

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

11

12                                   HEARING, VOL VIII

13

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

17

18                                   Washington, D.C.  
19                                   Tuesday, January 9, 2007

20

21 REPORTED BY:  
22                   DONALD R. THACKER

1                   Hearing before the ALPA Arbitration Board, on  
2                   Tuesday, January 9, 2007, in Washington, D.C. at the

01-09-07ARBfinal  
3 Mayflower Hotel, 1127 Connecticut Avenue, Northwest,  
4 at 10:00 a.m. before DONALD R. THACKER, a Notary  
5 Public within and for the District of Columbia, when  
6 were present on behalf of the respective parties:

7  
8 DANIEL M. KATZ, ESQ.  
9 JASON WHITEMAN, ESQ.  
10 Katz & Ranzman  
11 5028 Wisconsin Avenue, Northwest, Suite 250  
12 Washington, D.C. 22036  
13 202-659-4656  
14 danielmkatz@comcast.net  
15 On behalf of US Airways

16  
17  
18  
19  
20  
21  
22

-- continued --

1375

1 APPEARANCES (Continued):

2  
3 JEFFREY R. FREUND, ESQ.  
4 LISA POWELL, ESQ.  
5 Bredhoff & Kaiser, PLLC  
6 805 15th Street, Northwest, Suite 1000  
7 Washington, D.C. 20005  
8 202-842-2600

01-09-07ARBfinal  
jfreund@bredhoff.com

9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22

On behalf of America West Airlines

1376

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14

P R O C E E D I N G S (10:10 a.m.)

CHAIRMAN NICOLAU: Let's open the record.

We have reconvened with the America West case.

MR. FREUND: Good morning, welcome back everybody to our fair city. So, since we have been apart for so long and while undoubtedly everybody has been thinking about the case nonstop since we recessed, before we call our first witness I thought, I'm not going to make an opening statement, I have already done that, but I thought I would give you two minute precis of where we are going to be going over the next two days.

I have already e-mailed to Dan virtually our entire line up of prospective witnesses. There

15 may be a change or two here or there. I will notify  
16 Dan of that in a timely fashion.

17 But we are going to start today with some  
18 testimony about the structural and operational  
19 decline of US Airways over the course of the last 10  
20 or so years. And we are going to follow that up  
21 with some testimony about the financial decline of  
22 US Airways, and in contrast testimony about America

1377

1 West's positive liquidity posture as of the time  
2 just prior to the transaction that has led to this  
3 proceeding.

4 In the course of that testimony we will, I  
5 think, I am quite confident, will establish that  
6 there simply was no viable stand alone business plan  
7 for US Airways, and that quite to the contrary,  
8 America West was operationally sound and was liquid.

9 Following that, two witnesses to deal with  
10 those questions, following that we will have a third  
11 witness who I think, as a legal matter, will put an  
12 end to what I would describe as US Airways' single  
13 predicate for its assertion that America West was  
14 suffering from serious liquidity problems, and that  
15 the single predicate for that proposition, as you  
16 remember, is Doug Parker's statements to his  
17 employees in January 2006.

18 We will put on some testimony explaining  
19 the legal structure of statements made by corporate  
20 officials at various times in the life of the

21 corporati on.

22 Following that we are going to shift our

1378

1 discussion to the economic benefit to the US Airways  
2 pilots from the transaction, from the merger, and in  
3 contrast the potential and very likely actual  
4 economic detriment to the America West pilots from  
5 the transaction.

6 Following that testimony we will put on a  
7 number of witnesses that will describe in various  
8 ways contrasting career histories and past career  
9 histories and future career expectations of pilots  
10 at the respective airlines.

11 And then we are going to finish up with a  
12 more precise description of our proposed integration  
13 methodology and a more precise description of the  
14 effect that integration methodology will have on the  
15 pilots of the respective carriers.

16 I have already in a side bar mentioned to  
17 you, George, that I think we have enough witnesses  
18 available to keep us occupied for the four days this  
19 week. It is conceivable, however, that we may  
20 finish up with the witnesses we have available for  
21 this week before the end of Friday and have a  
22 witness who is not available until Monday of next

1379

1 week. But there is no risk of our not finishing our  
Page 5

2 case before Wednesday of next week, which is kind of  
3 the last day set aside for our presentation.

4 (Discussion off the record.)

5 CHAIRMAN NICOLAU: Okay.

6 MR. FREUND: Back on the record. As I  
7 told George, we are suffering from health-related  
8 issues on our side, and as a consequence Roger  
9 Pollak was going to put on our first witness but he  
10 is not here, and I am going to struggle along, and  
11 call Bob Mann as our first witness.

