the gaps between the dotted blue line on slide 10 and the solid blue line as well as the dotted red line and the solid red line.

So if you look at the gaps in the years that they occur, this is how the benefit to each side or the disbenefit is measured on an annual basis. That is, the zero line, if the blue line here representing the east differential between stand-alone and integrated, if that were a course right across the zero line that would represent that the integrated valuation is exactly the same as the stand-alone.

Any year in which the blue line or the red

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line is above the zero line means that the integrated scenario actually produces more earnings for that particular group. Anytime it is below it means the integrated list produces less earnings than would otherwise happen under the stand-alone.

Q And it may be evident from looking at the slides, but just so the record reflects what they say, show, could you tell us, please?

A You can see that for the period between 2006 and 2016, which is corresponding to the period in the previous chart where the dotted blue line is well above the solid blue line, the US Airways pilots on a stand-alone basis versus integrated, are better off under the integrated case by about $30 million net present value each year for about the next 10 years.

The red line under the west's proposal represents the west's earnings differential between integrated and stand-alone, and you can see for the first two or three years the west pilots are actually worse off than under a stand-alone, largely because of the smaller fleet, and then they are

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better off for a period of about the next 10 years.

And then you can see that there is a sort of tailing off in which the America West pilots actually benefit from the year 2020 to about 2036, and there is sort of a spike at around 2022 for the US Airways pilots. But the size of those lines again being representative of the diminishing number of pilots and also diminishing earnings power of those pilots as well as the net present value.

So this to me, if you add this valuation up and look at where the majority of earnings for either side occur, it is in the next 10 years. Which, again, in the scenario that we talked about being more confident about the next 10 years than we are about the next 20 years, it is more important, I think, to value what the model is predicting in the short term rather than something way out there.

So, if we had for instance an offset that the blue or the red line were greatly benefiting or disbenefiting in the near term, but out somewhere in the future we had great big benefits for pilots, I would be less certain about those benefits actually

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accruing out into the future rather than what is accruing in the next five to 10 years.

Q Well, look at some slices of time again later on, this just shows it as a continuum.

Now, slide 12 is the beginning of the process again, as I understand it?

A Right.

Q Using this time the east proposal, is that right?

A Right, and again, without repeating the same slide, we are looking at the east proposal, dotted lines under their integration proposal, versus slide number 8, which is the stand-alone earnings under the PEM model.

So again, we can see that there is a spike up from 2005 through 2006 and '07, representing the partial years of the operation in May 2005, and then you can see again that the dotted line for the east and west both trail off and it is really kind of hard to look at this slide and see any kind of context versus the stand-alone until we turn to slide 13 where it is pretty apparent what is going

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on, and why in the summary slide I show that there was a disbenefit under the east proposed integration methodology for the west pilots. And that occurs in about the first 10 years where you can see the dotted line on slide 13 for the red is below the solid red line which represents stand-alone earnings.

Q So I am sorry, we were looking at slide 13?

A Right.

Q And again, just to repeat the solid lines are stand-alone numbers and dotted lines are the consequence to the --

A Integrated.

Q -- consequence to the east pilots and west pilots respectively from the east's proposed seniority integration?

A Yes, right. You can again see in the near term under their proposal the US Airways pilots essentially having a net present value earnings of around $250 million in 2007, would jump to around $300 million and stay close to $300 million,

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dropping down to 250 and then to $200 million by say in the next 10 years to 2017.

However, the stand-alone case is much lower than that. And this is where the majority of the earnings under the east proposed integrated methodology really kicks in. This is where the majority of those earnings actually accrue. And you can see that the majority of the disbenefits to the west pilots occur during the first eight to 10 years of their proposal.

Q It looks to me on this slide, and maybe we will be able to see better on some subsequent slides, but it looks to me on this slide, that through the entire run of the model under the east's proposal the east benefits as against the stand-alone, and the west disbenefits or loses as against the stand-alone?

A Yes, that is correct.

Q Slide 14, you have described what this slide, what the subject of this slide is when you described the west side, the west's proposal. What is this showing for the east's proposal?

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A This is the same analysis that we saw in slide 11 for the west, this is now the east. And again it is measuring the gaps between the dotted lines on the previous page, slide 13, and the solid lines representing the gap between the stand-alone and the integrated earnings.

Any time a line is above zero it means that the integrated proposal from the east is providing benefits from the integrated scenario versus the stand-alone. Any time it is below there is a disbenefit.

And you can see that this chart shows pretty dramatic increases in the east's earnings potential in the first 10 years, versus the stand-alone, upwards of 70, $80 million for about the first 10 years, dropping to about $20 million. And you can see the red line is well below the position of earnings that the west pilots would have, especially in the first 10 years.

So again, the first 10 years being the most easily forecast, with the current fleets, current pay scales, et cetera, under the east's

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proposal there are dramatic increases for the east's pilots, and just the opposite dramatic decreases for the west's pilots.

Q The next set of slides I think or next two slides try to chop these time periods that we have seen into smaller more manageable periods, is that right?

A Yes. And again, you know, given the presumption that the nearer term is the more certain element here, and the far out terms are less certain and more variable, I cut the net present value that we saw, the differentials that we saw on slide 11 and on the previous slide, slide 14, into five-year sort of chunks, so we could look at the total valuation differences going forward into the future in five-year increments.

The first increment is the 2008-2012 increment shown on slide 15. And, again this is under the west's proposal. This is taking data from slide 11, and looking at it in terms of the total dollars differential between the integrated scenario and the stand-alone under the west's proposal for

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each side.

Again the first chunk is 2008-2012 period, $36 million of benefits to the west, net present value, $148 million to the east. That is by far the biggest benefits to the east pilots in the first five years.

Move out again 2013 to 2017, $59 million benefit for the west. Again, a further out period a little bit larger benefit but it is still not as big a benefit as for the east, and then you see how the benefits or disbenefits sort of taper off, again according to net present values, and the smaller number of pilots working out into the future.

Q And flipping to slide 16, is that the same five-year slice analysis for the east's proposal?

A Yes, it is, and again it is looking at the first five years, 2008-2012, $175 million disbenefit to the west pilots under the east proposed integration methodology versus the west stand-alone, and $369 million of potential earnings increase with the east's proposal for the east pilots in the first five years.

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And you can see it is about double what the US Airways pilots would earn under their own proposal in the next five-year increment versus their stand-alone predicament; and $59 million negative for the west. So, going forward in time the effect of the net present valuing as well as the smaller group of pilots that are able to fly under age 60, you can see that the biggest differentials, by far the majority of the valuation differences occur in the first five to 10 years under either scenario.

Q Dan, as you know, there has been a fair amount of public discussion, at least within the small universe of people who are following the airline industry, about moving the mandatory retirement age from age 60 to age 65. I assume you are familiar with that discussion?

A Yes, it has been going on.

Q I am not going to ask you for your prediction about how that is going to ultimately turn out, but I am going to ask you for your prediction about what that change would do, if it

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were adopted, on the earnings models and the earnings potential of the pilot groups under the respective east and west proposals. Does the next set of slides address that subject?

A Yes.

Q Turning to slide 18, please. For these slides you didn't go through the full, you haven't depicted here the full exercise that you depicted in the earlier slides?

A No, no.

Q But the exercise process to get to this point was the same; is that right?

A Yes.

Q So take us through slide 18, please?

A Again, concentrating on the left-hand side, the right hand bars again, what this is, is a representation of the stand-alone earnings for west, the integrated proposal under the west side's proposal, and then the value of earnings on the west, given the east proposal. And again these are values that we have seen before in previous slides. This is just a representation of the age 60

2913

valuations under the west stand-alone, the west integrated under the west proposal, and the west integrated under the east proposal, all with age 60 being determination of the attrition of the pilots.

Q This is all effects on west pilots, correct?

A Right.

Q And the numbers speak for themselves, but why don't you just highlight a couple of points?