12 In connection with Bob's testimony we have  
13 some exhibit books to distribute.

14 Whereupon,

15 ROBERT W. MANN, JR.

16 was called as a witness and, having first been duly  
17 sworn, was examined and testified as follows:

18 DIRECT EXAMINATION

19 BY MR. FREUND:

20 Q Would you state your full name for the  
21 record please?

22 A Robert W. Mann, M-a-n-n, Junior.

1380

1 Q Where are you from, Bob?

2 A Fort Washington, New York.

3 Q What is your business?

4 A I am the principal of R. W. Mann &  
5 Company, Incorporated, which is airline industry  
6 analysis and consulting firm.

7 Q How long have you been principal of your  
Page 6

8 own company?

9 A Since 1993.

10 Q Do you have an exhibit book in front of  
11 you? You probably don't.

12 A Yes, I do.

13 Q Good. Would you turn to Tab 1, please, of  
14 the exhibit book, would you tell me what materials  
15 are behind Tab 1?

16 A This would be the first page is my CV,  
17 second and -- well, on the second page are some  
18 prior expert work, both reports and testimony, and  
19 the third page are some publications that I have  
20 authored.

21 Q Before going through your CV could you  
22 just tell us in as much detail as you think is

1381

1 appropriate to describe what it is that you do in  
2 your company?

3 A Well, as the firm's mission suggests, it  
4 is an airline industry consulting firm, so it is  
5 both objective analysis as well as consulting work,  
6 which tends to implement recommendations that are  
7 surfaced in that analysis.

8 In the course of this we work for employee  
9 groups, for airline management, for investors in the  
10 airline industry and for industry related firms such  
11 as aircraft manufacturers, marketing firms,  
12 distribution firms.

13 And, we do some IP, intellectual property  
Page 7

14 work, both in terms of esthetic concept and  
15 marketing those concepts to the industry.

16 Q Can you give us just a smattering of some  
17 of the recent kinds of projects along a variety of  
18 lines that you have worked on?

19 A Sure. Last five or so years has been,  
20 consistent with industry fortunes, largely  
21 bankruptcy related. It has involved working on both  
22 analysis of business plans, and assisting in the

1382

1 negotiati on of vari ous consensual and  
2 bankruptcy-related wage agreement changes,  
3 compensati on agreement changes, bargai ning agreement  
4 changes for a number of empl oyer groups.

5 Those would be rangi ng from Ameri can's  
6 pilots to Northwest's flight attendants to  
7 Conti nental's avi ati on mai ntenance techni ci ans; on  
8 the company side a couple of projects for Hawai i  
9 Ai rlines relating to both the, kind of a forensi c  
10 analysi s of the reasons for i ts bankruptcy as well  
11 as one empl oymen t-related matter.

12 For Masaba Ai rlines an analysi s of the  
13 necessary level of costs and i nvestor returns to  
14 condi ti on an i nvestmen t i n that fi rm.

15 Outside of bankruptcy work about two years  
16 at South Afri can Ai rways i mplemen ti ng a seri es of  
17 i nformati on, technol ogy systems, a vari ety of  
18 frequent flyer program consul ti ng jobs, that sort of  
19 thi ng. But i t i s pri mari ly busi ness pl anni ng



20 oriented and airline economics oriented.

21 Q With that as a sort of a foreground why

22 don't you take us back to your professional

1383

1 education, that is the education that forms the  
2 basis for the work that you do, and work us forward  
3 from there through your employment up to the time  
4 that you began your own firm?

5 A Sure. Well, undergraduate education is at  
6 MIT as an aeronautical engineer, took a master's  
7 program at MIT also in management and transportation  
8 in their flight transportation laboratory.

9 Undergraduate was a degree in 1975.  
10 Master's degree was in 1977. In 1977 I joined  
11 American Airlines as a financial analyst in their  
12 industry analysis group working for the controller's  
13 department, and both in competitive assessments of  
14 American's performance, but also setting up a  
15 competitive database analysis system which  
16 ultimately became the basis for a commercially  
17 offered product that we offered to both the Air  
18 Transport Association and couple of investment  
19 houses for assisting their analytical efforts.

20 Subsequently moved on to fleet planning at  
21 American Airlines, retired a bunch of 707's, bought  
22 a bunch of MD-80s, subsequently moved to marketing

1384

1 planning, did the Dallas-Fort Worth expansion in  
2 1981, ran the Advantage program for a couple years  
3 from its inception, and then went on and automated  
4 the tour products division of American Airlines and  
5 set up its first international marketing campaigns  
6 for France and Germany.

7           Left American to go to Pan Am, as a  
8 marketing planning senior director, was named an  
9 officer of Pan Am in 1986.

10         Q    Timing is everything, right?

11         A    Sorry?

12         Q    Timing is everything?

13         A    Yes, exactly. And ran the marketing  
14 systems operation at Pan Am, later the marketing  
15 planning and programs planning operations at Pan Am.  
16 I left Pan Am, speaking of timing, a week before  
17 Lockerbee, to go to TWA as VP of marketing. And  
18 left TWA in 1991, and joined Simat, Helliesen,  
19 Eichner, also termed SH&E, which was a specialist  
20 airline consulting firm, and there both began kind  
21 of a labor advisory practice for SH&E but also  
22 participated in, among other things, the

1385

1 restructuring of America West in 1992 and '93, and  
2 that continued into '94 when I was running my own  
3 firm.

4           I left SH&E in 1993 and set up my own  
5 shop, and have advised number of clients since then.

6 Q Page 2 of your CV lists your prior expert  
7 reports and testimony. Since Roger was going to be  
8 putting you on I don't know whether you were  
9 planning to point out any of these in particular,  
10 that you wanted the panel to be aware of, or simply  
11 advise them that these reports and pieces of  
12 testimony exist?

13 A Well, that is a good question. I guess  
14 there is probably one relevant, one particularly  
15 relevant piece of prior work, and that is advising  
16 the USAir Shuttle pilots on their seniority  
17 integration with you USAir main line.

18 There are obviously a whole series of  
19 other expert work, both where testimony was  
20 involved, where expert reports were involved and  
21 where these items were produced, and then the matter  
22 settled before it actually went to court.

1386

1 Q Focusing just for a moment on a smattering  
2 of those matters in which you testified, I take it  
3 in those matters you testified and were qualified as  
4 an expert in airline economics?

5 A Airline economics or planning, yes.

6 Q Can you give us some of those  
7 circumstances that are listed in this page in which  
8 you were qualified and testified as an expert?

9 A Sure. Let's see, Presidential Emergency  
10 Board 233, IMG on that page, which was American  
11 Airlines versus Allied Pilots Association, following

12 a brief Valentine's Day strike in 1977.

13 Let's see, are you looking particularly  
14 for any particular sort of appearance because there  
15 are just numerous --

16 Q Not really. I know, for example, you  
17 testified recently in the Masaba bankruptcy?

18 A Correct, in court in Minneapolis. Again  
19 that was really a matter which revolved around a  
20 very narrow issue, and it was the investment or the  
21 basis for forming the investment returns required to  
22 interest an investor. And the key issue there was

1387

1 what level of overall costs could Masaba operate at  
2 in order to create those returns.

3 I recently also did, up in Canada, an  
4 arbitration on wage reopener for Air Canada Pilots  
5 Association.

6 Q All right. In those cases, again to be  
7 clear, you were qualified as an expert in airline  
8 economics and planning?

9 A Yes, sir.

10 Q Turning to the last page of your  
11 publications, are there any particular publications  
12 that you wanted to call to the panel's attention?

13 A Well, let's see. I guess the first one is  
14 always kind of interesting. At the time it was  
15 produced it was judged to be the dumbest idea ever,  
16 but a series of major airlines subsequently  
17 implemented it.

18 Q That is the fuel hedging piece?

19 A Yes, yes, that was simply "why would we  
20 ever do that, Bob," response to that. But it has  
21 stood the test of time, I guess.

22 There were a series of, I guess policy

1388

1 related-issues including some ATC system management  
2 issues, you know, self-induced congestion in the  
3 manner in which airlines tend to operate; a lot of  
4 small jet related issues over time, going back to  
5 some of the heady days of small jets limitations,  
6 and some more topical stuff recently that relates to  
7 some of the issues that the industry faces since  
8 September 11th.

9 Q I would offer Mr. Mann as an expert in  
10 airline economics and planning.

11 MR. KATZ: No objections.

12 BY MR. FREUND:

13 Q Bob, have you prepared a series of  
14 exhibits in Power Point slide form to illustrate the  
15 points that you want to make in your testimony  
16 today?

17 A Yes, I have.

18 Q So just as a general proposition we will  
19 go through each of them in due course, but turning  
20 to Tab 2 of the book in front of you, do those 36  
21 slides represent your presentation today?

22 A Yes, they do.

1 Q Can you turn to slide 2, please, and I  
2 take it that slide 2 is an overview of what it is  
3 that you are going to talk about today is that  
4 right?