A Well, on the right hand side we have now age 65 running the same scenarios, essentially what would the west pilots earnings on a stand-alone basis under PEM with all of the assumptions we have already discussed be, as of net present value May 2005?

Now, again, this is not as the title would suggest 2005 to 2039, it is an additional five years, because that last guy now has an additional five years of earnings potential.

But the first slide represents the stand-alone earnings at age 65 for the west, of $3.39 billion dollars.

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Q Versus the stand-alone at age 60 which would have been 2.75?

A Right. So, there is a fairly significant increase. The west proposal under age 65 on the west pilots would again be a little bit higher 3.47 billion over the course of the next say 35 years versus on the left-hand side 2.86. So there is an increase, because people are earning five years longer, every person, every pilot is staying in their seat or moving through the progression five years longer than they would otherwise have. And that represents essentially five years more earnings power under the west's proposal for the west pilots.

Now, if you look at the east's proposal, on the west pilots, you can again see that it is $2.64 billion comparing it to the east's proposal with age 60, 2.46, there is again a corresponding increase in the value as a result of working five more years.

But what I want to focus on, the last chart of this series focuses on the difference between the age 60 stand-alones versus integrated,

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and the age 65 stand-alone versus integrated, and we will see there are some impacts that I think we can understands intuitively here.

But, running the model, the results are really dependent on whether we are talking about the differential between stand-alone and integrated at age 60 or the difference between stand-alone and integrated at age 65, given each side's integration proposals.

Q Before you get to the last slide I think we have to go through slide 19?

A Right, I jumped ahead. But that is sort of the key is to look at what are the gaps between stand-alone and integrated on the left side of the charts, and what are the gaps between stand-alone and integrated on the right side of the charts.

Q So, slide 19 please?

A Slide 19 is again the blue bars on the left representing the east stand-alone values that we have already seen; first being the stand-alone of 3.5 billion, under the PEM analysis and assumptions. West proposal for the east 3.77, east proposal for

2916

the east going through PEM that we have already seen, 4.19. Now, looking at the right-hand side stand-alone jumps to 4.19 on the age 65.

Q As compared to the 3.50?

A Right. The west's proposal is 4.54 and then the east proposal -- the west's proposal with age 65 increases the overall pilot earnings to $5.54 billion. The east proposal with the age 65 increases the total earnings to that pilot group to 5.5 billion.

Q Again, this is the east pilot group we are looking at?

A Right.

MR. KATZ: You said 5.54.

THE WITNESS: 5.50.

MR. KATZ: The number you gave before --

THE WITNESS: Sorry 4.54.

BY MR. FREUND:

Q Slide 20, please.

A 20 then looks at the change in earnings under the west's proposal with age 65 retirement.

So the change in earnings between

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stand-alone and integrated, under the age 60 for the west was around $107 million. Again, same scenario, age 60 versus age 65, our earnings drop off a little bit with age 65, that is the gap between stand-alone and integrated.

However, theirs increases, when you run it on age 65, from around 271 to 353. And so again, this is measuring that difference on the right-hand side from the west's proposal, on the east pilots as well as the west pilots. And you can see under the age 65 again, this condition of describe as pareto optimal still exists. However, the east group benefits a little bit more.

Q Now, the last slide in the series is slide 21, and this I take it is the effect on earnings to the west pilots and the east pilots from going to age 65 under the east's proposal?

A Right.

Q It is self evident but tell us what it shows?

A Again we are looking at the difference between stand-alone and integrated with age 65 being

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the change here. And we saw in the previous slides I think it is slide 6, that under the east proposal with age 60 retirement the west would disbenefit, according to PEM by about $286 million and with age

65 the west would disbenefit more, about $745 million.

On the other hand east pilots under age 60 would benefit under the integrated scenario that the east proposed $695 million dollars. When you move that age limit up to 65 it almost doubles to $1.319 billion dollars.

So there is a significant change --

Q 1.313, I think?

A Right. There is a significant change. The negatives for west get more negative, the positives for east get more positive under age 65, and I think to sort of understand this, I think looking at the granular impact in the model you have essentially got very senior US Airways pilots staying in wide body positions much longer and sort of preventing America West pilots from getting into those seats.

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And again, if you think about the major benefits in terms of monetary value, between the two pilot groups, those seats, those wide body seats are the most important benefit to the America West pilots, and if they are prevented because pilots are staying in those seats that much longer from attaining those seats, it could would cause their disbenefits to exaggerate. Conversely, the pilots who are staying in those wide body seats for US Airways would be earning quite a bit more if they were able to stay in those wide body seats for five more years.

So it is almost like a prevent defense that age 65 allows the east side to hold the wide body seats which are the major benefit to the west pilots.

Q And on the flip side, the benefit to the east pilots is the, is longer earning power at the significantly higher wide body wage rates?

A Right, again that is a majority of their people, so instead of earning higher wage rates for the next 30 years they can earn higher wage rates

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for the next 35 years. Again it also runs all the furlough people through that scenario, too, so the furlough people are able to earn five years more than they otherwise would at those higher paid levels than the narrow bodies.

Q Next set of slides are headed by a question that it is possible that the panel might be asking, namely Why Are the Results of the PEM Model Different From the Results of Mr. Salamat's Merger Tool Model. Are you prepared to walk us through that?

A Yes, I think we talked a little bit about some of the things but I think, just in general, as I mentioned earlier, the assumptions are the key to understanding the value of the outputs. If you really don't have a solid bedrock foundation for the assumptions then the outputs are really sort of questionable; what are fleets, what is the pay, how many pilot jobs and so forth.

One of the variables that we have talked about here is the assumption by Mr. Salamat in using

the higher America West pay rates --
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Q Let me stop you here for a moment. We won't pin the assumptions on Mr. Salamat. Mr. Salamat ran the assumptions that other people gave him, so--
MR. SALAMAT: You can pin it on me, I don't mind.
BY MR. FREUND:
Q So let's call them the east pilot assumptions.
A The east pilot assumptions, okay. The east pilot assumptions assume that the west's higher pay would exist on a stand-alone basis. And that has, you know, I have calculated the several hundred million dollars of benefit that Mr. Salamat's model doesn't include as a benefit to the US Airways pilots simply because it is in the stand-alone and it is in the integrated case.
Under the PEM analysis the stand-alones are based on the contractual rates that are effective under each pilots individual separate collective bargaining agreement. The integrated list, on the other hand, combines the two and we
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compare the stand-alone pay with the higher of the two.
Q You have jumped to slide 24, so let's look at slide 23 because I think it actually takes the differences --
A Right.

Q -- in not necessarily in order of importance, but in order.
A Right. Well, the first thing is we have modeled significantly different periods, and by that I mean the next few years are the most important in terms of the valuation that we have seen. So we are beginning January 1st of '08, using assumptions that were geared toward May of '05. Mr. Salamat, on the other hand, uses a period predicting forward from July 1st of '07, using modeling assumptions based in July of '06.
Q Doesn't PEM also actually start adding the dollars up from May 19, 2005 as opposed to the Merger Tool?
A Right. There is this transition piece that, you know, was the historical piece that is the

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gap between May 2005 and January 1, 2008, and that is a separate unintegrated piece of forecasted earnings that we have in our model that the east side's model doesn't include.
So there are some differences in the first couple of years. However, Mr. Salamat retirement date at age 60 is the same as ours. So when you get out toward the tail end, the end of the models are the same. But again, if you saw the previous slides the most important differentials in earnings occur in the near term, not out at the end of the model. So it is really important to understand that.
The other difference is that our fleet scenarios differ between what we have assumed as America West stand-alone fleet and the east side's

stand-alone fleet, and that would be a difference in stand-alone of 161 aircraft for the west and 211 for the east on a stand-alone basis.

So the scenarios are different. Mr. Salamat uses the same fleet for both the stand-alone as well as the integrated model; we use different fleets.