5 A That is correct.

6 Q Could you describe in your own terms  
7 basically what it is that you are going to be taking  
8 us through?

9 A Well, it is a comparison of two airlines,  
10 a tale of two airlines, if you will, and it goes  
11 straight to the long term trends in both  
12 infrastructure, fleet, operating metrics, block  
13 hours, and employment, particularly of pilots, at  
14 these two firms, and some of the reasons why one  
15 firm, despite experiencing the same cyclicalities that  
16 the industry has basically, is forced or that the  
17 industry faces from competitive forces, economic  
18 forces outside and inside, one airline was able to  
19 grow steadily while the other airline suffered a  
20 long decline.

21 Q And I take the airline that was able to  
22 grow steadily in your judgement was America West and

1 the airline that was in steady decline was US  
2 Airways; is that correct?

3 A That is correct.

4 Q Let's turn to page 3 of your exhibits and  
Page 14

5 talk us through what this exhibit shows us.

6 A Sure, this is actually a chart of two  
7 metrics, one is US Airways fleet, the tracing  
8 yellow, and US Airways flown block hours in the dark  
9 trace from 1988 through 2004. These are annual  
10 figures, and they are derived from DOT Form 41  
11 filings by the carrier.

12 Of note here is the sharp increases in  
13 both fleet and flying from 1988 through 1990,  
14 associated with the roll up of a number of carriers  
15 into what would become US Airways, PSA, Piedmont,  
16 Empire before that. And then from 1990 a more or  
17 less long term continuous decline, with one  
18 exception, that being a brief period of expansion  
19 associated with the Metrojet Airline with airline  
20 concept which began service in 1998 and flew its last  
21 flight in 2001.

22 Q So looking at this chart from left to

1391

1 right, in 1988 the blue and yellow lines represent  
2 block hours and fleet at what was at that time an  
3 essentially US Airways as we knew it then, prior to  
4 the mergers you described?

5 A I am sorry, I didn't quite understand that  
6 question.

7 Q Well, looking at 1988 where, which is kind  
8 of the beginning of the chart, and you said there  
9 was a ramp up between 1988 and 1990, the beginning  
10 of the chart is prior, I take it is prior to the

11 addition of the Piedmont fleet, the Empire fleet,  
12 PSA fleet and the like?

13 A Yes, there was a predecessor prior to  
14 1988.

15 Q Right.

16 A That particular time frame was just shown  
17 to illustrate the roll up of the several carriers  
18 which really I believe, if memory serves, actually  
19 began in 1986 or 7, but there was a rather abrupt  
20 increase in activity, as you can see from the chart.

21 Q Okay. And we are going to be looking more  
22 at Metrojet in the next couple of slides, but on

1392

1 this slide 3, just why don't you direct our  
2 attention to, I think it is, it may be self-evident,  
3 but direct our attention to where on this slide  
4 where we see the Metrojet bubbling?

5 A Sure, that would be the increase really  
6 during 1999 through 2001 in the blue trace, for  
7 example, which is block hours. The fleet itself,  
8 while it increased slightly in 2000, really the  
9 expansion, if you will, is in block hours more than  
10 it is in fleet per se.

11 Q All right. Turning to slide 4, please,  
12 before you go through the slide, can you tell us  
13 what Metrojet was?

14 A Sure. Metrojet was US Airways'  
15 manifestation of a concept which was variously  
16 described as an airline within an airline. It was



17 designed as several other carriers had also designed  
18 similar carriers previously, to compete with low  
19 cost carrier competition, specifically Southwest,  
20 but in general low cost and low fare carrier  
21 competition.

22 And it was designed to attempt to carve

1393

1 out a portion of the main line operation of those  
2 carriers and to operate it at a lower cost basis.

3 The intended objective, again to compete  
4 with Southwest, which obviously did have a lower  
5 cost basis and continues to have a lower cost basis.

6 These concepts were attempted by  
7 Continental in an operation termed Continental  
8 Light, based in Greensboro, North Carolina. It was  
9 attempted by United Airlines as part of its employee  
10 stock ownership sale of the company in 1994,  
11 thereabouts, as United's Shuttle, which operated  
12 chiefly on the western United States.

13 It was attempted by Delta Airlines with  
14 their Delta Express or so-called Sunshine operation.  
15 And the US Airways' manifestation was termed  
16 Metrojet, or sometimes kind of pejoratively, Me Too  
17 Jet, given that it came several years after the  
18 prior manifestations by others.

19 The common outcome of all these was  
20 basically a failure to reach the costs that would be  
21 either competitive with Southwest or to be  
22 sufficiently attractive to continue.

1           Each of these operations was terminated in  
2 some cases within a year. Continental Light didn't  
3 last a year. United Shuttle basically morphed back  
4 into United Airlines.

5           The Delta Express operation lasted a bit  
6 longer, and again Metrojet which began, in I believe  
7 it was May of 1998 with five aircraft, it reached 42  
8 aircraft by year 2000, began to scale back actually  
9 in 2000 and flew its last flight in December  
10 of 2000. The operation was formally cancelled or,  
11 you know, planned for cancellation in April of 2001.

12         Q     The current trend in, or at least one of  
13 the current trends in the airline industry among the  
14 majors, is to fly separate small jet, regional jet  
15 operations. Was this a small jet regional jet  
16 operation or what kind of operation from an  
17 equipment standpoint?

18         A     This was a main line 737-200 operation.  
19 The only cost variable that differed from main line  
20 was the pilot compensation agreement which had both  
21 a cash and a US Airways stock component.

22           The cash component was designed, and I

1 think this is an important point to make, was  
2 designed to match the market rates for what the

3 company judged to be the market rates for pilot  
4 compensation. And across the progression scale for  
5 both captain's and first officers was pretty darn  
6 close to those rates then being offered by America  
7 West for pilots and first officers.

8 But, in no other craft or class of  
9 employee were Metrojet's cost any different than  
10 main line, and arguably the choice of the 737-200,  
11 being the least efficient airplane in the fleet from  
12 a fuel efficiency standpoint, just merely was a cost  
13 transfer issue and it really was not at all similar  
14 to small jet operations, which both have lower trip  
15 cost and substantially lower labor costs across the  
16 board.

17 Q So, now looking at Exhibit 4, can you --  
18 it is a busy exhibit, if you can just describe to us  
19 what it is that it shows us?

20 A Sure, this is a comparison of annual  
21 growth rates in block hours. So we go back to the  
22 first chart which had that block hour traced in blue

1396

1 on page 3 and then we look at that data in the form  
2 of year over year change from 1991 through 2004.

3 And what we see is that the, on a year to  
4 year change basis, with the exception of year 2000  
5 where there was an 11 percent increase in block hour  
6 flying, there really were no substantial growth  
7 years throughout that 13-year period, and indeed  
8 there were a number of years where the growth was

9 negative.

10 So, just the point here was that the  
11 essentially the sole period of growth during that  
12 entire episode, 1991 through 2004, was that sole  
13 year 2000, associated with the Metrojet expansion.

14 Q Let's look at the next chart or the next  
15 exhibit, Exhibit 5 or page number 5. Does that show  
16 sort of more pointedly the relationship between job  
17 growth generally and Metrojet growth?

18 A Well, again this is still denominated in  
19 block hours, but it actually shows the top line or  
20 the blue trace is actually system block hours on a  
21 quarterly basis. The prior data we had seen was  
22 annual. This is now at a quarterly level of

1397

1 reporting, which is the most granular level that  
2 airlines report the data for this particular  
3 schedule.

4 The yellow trace at the bottom, and if you  
5 notice the scale on the chart on the left hand axis  
6 is actually clipped, it is cut from 200,000 to  
7 400,000 block hours per quarter. So there is  
8 actually, there is space below that, but we scaled  
9 it such that it actually illustrates the point that  
10 is to be made here, which is that as much as  
11 Metrojet flew, it represented the growth compared to  
12 system activity less Metrojet across that entire  
13 period.

14 The red trace in the middle of that chart

15 is actually the system flying block hours less the  
16 Metrojet flying, and you can see that from the  
17 second quarter of 1998, at a little less than  
18 320,000 block hours, there were essentially no  
19 periods where that was greatly exceeded throughout  
20 that entire 1998 through 2001 time span.

21 Q By 2001 was significantly lower than that?

22 A Right, and of course that the last flight

1398

1 was actually December of 2001, so that terminated  
2 the Metrojet episode.

3 Q So page 5 is block hours. Let's turn to  
4 page 6 and have you describe to us what that  
5 reflects, vis-a-vis pilots of the US Airways  
6 property?

7 A Sure. Well, pilot expectations or job  
8 expectations are really driven by block hour-related  
9 metrics. To the extent block hours expand, that in  
10 theory should create more jobs. If they decline it  
11 should, in theory, result in the need for fewer  
12 pilots, productivity issues of course being the  
13 variable.

14 But if one looks at the, at five separate  
15 airways seniority lists which included both status  
16 and basing, and then compares the number of pilots,  
17 number of active pilot jobs in January 1998 before  
18 the Metrojet experiment began, it is roughly 4500.