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Q Then on page 24 you already started telling us about wage rates and you may have actually told us all that you need to tell us about wage rates, but if there is anything more that you want to add on to the wage rates differentials, tell us?

A Well, I think the main thing here is that the model that was presented, I guess three weeks ago, two weeks ago by the east pilots, had that assumption of the narrow body pay at the America West rates on the stand-alone.

What was presented this week in rebuttal is something a little bit different than that which is using another carrier's wage rates, ostensibly to take out some of the impacts of wage on earnings generation in their model, which I think actually has the opposite effect. It actually generates and exacerbates differences for the west and minimizes benefits to the east.

Q Which are going to come to that in the next sit of slides, but let's also take a look at the last point on page 24 which is the treatment of

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CEL pilots.

A Right. There are about I think 106 pilots which the PEM analysis does not include in either. These are east pilots, regional pilots that are on the list provided to the panel and to our side from the east's proposed integration methodology, that we don't include on any of our analysis.

There is 106 of these guys that we simply strip out of the analysis. So their earnings power and their potential earnings, again from looking at the way the model runs the stovepiping on both sides, these pilots eventually hold, if they are young enough, A330 captaincies.

So we are taking regional pilots and putting them into seats at some point in their career that we don't consider even available to them, so we are taking them off. So there is, I would say there is tens of millions of dollars differential based on that.

Q Interestingly, this is my take on it, and tell me if I am right or wrong, had PEM run the CEL pilots through the analysis, given where the CEL

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pilots started, is it likely that the integrated versus stand-alone value for the east pilots in total, that would have indeed been higher?

A Yes, I believe it would.

So the next group of slides really deal with not so much the difference between PEM and Mr. Salamat's Merger Tool Model, but really this placement of another carrier's wage rates into the analysis.

Q Yes. Let's remind the panel, if they don't already recall, that in Mr. Kirch's testimony and the analysis that we saw a couple days ago, instead of using contractual wage rates for either stand-alone or integrated, the east pilots chose to use United Airlines wage rates, correct?

A Right.

MR. KATZ: We object to this entire section on United pay rates, Mr. Nicolau. It is all beyond the scope of what is provided for in the ground rules, rebuttal testimony, which was supposed to respond to something in our direct case. Instead this responds to something in our rebuttal case, and

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it is, therefore, surrebuttal testimony which is not provided for in the rules.

CHAIRMAN NICOLAU: I am sorry, I want to hear it.

MR. KATZ: Well, I think the --

CHAIRMAN NICOLAU: Look at the last rule, okay.

MR. KATZ: It does say unless the chairman otherwise provides. But I think that in fairness we should have the opportunity for surrebuttal evidence, as well.

CHAIRMAN NICOLAU: Well, if you feel the charts are inaccurate let me know, okay.

MR. KATZ: All right.

BY MR. FREUND:

Q So slide 25 is a fairly bold statement?

A Right.

Q Does that represent your view?

A Yes, that the attempt by the east pilots to model and neutralize wages has really the opposite effect, exaggerates differences in the earnings potential between integrated and

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stand-alone for either side.

It makes us look like we are much better off than actual, and them not as well off as they would actually be. And actually, describing what I am trying to, the actual case I am trying to describe is using the carrier's existing pay rates, not United's.

Q Okay. Why don't you walk us through why you are prepared to make that bold statement, which I might make bolder if I was sitting in your chair?

A Okay. So really, you know, I am not sure why United was chosen as a neutralizing agent, but the wage rate differentials between United and the actual pay at either of these carriers, America West and US Airways, has a great deal to bear upon what I just said in this previous statement.

And that is that if you look at the next slide, and I think this tells pretty much everything there is to know about the application problems with United instead of either America West or US Airways existing pay rates.

Again, the models that we have run so far,

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excluding this particular one, United, measured the differences in earnings using the actual pay rates on a stand-alone basis from either carrier. And if you look at the bottom line on the left-hand side, it should be blue, I think it is maybe purple, east narrow bodies, you can see that is the lowest line on the graph. And this represents the pay per hour by pay scale step for captains on the east side's narrow bodies, A320s and 737 pay rates.

And if you look at the west narrow body, just above it, the red line, that represents the actual effective January 1st, 2007 west pay rates for narrow bodies, for captains. The difference between the east narrow body and the west narrow body is essentially that benefit that I was talking about, that benefit being for an east pilot to fly the same piece of equipment, same routes and earn significantly higher pay. That generates hundreds of millions of dollars of net present value that will be attained when the pay rates for the east are paid at the west rates.

Those rates in the stand-alone on our

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modeling are different. The narrow bodies for the east run at the stand-alone for the east, are at the blue line, the narrow bodies for the west on the stand-alone are at the red line. However, when we run the integrated scenario we take into account that there has been a shift, that the pay rates will be unified and that the benefits of the higher pay rates for the narrow bodies will accrue to the east side.

Now, if you look at the opposite side, the east aircraft being the east wide bodies, the dot that goes through the sort of the middle of the page, that is the pay rate for the A330 wide body equipment that the east pilots have in their contract. And the big benefit for the west, again, outside of fleet changes, is that the west pilots from the narrow body, when they are able to move up and hold a position in the integrated case, they will jump pay by about $25 from the narrow body equipment at some point in their career to the east wide body equipment.

Now, again that gap is the up side for the

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west. The gap between the blue line and the black line is the up side, or the blue line and the red line, is the up side for the east pilots.

But again remember that there are several thousand first officers and captains that are flying the A320s, and 737 on the east. So even though the gap is smaller the effect is much bigger than the few pilot jobs that are available at the east, given the wide body pay. So there is a bigger jump but the opportunities to holds those positions are much smaller.

Now, I want to concentrate on what happens when you take out the actual pay rates and just substitute in, on a modeling sense, the United pay rates.

Q Still on 26?

A Still on 26. Now, what happens on the east side is that you can see on a stand-alone as well as an integrated basis they assume that black line, which essentially eliminates the benefit that they would get from jumping from a stand-alone from the blue line to an integrated to the red line.

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They actually move from the blue line stand-alone to the black line United pay rate, so they get an assumption that the pay rates in the stand-alone model are United's which are higher than theirs, and we will see why that is important, because it eliminates all of that up side from the stand-alone case to the integrated case for the east. Again, it is several hundred million dollars in benefit.

If you were to measure again the benefits that the west pilots get, again it is that red line and the dashed purple line. If you now look at what United at the very top of the page, the United wide bodies, the gap now from the dotted black line to the red line is much, much bigger than the red line to the America West -- to the east wide bodies.

What you have done is you have extended out the up side pay potential for the west pilots, and sort of eliminated the up side pay potential for the east side pilots because you are running a stand-alone scenario with United as well as the integrated scenario with United, which again

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eliminates that increase, that big jump in pay for the narrow body pilots. And, you have extended the difference between the America West narrow body captains down from the red line to the black line, and now you are measuring from the black line to the dotted black line.

So you have pushed the rates down and then you are measuring up to a much higher peak. So that gap is around $50 versus an actual gap in the 20s so. What that has the effect of is once you integrate, again the America West guys don't have wide bodies, the up side to them is to get into those wide body seats, and if you pay at United's pay rates that effect is much greater than paying at the US Airways rates.

So, again we have eliminated the up side for the east from narrow body pay and we have greatly extended the increase in up side to the west narrow body guys going to the wide bodies.

Q When you say we, you don't mean we, you mean they?

A They, we are looking at this together, I

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mean we.

CHAIRMAN NICOLAU: Before we go to the next chart let's take a break, okay.

(10:45 a.m. -- recess -- 10:57 a.m.)

CHAIRMAN NICOLAU: The Board is not going to consider any testimony or exhibits about United rates or their effect from either side.

So if you have any questions other than that for Mr. Akins, you may ask them, if not well turn him over for cross-examination.