19 By January 1999 when Metrojet had been  
20 operating for several months at that point, there

21 were almost 400 Metrojet positions and 4008 main  
22 line positions other than Metrojet.

1399

1 Through the January 2000 and January 2001  
2 periods the number of Metrojet pilots actually  
3 increased to 545, the main line, except Metrojet,  
4 increased to 4781, and by the time the January 2002  
5 seniority list was prepared there were of course no  
6 Metrojet pilots, the division having folded, and  
7 there were 4364 main line pilots.

8 So, throughout that entire span the  
9 majority of the increase in total pilot positions  
10 was actually Metrojet related.

11 Q Then turning to page 7, which I believe is  
12 the last slide that deals with Metrojet, can you  
13 describe for us, you may already have prefaced it a  
14 bit in your testimony, but can you describe for us  
15 what it is that this tells us?

16 A Well, this is actually, these are extracts  
17 from two articles in Aviation Daily, one on  
18 April 25, 2001, the other on December 4th, 2001; in  
19 the April article the beginning or the formal  
20 demise, if you will, of Metrojet is announced.

21 And what is interesting is that literally  
22 the day prior I had an analyst conference or I

1400

1 believe two days prior at an analyst conference,  
Page 22

2 Airways was still backing Metrojet fully, but  
3 literally two days later there was a formal  
4 announcement of the intent to disband the operation.

5 The article also refers to the fact that  
6 Airways had been reducing its Metrojet flying for  
7 more than a year already, so in fact the demise  
8 began earlier in the year 2000.

9 Then looking at the December 4th article,  
10 it comments on the last flight of Metrojet on that  
11 particular date, which operated on time but with  
12 eight passengers on board.

13 Q So, I am not meaning to pick on US Airways  
14 particularly when I ask you this question, but I  
15 take it that US Airways, again from your earlier  
16 testimony, US Airways' experience with regard to the  
17 use of an airline within airline in order to compete  
18 with low cost carriers was no different in any  
19 significant respect from the success or failure of  
20 any of the other network carriers?

21 A The result was the same. I think it could  
22 be argued that at the point it was announced that

1401

1 there was already a lot of evidence that this form  
2 of a structure was not viable, and indeed the way it  
3 was implemented with only one significant labor  
4 group participating in cost reductions, it was even  
5 less capable of being successful than were some of  
6 the others where there were across the board changes  
7 in compensation.

8 Q Let's turn to page 8, and have a change of  
9 subject.

10 Tell us what it is that page 8 says and  
11 where you are going to take it us with the next set  
12 of slides?

13 A Well, although there was a long-term  
14 decline as we illustrated since 1990 and then the  
15 roll up of a number of carriers into US Airways,  
16 September 11th obviously had major impact on the  
17 entire industry, but it had the greatest impacts on  
18 companies that had the least financial viability  
19 going into the aftermath, those carriers that had  
20 the weakest balance sheet, those carriers that had  
21 the highest costs and lowest margins.

22 When the aftermath of September 11th

1402

1 forced the industry to restructure it generally  
2 resulted in substantial reduction in capacity, at  
3 every carrier, almost every carrier, perhaps  
4 Southwest and Alaska Airlines being the exceptions.

5 The difficulty of trying to downsize an  
6 operation and also reduce its unit costs in effect  
7 to reduce costs faster than you reduce capacity, is  
8 it is a very difficult task. It can't be minimized  
9 or made to seem easy, because it is not.

10 On the other hand, in attempting to  
11 downsize its operation to reflect marketplace  
12 realities, US Airways was perhaps less successful  
13 than many in controlling its costs while doing that



14 contraction.

15           As a result it filed one and then  
16 ultimately a second bankruptcy. After that first  
17 restructuring was unsuccessful. In the process of  
18 going through these two bankruptcies to downsize the  
19 airline significantly twice, and in crafting a  
20 solution to the problem of how to restructure, it  
21 formulated a plan to both downsize main line  
22 operation or network operations while supplementing

1403

1 with a larger number of small jet operations than  
2 had previously been permitted under the pilot  
3 contract, but was ultimately unsuccessful in doing  
4 that.

5           So the effect of these transformation  
6 plans was to reduce the main line without having  
7 ever successfully back filled or supplemented, if  
8 you will, with small jet activity.

9           Q    Before we go down this path let's just go  
10 back a year or so before September 11th. We will  
11 have some testimony about this, at least a little  
12 bit of testimony about this later on, but can you  
13 tell us just in brief terms, really remind everybody  
14 who is familiar with the airline industry what US  
15 Airways' plan was with respect to United Airlines  
16 late in the '90s and early in the 2000s?