MR. FREUND: When you say from either side, if I understand that ruling, would mean that you would be discounting the entire Merger Tool presentation that the east pilots presented that used the United rates.

CHAIRMAN NICOLAU: You heard us correctly.

MR. FREUND: Thank you. Then I have no -- I do have some further questions of Mr. Akins that don't relate to the United rates. I shouldn't say that, but they don't relate to this part of the United rates.

CHAIRMAN NICOLAU: What? I didn't hear

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that.

MR. FREUND: They -- I will be using the word United rates in my question but it doesn't relate to the issue that we have just been spending our time on.

CHAIRMAN NICOLAU: We will give it a try and see what happens.

BY MR. FREUND:

Q Okay. I think you will find it okay.

In Captain Kirch's testimony the other day in explaining why he used, why the east used the United rates, or more to the point, why they used rates that were not the rates of the respective carriers that were actually involved in this integration, he said and I am quoting from the transcript, "As I mentioned before, the purpose of these models that look out into the future is to assess how the merged list is going to allocate jobs. If the -- well, I won't say the intent, but if you don't take into account the relative value of the jobs, in other words, their pay differences as the pilots would look at the value, you will -- you

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won't get an accurate, you will minimize the effect of premium jobs."

Now, as I understood what Captain Kirch was trying to tell us at that point was that one of, if not the exclusive purpose of the Merger Tool was to look at the allocation of jobs, allocation of pilots among the pilot jobs, and that one needed to rank the jobs in the way in which a pilot would see them in order to figure out which pilot was going to move into which job.

Do you need to use any wage rates at all if you are going to determine how pilots would move from one job to another?

A No, it would be sort of external to what we have presented. It would be using the internal position information. You could either zero out or pay everybody a dollar. And if you are really looking at position they would hold, I think it jumps the sort of test that I would have for whether or not any sort of pilot earnings model could predict in the future, which positions a pilot, an individual pilot would actually hold.

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Again, our premise is that we are looking at the value of the franchise and the optimal value of the franchise as being pilots would hold the highest paid equipment they could possibly hold. In reality that is not case for a number of reasons.

So, again, looking out there and saying someone in 2025 would hold an A330 captain seat but because someone else is in that spot they can't for three years, is kind of engaging I think in a fantasy that says we can predict where an individual pilot would be, because looking at today's model, we couldn't predict that using the model; it is too subjective.

Q One other subject I want to touch on before I turn you over to Dan's tender mercies, we have spent a fair amount of time in this proceeding looking at earnings under different scenarios. The Merger Tool produces some earnings numbers, we have gone through why it is we think the PEM is a better descriptor of group earnings.

But, lost in the shuffle, at least a little bit in our discussion, is one portion of the

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Merger Tool output that purports to describe how much time delay an east pilot would have getting to captain, that is wide body captain, on the basis of one scenario, one integration theory as opposed to another one. Conversely, how more quickly a west pilot would get to captain or wide body captain under one or the other of the scenarios.

Given what you know about the inputs into the Merger Tool model what is your view of the validity of the outputs it produces on those subjects?

A Well, I think given that the pilot jobs are created by the number of seats that are available which is inextricably linked to the number of airplanes that are flown on either side, the ability for someone to move into or hold a position with different fleet sizes is really a critical assumption; that if you are assuming that under a stand-alone fleet of X is the same fleet as under integrated scenario, but we actually know that under stand-alone the fleet wouldn't be X, it would be Y, and that you have to take into account that there is

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a difference in the ability to hold a position for any pilot based on the number of aircraft seats that are available under each scenario. And I think to hold constant that job level as created by the number of aircraft on each side's fleet is an error, given what we know about the differing fleet assumptions as of May 2005.

US Airways would have a much smaller fleet than they hold today and America West would have a larger fleet, meaning America West pilots, all things being equal, on a stand-alone basis would be able to move up quicker than they are now even without an integration with a smaller fleet. And conversely for the US Airways guys they are able to move up faster because their fleet is bigger; all things being equal, no integration, different size fleet, different move up potential.

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

MR. KATZ: Why don't I ask some preliminary questions and then take a break to confer with my committee about possibility of

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additional questions.

CHAIRMAN NICOLAU: Okay.

CROSS-EXAMINATION

BY MR. KATZ:

Q Would you agree that based on the differences you have outlined between the two merger committees' computer generated analyses that the two merger committees are attempting to measure different things?

A Yes.

Q And in both cases, as you said on direct examination, the merger committees are not trying to predict which pilot will have what earnings in reality, in the future?

A I think Mr. Salamat's presentation suggested that the merger tool is capable of predicting that, but on cross I think he said that it is not supposed to be used for that purpose. But the indication from what I saw was pilot name, dollars, position held, number of positions that they could have held. I mean there was very discrete information, phone books, you know, from

the testimony that I saw. But then when Mr. Freund asked questions of Mr. Salamat he essentially agreed with our position and proposition that you really can't do that.

CHAIRMAN NICOLAU: Well, but I think it was clear from the beginning that those names and dollars were just based on the assumption of entitlement, that is all.

MR. KATZ: Right.

THE WITNESS: Okay.

BY MR. KATZ:

Q Mr. Salamat was, in direct examination, he wasn't try trying to predict what any particular pilot or any group of pilots would earn. And your model is in the same in that respect, isn't it?

A It predicts I think the potential for each pilot group, the group being the distinctive sort of difference. I really think it is an attempt to predict group optimal earnings in different scenarios.

Q I thought I heard you say you weren't trying to predict what the actual earnings would

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be --

A For any individual pilot.

Q For any group of pilots, weren't you saying you were trying to predict what the actual earnings were going to be for a particular group?

A The optimal, not actual.

Q And you have measured two different time periods significantly?

A Yes.

Q And as you pointed out, let's look at your page where you go through the differences, page 30, is that -- no, no, it is before that. What page is it where you set it out?

MR. POLLOCK: 23.

BY MR. KATZ:

Q Thank you. So, look at Item No. 1, and you mentioned in your testimony that the PEM model is measuring a period that includes the transition period May 19, 2005, to January 1, 2008, correct?

A Yes.

Q And during that period of time the integrated seniority list is not being utilized to

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allocate positions to either group, is that right?

A Correct.

Q So that is a period of two years and seven months, something like that?

A Right.

Q And that period of time is being studied even though it doesn't relate to how the panel's award will be utilized in the world?

A Yes.

Q By contrast, the US Airways merger analysis begins July 1, 2007, which is the earliest possible date we assume that the panel's award could be implemented, you understand that?

A I believe that, yes.

Q So we are studying the way the panels award would allocate positions of both sides, beginning in terms of the time period that we have selected, correct?

A Yes.

Q You were also in Item No. 2 looking at fleet changes, which you said at the very end of your testimony you thought was very important to

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study because there could be different fleets merged and unmerged; is that true?

A Yes.

Q Have you done an analysis of the result that you put into this book, tab 45, the rebuttal exhibits of the America West pilots, in which you attempted to separate out the effects of the different fleets that you assumed unmerged and merged versus the impact of the different seniority integration methodologies that the two pilot groups are proposing to the panel?

A No.

Q You have not attempted to do that analysis?

A No.

Q So some portion of the dollars that you have aggregated in the exhibits you just took us through are the result of the different fleet assumptions, merged and unmerged, and another undefined portion results from the different seniority integration methodologies the two groups are proposing; is that correct?

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A Yes.

Q And in this case the fleet assumption, I understand, is a difference of 13 additional airplanes that you have attributed to the USAir pilots in the merged scenario, and 28 fewer airplanes that you have assumed for the America West pilots in the merged scenario?

A With one additional feature, in that on the merged scenario, merged fleet, the 224 actually goes to 236 with the addition of the 12 Embraer 190s. That is as low as it goes, and that is all occurring in the transition period, starting in December or January the Embraers, as of this past

month, started being delivered, so that when you run
the forecast it is actually 236 east aircraft versus
the 133 west aircraft.
     Q   I appreciate that clarification,
Mr. Akins, because what I had down from your direct
testimony was that the USAir fleet was assumed to
decline from 270 to 224 merged and 270 to 211
unmerged, which is how I came up with the 13
difference.
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     A   Okay.
     Q   So, I am really wrong about the 13
difference, in the merged scenario, but not the
unmerged scenario. In addition to those 13 Airbus
and Boeing aircraft --
     A   Right.
     Q   -- there were a dozen Embraers?
     A   Right, that are added exclusively in the
transition period so. When we start January 1st of
'08, 236 airplanes is what we go with throughout the
forecast for the east.
     Q   So those additional 12 Embraers are not in
the unmerged scenario for the USAir pilots but they
are in the transition period and the merged period
for the --
     A   A portion, because they get added in.
     Q   They are gradually added in, in the
transition period?
     A   Right.
     Q   But they are all in in the entire merged
period?

A Yes.

2947

Q So there is actually 25 additional aircraft for the USAir pilots merged counting the 12 Embraers along with the 13 Airbuses and Boeings?

A Yes.

Q And there is 28 fewer America West aircraft in the merged scenario?

A Right, and all of the downsizing from the fleet as of May 2005 occurs in that transition period. So again once we start our forecast period, those 28 fewer airplanes are gradually taken out during the transition period and then it is held constant once January 1st, 2008 comes around.

Q And those fleet differences result in the aggregations of dollars for the pilots careers changing substantially, don't they?

A The total group earnings?

Q Yes.

A Yes, I would believe it would be a portion of the change.

Q But as you said before, you haven't calculated exactly what that portion is?

A No, no.

2948

Q Similarly, as you mentioned in your exhibit on pages 23 to 24, the wage rates that you assume are different merged and unmerged, correct?

A The wage rates -- yes.

Q And that has an impact you said in some cases of hundreds of millions of dollars as a result of looking at different wage rates merged and unmerged?

A Right.

Q And I take it, because you said it was hundreds of millions of dollars, that you did do some analysis to separate out the impact of the differential wage rates from the impact of the differential seniority integration methodologies, is that true?

A Right, right.

Q But you haven't displayed that for us here?

A No, in fact I used Mr. Salamat's output from the Merger Tool under one of his scenarios to look at exactly how many pilots he assumed that the east proposal would generate in terms of captain

2949

jobs on the narrow bodies, it was like 970, 960, for about the next 10 years, and I assumed a little bit over 1000 hours times a wage differential, times that number of pilots and that present value, around 200 million, plus the first officers is about 100, so there is between 2 and 300 million dollars. Depending on the scenario, of course, that would change but it is not tens of millions, it is hundreds of millions.

Q And in terms of putting in the actual rates you had some exhibits here, and I don't really want to question you on the United pay rates, but on your page 26 you have got these different lines. Let's just ignore the United pay rates for the moment so I can figure out what you are using here

in dollars --
A Okay.
Q -- for the pay rates that went into your model. And I think that some of these are on page 28 of your exhibit, but let's look at the east narrow body line.
A Okay.
2950
Q Which is the lowest line on the chart?
A Right.
Q Where does that end up, Mr. Akins?
A It ends up somewhere around 120 something.
Q Is that 124.88?
A Right.
Q I see that number on page 28?
A Right. I just simply displayed the narrow body rates from the actual pay rates.
Q So that is what you are using as the A320-737 captain rate for USAir pilots unmerged?
A Right.
Q And then is the next line a United line that we are going to ignore?
A Right.
Q Let's go to the red line then?
A Right.
Q And is that 141.85?
A The very right side maximum 15 years, right.
Q So that is the top of scale America West rate for all airplanes?
2951
A Right, for captains.

Q And then the next line up there is the east wide body rate?

A Right.

Q And that is the rate for A330?

A I believe, yes, it is 159 at the very right side, starting in year 12, with the international override.

Q With the international override. And what was the rate for 767 captains at USAir, top of scale?

A I don't have it with me, but this is the A330.

Q Did you give the USAir pilots, unmerged, the same pay rate for 767 and 757?

A I would have to look.

Q Do you have the papers with you?

A No.

Q So, you don't know what pay rate you gave to 767 captains at USAir?

A I gave them the rate that was in the contract plus the international override and it was

2952

provided to Mr. Salamat, those pay rates. So whatever is in that grid is the rates we used.

Q And merged, you used the higher of the two rates?

A Right.

Q So, is it true that you then used no differential whatsoever between the 737-A320 rate and the 767-757 rate?

A No.

Q What was the differential?
A It was an increase to the 757-767 rate at US Airways, again it is whichever pay rate for that piece of equipment was higher. If it was higher we used that rate.
Q Oh, I see. If you go back to page 28 there is a 144.02 rate?
A Right.
Q That is the rate you are referring to, isn't it?
A Well, that is one of the rates in the 767-757. So again I believe that the Embraers were exclusive to US Airways, so those were the rates
2953
that were in effect. The A320-737 were higher at America West so that is the increase. The 757's were higher at east, so they were used in the integrated scenario for the analysis. Again we provided that information to Mr. Salamat, the grid.
Q I am trying to get this on the record in front of the panel right now, and you said there is hundreds of millions of dollars at stake in the models?
A Right.
Q So I would like to clarify what rates you were using.
A Right.
Q It seems to me that you have said for the 757 you used merged, 144.02?
A I would have to check, Dan, but this is a different, this is a different type of look at the rate. This is not looking at what went into the

model. This is just simply looking at United versus the existing actual rates. So I am very confident that the 757 rates that, whatever was higher, is what we tried to do and in the model.

2954

Q You know that the USAir rate was higher on the America West rate on the 757?

A Right.

Q And that the America West rate was higher than the US Air rate on the A320 and the B737?

A Yes.

Q And so you took whichever was higher of the two?

A Whichever was higher of the two for that piece of equipment, right.

Q Did you add on an international override for the 767?

A I don't believe we did it for the 75. We did it for 76 and A330.

Q Then what you have got is a difference of about $2?

A Right.

Q Between the 737-A320 rate and the 767-757 rate; is that correct?

A On this example, yes. This is just an example, this is not representing what went into the model, so if there is a difference between this top

2955

pay rate and all of the rates from years one through 15 this would represent the top scale.

Q Top of scale rates?

A Right.

Q I am just asking you about the top of scale rates now. And you assumed that forever there would be a $2 difference between the 767 and 757 pay, top of scale, and the 737-A320 top of scale pay?

A Again I would have to check with the model.

Q Let us know after the break whether that is true or not?

A Okay.

MR. FREUND: I think he testified that the precise rates that he used in his original testimony when he went through the model, and I believe the record is full and complete on that question.

MR. KATZ: Yes, and I think that is what it shows.

CHAIRMAN NICOLAU: Should be.

BY MR. KATZ:

2956

Q And it also shows that if you went up to 159.56 or the A330 rate that you are showing a $15, or 10 percent increase in the pay rate from the 757-767 to the A330?

A Right. We haven't displayed that $15 difference but that would be the sequence. You wouldn't go from A 320s to A330s. You would first transit through the 757s and 767s, and if you are young enough you would hold the A330.

Q And you are showing an increase a less than 1 percent increase from the 73 to the 75-76?

A In this example, right.

Q Now, you have a lot of experience as a labor economist in the airline industry. That is not the usual spread between these airplanes, is it?

MR. FREUND: I am going to object, this is really irrelevant to the testimony.

CHAIRMAN NICOLAU: He said it was just in that example. It is not -- in fact you are not sure what you used in your direct testimony on that.

THE WITNESS: Across the pay scales, I am sure we used the higher of the two rates. I am just

2957

not sure if this represents that particular differential for all steps. Granted this is supposed to be for one step, the highest step.