17           A    Right. I may not get the date right here  
18 but there was, I believe it was in 2000, May or June  
19 of 2000 --

20 MR. GILLEN: May.  
21 THE WITNESS: There we go.  
22 MR. FREUND: Steve remembers that well.

1404

1 MR. GILLEN: I don't hold a grudge.  
2 THE WITNESS: We will give credit where it  
3 is due.

4 In May of 2000 there was an announcement  
5 of a proposal for United Airlines to acquire US  
6 Airways, and structure a series of other  
7 transactions which would spin off certain portions  
8 of the operation to satisfy what were believed to be  
9 Department of Justice-related concerns about route  
10 overlaps and certain other parts of the transaction.

11 That particular proposal to merge was  
12 associated with a quite attractive share price offer  
13 for US Airways, \$60 a share, which was I guess about  
14 a 20, 25 percent premium over the then market price  
15 of the Airways share.

16 It was pretty widely discussed both in the  
17 Congress and in Congressional testimony and  
18 obviously among Department of Justice sorts of  
19 venues. It seemed to have a very uphill path to  
20 climb in order to get to closure, such that by  
21 February of 2001 it was, it appeared to be seriously  
22 impaired.

1405

1           Steve Wolf, who was then the chairman of  
2 US Airways Group, testified before Congress on the  
3 necessity for that merger transaction to be  
4 approved, and he did so in pretty blunt terms,  
5 suggesting that the airline had no future as a stand  
6 alone carrier, and hence the merger needed to be  
7 approved.

8           I believe it was by June of 2001, however,  
9 the Department of Justice proposed, as well as the  
10 attorney general, proposed to sue to have the  
11 transaction blocked, at which point the companies  
12 abandoned the proposal. And that of course was  
13 problematic because as part of the discussion of the  
14 transaction the company had admitted in no uncertain  
15 terms that, and I believe I am quoting for Curt  
16 Gangwau who was I believe then the CEO of US  
17 Airways, that they had no plan B, they had no fall  
18 back plan, if you will, if the transaction was not  
19 approved.

20           So that was kind of the roll up to  
21 June 2001, several months before, arguably much more  
22 serious events occurred.

1406

1           BY MR. FREUND:

2           Q    Okay, let's turn to page 9, please. This,  
3 I take it, is just further explication of US Airways  
4 circumstances in a narrative form, post 9-11?

5           A    That is correct, yes. There was an

6 initial furlough, actually later than a number of  
7 carriers. Most carriers literally furloughed within  
8 the October 2001 time frame, and if I recall  
9 correctly, the first US Airways furlough was  
10 relatively small and later in the year, and then the  
11 first large scale furlough was in, I am going to  
12 guess here, probably February-March of 2002.

13 But in the process of a series of other  
14 negotiations there were also changes to the bargain  
15 agreement, letters of agreement, which began the  
16 process which we will see later continued, of  
17 getting greater productivity from the pilot group  
18 and in controlling pilot employment costs.

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

20 Why don't you tell us what you were trying  
21 to show us with this slide and then take us through  
22 what it is that we are looking at?

1407

1 A Sure. Well, we had previously looked at,  
2 if you recall one of the initial slides both US  
3 Airways' fleet and block hour flying levels from  
4 1990 or actually 1988 through 2004, this is the 1990  
5 to 2004 period, and it shows US Airways pilot  
6 employment on the basis that it is filed with DOT,  
7 which is the so-called full time equivalent basis,  
8 and although the chart is actually labeled 1985, of  
9 course it is actually only 1990 to 2004. It is my  
10 error.

11 What it shows is a continuing decline from

12 the 1990 levels of about 5611 pilots. The red  
13 dotted line with the smaller negative slope left to  
14 right, is the long term trend in pilot employment  
15 from 1990 to 2004.

16 The shorter red dotted line with the  
17 greater negative slope left to right is the post  
18 9-11 trend in pilot employment.

19 We earlier talked about this Metrojet  
20 bubble, and that is illustrated with the increase in  
21 overall FTE pilot employment from a 1998 level of  
22 4389 to a 2000 level of 5247 positions. And as we

1408

1 can see from that point, pilot employment decreased  
2 from 5247 in 2002 to 2967 in 2004.

3 So, both on a long-term basis, but most  
4 pronounced on a post 9-11 basis, the trend in pilot  
5 employment has been a decline.