But, you know, Dan, I don't know what is usual anymore, there has been so much ground lost in the aviation business over the last four years as you know, I don't know if there is a typical gap anymore, used to be but I don't know anymore.

BY MR. KATZ:

Q Well, you testified when you were here before to have the single pay rate for all types of equipment, as is true under the America West pilots contract, is unusual?

A For each position. I think Continental first started when they were ISCP, they started out with platforms of equipment, sort of bunching pilots by size of equipment, and that was sort of unusual.

Q So you agree that it's unusual to have one pay rate for all of the airplanes for pilots; is that correct?

A Yes, I think so.

CHAIRMAN NICOLAU: Depends about what

2958

airline you are talking about, Mr. Katz.

THE WITNESS: And what period of time.

BY MR. KATZ:

Q You do know that the result of the fleet assumptions that you made in the model that you have just presented evidence on, resulted in lower earnings for the USAir pilots merged, as a result of the assumption that ---let me ask it again.

For the America West pilots one of the results of the fleet changes that you utilized was that it reduced the earnings of the America West pilots in the merged scenario?

A I kind of got lost, I am sorry.

CHAIRMAN NICOLAU: Well, but it had to, fewer airplanes, sure.

BY MR. KATZ:

Q Fewer airplanes, less earnings, more airplanes for the US Air pilots, more earnings?

A Right, generally a good proposition.

Q You increased the pay rates for the USAir pilots, you increased the projected earnings.

A Yes.

2959

Q And those were things that you did?

A Right.

Q You throw in the earnings from the transition period and you get higher earnings for both groups?

A Right.

Q But all of those things mask the impact of the seniority integration methodology as Captain Kirch testified on Tuesday?

MR. FREUND: Objection; I just think that is argumentative, irrelevant and wrong.

MR. KATZ: I think it is a fair question.

CHAIRMAN NICOLAU: Do you want to rephrase it? They may have an effect, is that what you are saying?

MR. KATZ: Yes.

MR. FREUND: I wouldn't object to that question.

BY MR. KATZ:

Q Yes, can you answer that question?

A Again could you rephrase it in a proper context?

2960

Q There is an impact of your assumptions about fleet changes, pay rate changes and transition period, that has an impact on the analysis of what is the impact of the seniority integration methodology?

A Yes.

Q Your age 65 analysis assumes an immediate change or a change as of May 19th, 2005 or when?

A It assumes no change in the transition period, only a change in the forecast period.

Q So it assumes that on --

A January 1 --

Q -- January 1, 2008 a new rule goes into effect?

A Right.

Q Then it assumes that every pilot works until age 65?

A Right.

Q And you assume that every pilot works until age 65, even though we know in reality there will be greater attrition due to medical disabilities and deaths before age 65, don't we?

2961

A I don't know the exact actuarial numbers but I assume that. To hold the modeling parameters constant we don't assume any attrition for any other reason except for retirement at age 60, so I think it would be sort of muddying the analysis to have additional assumptions about pilots retirements based on things other than age 65. And it is sort of trying to compare apples to apples. Everybody goes to age 60, no retirement, no medical, no death.

Under our first scenario, everybody goes to age 65, that is the difference with the same assumptions. If you are going to throw in other assumptions about attrition I think you would have to program the model to accommodate that in the age 60 scenario.

Q Your earnings model also assumes that there is no rule requiring a pilot over 60 to fly with a pilot younger than that pilot?

A No. There is no rule.

Q But that would have an impact on the earnings of both groups, wouldn't it?

A I don't really understand the premise so I

2962

guess I can't answer that question.

CHAIRMAN NICOLAU: Mr. Katz, you shouldn't spend too much time on age 65.

MR. KATZ: Okay. I am done with age 65.

CHAIRMAN NICOLAU: So am I.

BY MR. KATZ:

Q In the fleet assumption, the 224 aircraft that you have assumed for USAir in the merged scenario --

A 236.

Q 236, includes 12 Embraers; it also includes three Boeing 757's that either have already or will soon depart from the merged fleet, are you aware of that?

A That will have or will soon depart from the merged --

Q Either already have or will soon leave the fleet?

A No, I didn't know that.

MR. KATZ: I would like to take a short break now to confer with my --

CHAIRMAN NICOLAU: How much time do you

2963

think you need?

MR. KATZ: I think 15 minutes will be adequate.

CHAIRMAN NICOLAU: Okay, fine.

(11:30 a.m. -- recess -- 11:50 a.m.)

MR. KATZ: I do have a few more questions.

CHAIRMAN NICOLAU: Very good.

BY MR. KATZ:

Q Mr. Akins, in calculating USAir pilots pay have you given any weight at all to the stock, stock options, profit sharing and other non-cash compensation that they received?
A No.
Q In allocating Embraer positions have you allocated any to the America West pilots at any time during the period you studied?
A I think they run through the captaincies after the 737-A320 first officers because it is based on pay, so they actually run through it. I think if there is a first officer in the 737-A320 on the integrated scenario they would run through those captaincies.
2964
Q So you did allocate a third of the captain positions on the Embraer 190 to America West pilots?
A If there were pilots that were going in there and that is a restriction, we used the proposed restrictions. I am not sure if it was a third, there was a lot --
Q The Eischen award says a third of the captain positions and a third of the co-pilot positions.
A The which award?
CHAIRMAN NICOLAU: Eischen, it is another award.
BY MR. KATZ:
Q So a third of the a jobs to the America West pilots?
A If those pilots are able to move into those jobs, I'm not sure. It is not like a third of

the America West pilots hold those jobs, but a third of those jobs go to the America West first officers because, if you are a captain already you are not going to go into those jobs.

Q The captain job pays less than a Boeing or

2965

Airbus captain?

A Right.

Q That is why you put them on your job ranking where you did?

A Right.

Q But what I am asking is if they would represent a promotion for an America West co-pilot then you, I am asking, did you give them one-third of the Embraer 190 captain positions to the extent that would have been a promotion?

A If it was one of the conditions and restrictions we would have put it in there. There were a number of them, I think five or six.

Q You don't know whether you did or not?

A No. Joe would have done that but if it was on the list with conditions and restrictions it would have been there.

Q Where is the list of conditions and restrictions?

A I think, I don't have it with me, but --

Q Is it an exhibit in this case?

MR. FREUND: It is your conditions and

2966

restrictions.

BY MR. KATZ:

Q So you were trying to follow our proposed conditions and restrictions when you were modeling?
A We did, right, and it wasn't easy.
Q When you did the America West proposed conditions and restrictions did you use this limitation?
A America West conditions and restrictions --
CHAIRMAN NICOLAU: Which limitations?
MR. KATZ: The Eischen award, the one third of the jobs go to the Embraer --
CHAIRMAN NICOLAU: Was that in your conditions and restrictions that Mr. Akins had, do you know, or was it something separate?
MR. KATZ: It was in our proposed conditions and restrictions, but now I am asking about the America West proposed conditions and restrictions, and it should have been in theirs because they have the same position we do, which is that the Eischen award is binding and will take

2967

effect once there is an integrated seniority list in effect. But I can't tell from the witness' answers whether this was utilized in analyzing at America West proposal or not.
THE WITNESS: I am not sure, to tell you the truth.
BY MR. KATZ:
Q While we are talking about that can we look at page 14 of your exhibits. If we look at the point in time where you are showing about an $18 million gain for the east pilots under the east

proposal?

A Right.

Q And then draw a line down to the west pilots and they show about a $15 million loss, or so?

A I think, that is the transition period with the merger fleet in which the east uses a total of around nineteen -- the west loses a total of around 19, the east gains a total of between 25 and 30, so that is the same gap we saw earlier in my testimony, that transition period is with the merger

2968

fleet.

Q That is the result of the difference in assumptions adding the 25 airplanes to the USAir fleet and subtracting the 28 from the America West flight?

A In that period, right. It is not, again, it is over time, so it is not 25 at all periods. In fact 2005 and 2006 there aren't any Embraers in the US Airways side.

Q Can you tell me what period of time I have just pointed to, it looks like it is halfway between 2006 and 2007?

A Right.

Q I don't know how you set the chart up?

A What -- that, the entire complement of the change in the fleet would not take place until the end of 2007. During the transition period the fleet at US Airways is shrinking but not shrinking as much as under stand-alone.

Q So the question is that to the where the $18 million is, what point in time is that?
A I don't know where the $18 million is,
2969
because I don't see it. Is in the blue side you are talking about?
Q Yes.
A Well, again it is individual years, so I believe that would be 2007. That dot would represent about an $18 million benefit. The year before might have been a 9 or $6 million benefit. Then the year before that pretty much nothing. So we are starting out May of '05. If we did a bar chart off of this we could probably see it a little bit easier.
Q Is that calendar year 2006 or 2007?
A I think it is calendar year 2007.
Q And then the fleet assumption goes up to making $72 million gain in the next year?
A Right.
Q For the USAir pilots and a $38 million loss for at America West pilots; right?
A Right, approximately.
Q And that goes along for many years, let's say that is 2008. Would you put a mark at 2014. The mark is that the right of the 2014.
2970
A Okay. To the right?
Q Yes, and so what I have done is blocked off on the chart from the right of 2007 to just to the right of 2014, which is a period where you have indicated huge gains in income to the USAir pilots

and huge losses to the America West pilots?

A Right.

Q Right? Under our proposal you have modeled our conditions and restrictions, have you not?

A Right.

Q And we had a seven-year period of time where each group was utilizing its own attrition?

A Right.

Q Flying its own airplanes, and if that is the period that I have just identified in from 2007 to 2014, isn't it a fact that all of the gains and losses in there are a result of your changes in the fleet assumptions from the unmerged to the merged scenarios, since we had everybody operating their own airplanes enjoying the benefits of their own attrition during that entire period?

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A No.

Q Why not, what else is there?

A The pay increase, between the stand-alone case for the A320-73 at US Airways between stand-alone and integrated.

Q So all these gains and losses come from pay increases that differ, unmerged to merged, and fleet assumptions that differ, merged to unmerged?

A And the restrictions and conditions.

Q The conditions and restrictions in our proposal say each side flies its own airplanes?

A Right.

Q And enjoys its own attrition?

A Right.

Q So this area of your graph that I have identified does show the value of the changes in assumptions in pay rates and fleets, correct?

A As well as the benefit from integrated position with conditions and restrictions that you guys have provided. So it is not just that. It is actually running the integrated list. So people may hold better positions or may do things that they

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otherwise wouldn't do without the fences. Without the fences that number is a little bit higher.

The blue line looks the same, but the red line looks worse so there is actually an impact from the fences on which jobs are available. Because we found that the conditions and restrictions that you provided in terms of if the number of A320-737 jobs is not 1690, whatever the number was, we found it in the analysis of the fleets that we provided that for everyone of those conditions the actual number of jobs was less than where your conditions and restrictions started, that table, whatever that statement was.

So every time there was fewer jobs available than the conditions and restrictions, and a lot of what Mr. Meier told me was that many of the conditions and restrictions didn't even kick in because there wasn't anybody to enjoy the benefits of those conditions or restrictions or be restricted by them until further out in the analysis.

Q What I hear you saying, Mr. Akins, is that the proposed conditions and restrictions limited

2973

each group to the jobs that it had --

A Uh-huh.

Q -- itself, and gave each group the attrition that it had?

A Right.

Q So does the PEM model indicate in its output which pilots are able to make it to the top 10 percent of the list before they retire?

A No, it is not in the output.

Q Does the output show disparities in date of hire or length of service?

A No.

Q Does it indicate how long a pilot would be delayed or whether he would totally lose his ability to reach a wide body captaincy?

A All these are intermediary steps that could be, I guess used as outputs, but no, the output that we have got is simply financial.

MR. KATZ: That is all the questions I have.

MR. FREUND: I have no questions.

CHAIRMAN NICOLAU: Thank you, Dan.

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THE WITNESS: Thank you.

MR. FREUND: We rest.

MR. KATZ: Mr. Nicolau, in light of the Board's comment about the United pay rates, while much of the analysis that Mr. Kirch put in on Tuesday remains valid, the analysis of who gets into the top 10 percent, based on the America West proposal, the delays in captain check out and wide body international jobs, the disparities that the America West pilots proposal would create in date of hire and length of service, if the Board is not going to be considering United's pay rates we would like to take about 20 minutes, and run the actual America West pilots proposal, using different dollar assumptions than what are contained in Mr. Kirch's exhibits and give them to the Board, we can give them to you electronically, if we have an hour or so we could print them all out, and we can have Mr. Kirch or Mr. Salamat testify about them.

CHAIRMAN NICOLAU: Well, before you consider whether going into that exercise, my colleagues on the Board would like to spend some

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time with the respective committees that appointed them. And so I don't know where you expect to do that, but do it, and counsel is also invited.

MR. KATZ: Thank you.

CHAIRMAN NICOLAU: Okay.

MR. GILLEN: When do you want to reconvene?

CHAIRMAN NICOLAU: Half an hour.

(12:05 p.m. -- recess -- 12:48 p.m.)

CHAIRMAN NICOLAU: The Board is of the mind that the parties may want at least an additional day to put their final positions before us. You may need some time to consider, and my understanding is that the Board members are generally available, I am sure the committees are, and it might be just a question of counsel and the

Board chairman. But I can tell you when in terms of my schedule, if you are ready to tell me yours.

MR. KATZ: Well, let's back up one step.

CHAIRMAN NICOLAU: Okay.

MR. KATZ: In terms of additional evidence at this point, we have two exhibits that we would

2976

like to put in, and they respond to the Board's pronouncement that the United pay rates aren't of interest in the Board.

CHAIRMAN NICOLAU: Right.

MR. KATZ: And what these are, are the same computer software analysis of the same America West pilot proposal using instead of the United pay rates, the higher of the two rates that we used in the December analysis of a different list, but updated with the 2007 America West pay rate increase.

So it takes the $144 an hour rate for the 757 from USAir, and the $141 rate for the A320, and 737 from America West, and the other USAir rates, uses them before and after the merger. And we would like to put these two exhibits in, Captain Kirch is prepared to talk about them for a minute.

In terms of additional hearing day, unless there are assignments that the Board has that would be helpful to the Board we don't have additional evidence that we feel we need to put in. If the board has instructions to the parties about how to

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proceed, then we would be happy to reconvene at a time when we can all schedule it in February to address any subjects that the Board would find helpful for us to address.

CHAIRMAN NICOLAU: Well, let's take the exhibits first.

MR. FREUND: Before we take the exhibits let me speak to the exhibits.

CHAIRMAN NICOLAU: Uh-huh.

MR. FREUND: I am not one to want to keep anything from the Board that the Board thinks that it wants. So if the Board wants those exhibits far be it to me to stand in the Board's way. That said, I think there is no basis for putting those exhibits in. They dug their own hole when they used that ridiculous United conception, and this case ought to be over.

That said, I would go back to where I started, George, if you want to see that exhibit, I am certainly not going to be opposed to it.

CHAIRMAN NICOLAU: Not only does the Board want to see that exhibit but, you know, I think that

2978

my colleagues have indicated that it would be wise for both sides to sit down and consider their positions once again, and if they want to tell us anything about that, the next meeting would be the time to do that.

MR. FREUND: I understood what you said about that.

CHAIRMAN NICOLAU: Okay. So there may be some specific things, and I don't know whether all of that was communicated in terms of what, some specific things that we want to see, but you know, I think it was clear from the beginning that the Board had some difficulty with both proposals.

And, you know, the Board is ready to make a decision at some point in time after everything is in, including the briefs, but I have got to tell you it is always better if the parties do it, and I want you to give one more opportunity to come closer together if that is at all possible. If it isn't, we will take the data that we need, some of it we don't have yet, and craft a decision that will, you know, reach that level of mutual dissatisfaction

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that everybody tries to attain.

So let's have the exhibits. What book do they go in?

MR. KATZ: Well, you have a J volume so we have numbered these 3 and 4 for Volume J.

MR. BRUCIA: Are these substitutes --

MR. KATZ: Well, they will go behind J, 1 and 2, which were the list that the panel asked for before. Maybe you could pass those down to Jeff.

CHAIRMAN NICOLAU: Go ahead, Dan.

Whereupon,

ROBERT KIRCH

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

DIRECT EXAMINATION

BY MR. KATZ

Q Okay, Bob, can you explain what tab No. 3 has behind it?

A Exhibit 3 is the same data information that we put in before, the only change in this thing is its using pay rates that are listed on the second page. There is the whole pay table but basically in

2980

a nut shell what it is, is for both sides, merged and unmerged, it uses the America West 320-73 rates and our 75, 76 and 330 rates with the international overrides where we have always put them.

Q This compares for the record to Exhibit I-27. Let me show you I-27, Bob. And perhaps you can explain the significance of Exhibit J-3 in light of what was there in the record in I-27?

A Essentially the numbers, if you notice that we are looking at the top page here that has basically the America West proposal, you notice the dollar numbers are slightly different, and that is a function of just the pay rate changes that I discussed.

The bottom part, the captain expectancies, you will see those are all identical numbers because there is nothing changed regarding how the list allocates the jobs, it is only the relative valuing of the jobs by the pay rates that are plugged in. So that is the only change you will see there.

Q And what are the results in career earnings as a result of using the pay rates that are

2981

reflected on the second page of J-3?

A You still will see a $176 million aggregate gain or 7 percent gain for the America West pilot same dollar amount, which is 5 percent loss for us, and you have got the division of where it comes from in terms of the furloughees and the active main line pilots.

Q There is still no America West pilots who lose under their proposal?

A None.

Q And USAir pilots who gain under their proposal?

A Correct. Again this is looking at dollars coming from one side or the other, dollars that are at the expense of one side or the other.

CHAIRMAN NICOLAU: Bob, give me the rates again and the time frames, you went by a little too fast.

THE WITNESS: The captain rates, again these are end rates, one --

CHAIRMAN NICOLAU: Don't give me the rates, give me the explanation of what rates they

2982

are.

THE WITNESS: Oh, I am sorry. They are the America West January 1, '07 rates, on the 73-320, and then for the 75, 76 and 330s they are the same rates that I believe everybody has been using, high rates.

MR. KATZ: This is the higher of the two rates?

THE WITNESS: Yes.

CHAIRMAN NICOLAU: Higher of the two rates at the top rate as well.

THE WITNESS: Correct. The A330 rate,

only we had. The 75-76 rates, or take the 75 rate, ours is higher than the America West one was, so it is using ours, and the 320-73 rate the America West rate is higher than ours, so the America West rate, so it is the America West rate for the 73-320 and our rates for the 75-76-330.

BY MR. KATZ:

Q What was the theory for using the same rates merged and unmerged?

A Well, I think the big thing, and it was

very evident today in Dan's testimony, it shows the effect of job allocation by the list, not mixing in with that the effect of pay rate changes, which, you know, as Dan had pointed out in Dan Akins' exhibit, is enormous.

You know, when you have fleet changes and pay rate changes between merged and unmerged you can show a lot of gains and losses that have absolutely nothing to do with how the seniority list is allocating jobs, it is purely a function of changing the pay rates and changing the fleets between merged and unmerged.

Q In terms of the pay rates, Captain Kirch, looking at the pay rates that are used on exhibit J-3 in comparison with the analysis that was done in December as part of the direct case of the US airways merger committee, can you tell us what the differences, if any, were between the pay rate assumptions at those two times?

A Please say it again, I am sorry, I apologize.

Q I will do it in little pieces. In terms

2984

of the analysis that was put into evidence in December as part of our direct case?

A Yes.

Q We used the America West 2006 rate for the A320 and the 737, didn't we?

A Uh-huh.

Q You need to answer with a --

A Yes. I am sorry.

Q And then for all other airplanes and positions we used the same rates in this analysis as in December?

A That is correct.

Q So, the only change was to bump up the A320-737 rate to the 2007 rate rather than using the 2006 rate?

A That is correct.

Q And Exhibit 4, J-4 is the dot chart where there is a single dot for every pilot on the list?

A That is correct. That shows the dollar gains and losses and the career values of all the pilots.

Q And it still shows America West pilots

2985

gaining in the six figures for very big portions of their list?

A That is correct.

Q And shows US Airways losing in the six figures for many parts of the US Airways list?

A That is correct.

MR. KATZ: Thank you. That is all the questions I have.

CROSS-EXAMINATION

BY MR. FREUND:

Q Just to be clear, you used the America West narrow-body rates to determine the earnings that US Airways pilots would have earned flying narrow-body aircraft from, for the period of time that you are modeling on the stand-alone basis, correct?

A Merged and unmerged.

Q I am not interested in merged at this point, so stay with my question, please, and then we will all be able to get out of here.

You used the America West narrow-body rates for purposes of determining what US Airways

pilots would have earned flying narrow-body aircraft on a stand-alone basis; correct? Yes or no?

A We used them in the model but we didn't use them to determine what US Airways pilots would have earned on a stand-alone basis. The purpose is to determine how value is being moved from one pilot group to the other by the implementation of various merged lists, not to predict what somebody would have earned unmerged.

Q I am not talking about predictions. For purposes of determining how much more or less US Airways pilots earned or would earn collectively, by reason of the operation of the seniority list, you used and assumed that US Airways pilots on a stand-alone basis would have been earning the

America West narrow-body rates, correct?

A That is correct.

Q So as we sit here today how many US Airways pilots are earning $141.85 an hour flying narrow-body aircraft?

A None.

Q How many US Airways first officers as we

2987

sit here today are earning $93.61 an hour flying narrow-body aircraft?

A No.

Q Lower, correct?

A What is that?

Q They are earning lower than that; right?

A Correct.

Q In both circumstances?

A That is correct.

Q And just so we can finally, so we can pin this down, it may already be pinned down but with total particularity, the number of jobs you are using in this whatever it is, J-3 --

CHAIRMAN NICOLAU: 3 and 4.

BY MR. FREUND:

Q -- J-3 and 4, for purposes of determining the stand-alone value, are the jobs associated with, on the US Airways side, are jobs associated with 224 aircraft, correct?

A Correct.

Q And the jobs you are using for purposes of determining the America West stand-alone earnings is

2988

133 aircraft, correct?

A 133 or 4, whatever was on the exhibit, but that is the ballpark.

MR. FREUND: That is all I have got.

REDIRECT EXAMINATION

BY MR. KATZ:

Q Let me just clarify one point. When Jeff asked you about the narrow body pay for captains and copilots, isn't it true that the 757 is a narrow-body airplane?

A That would be true, and of course the 75s would be making a different pay rate.

Q 75 captains and copilots make more than the $141 figure that he was quoting to you for the captains?

A That is correct.

MR. KATZ: Thank you.

RECROSS EXAMINATION

BY MR. FREUND:

Q I have one more question. I didn't ask it, and it says it on the exhibit. This is the one-third furlough bypass model, correct?

2989

THE WITNESS: That is correct.

CHAIRMAN NICOLAU: Yes.

MR. FREUND: That is all.

CHAIRMAN NICOLAU: Okay, if you can give the Board a minute. Don't move, we will move out there.

MR. KATZ: Okay.

(1:06 p.m. -- recess -- 1:09 p.m.)

(Whereupon, at 1:21 p.m., the hearing was recessed, to be reconvened at 10:00 a.m., on February 21, 2007.)

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C O N T E N T S