6 Q Is the picture that you showed in slide 10  
7 picked up and sort of magnified or looked at a  
8 little more tightly and carried forward on slide 11?

9 A Well, slide 11 is actually the size of the  
10 or the number of pilots on furlough at US Airways at  
11 those various quarterly periods.

12 Q Okay.

13 A So it is actually, if you will, it is  
14 derived from the changes in FTE pilot employment but  
15 indeed, you won't find a direct correlation because  
16 these are actual individuals, whereas the prior  
17 slide is full time equivalent and there is also

18 attrition and other factors going on.

19 Q Okay.

20 A But, yes, this is the level of furloughs.  
21 We see a pretty modest number in the fourth quarter  
22 of 2001 of 26, increasing through the fourth quarter

1409

1 of 2002 to a 1070, and a series of additional  
2 furloughs that result by the third quarter of 2003,  
3 in more than 1800 pilots on furlough.

4 And from the third quarter of 2003 onward  
5 that number is consistent 1879 pilots on furlough.  
6 Such that the junior active pilot then flying at US  
7 Airways was a July 1988 hire, date of hire.

8 Q And that was the state of affairs up to  
9 May 19th, 2005?

10 A Right, it is right through -- well, this  
11 actually shows the first quarter of 2005 but it also  
12 would be the case on May 19th of 2005.

13 Q Right. Turning to slide 12 and -- well,  
14 turning to slide 12, I take it that slide 12 again  
15 is a road map of what you are going to tell us about  
16 the change in the US Airways fleet over time?

17 A Well, it is really a starting point and an  
18 ending point. There is a lot that goes on in the  
19 middle.

20 Q Okay.

21 A But, yes, I mean from a starting point of  
22 almost 400 airplanes at the main line in year 2000,

1 with a very restrictive, arguably the most  
2 restrictive small jet scope clause that permitted  
3 only 35 airplanes. By 2004, following two  
4 bankruptcies, the company had hoped to emerge with  
5 210 aircraft at the main line, almost a 50 percent  
6 reduction in main line flying; then to be  
7 supplemented by essentially an unlimited number of  
8 small jets.

9 In the final analysis, however, the  
10 company was unable to finance the small jet portion  
11 of this solution, and so found itself having  
12 dramatically downsized the main line without having  
13 financial capacity or being able to interest lenders  
14 in funding the small jet portion of the  
15 transformation plan.

16 Q Just a small footnote. We have bandied  
17 about the number 210 and 211 back and forth?

18 A Right.

19 Q Is there a way to understand or reconcile  
20 the difference between 210 and 211?

21 A Sure. Well, starting from a base of 281  
22 aircraft which were operated prior to the second

1 restructuring, the proposal was to remove, a series  
2 of cuts, but ultimately numbering 71 aircraft. So  
3 if one does the math, 281 less 71 should be 210.  
4 For a variety of reasons it may not be.

5 Q Well, it will always be 210, by the math.

6 A Correct, but it may not be implemented as  
7 such. I guess the best I can reconcile that, there  
8 seems to be a 757 which was proposed to be  
9 eliminated which somehow was saved such that it  
10 ended up being 211 aircraft.

11 Q Okay. And we will come in later slides to  
12 the titration down to the 210, but this was simply  
13 the first time we saw that number, and the panel has  
14 heard the number 211 before, and I thought we ought  
15 to just highlight that.

16 A Right, right, but I mean the other way of  
17 looking at this, of course, is that the manner in  
18 which that 210 number was reached, well, was a  
19 series of successive reductions, and one has to  
20 assume, one has to make the assumption, that somehow  
21 that would have been the final cut if the 210 were  
22 to be the final number.

1412

1 The reason a series of cuts were  
2 ultimately made is because various conditions were  
3 not met in the course of the restructuring, and thus  
4 I could equally assume that had those conditions not  
5 been met associated with 210 aircraft, that 210  
6 would have been 200, 180, 175, some other  
7 successively lower number. And, in the worst case,  
8 of course, had the company not survived as an  
9 independent entity at all, that number would have  
10 been zero.



11 Q All right. Let's turn to slide 13. Again  
12 there is a lot of information on this slide. Why  
13 don't you just talk us through it so that we can  
14 understand what you are telling us?

15 A Well, this slide really portrays the  
16 sequence of events that unfolded during the first,  
17 prior to and during the first bankruptcy and  
18 restructuring. The key dates involved are 2002  
19 prior to the restructuring, a creditors' meeting on  
20 August 16th of 2002, a restructuring meeting  
21 following the bankruptcy having been filed, and that  
22 restructuring meeting occurred on August 22nd of

1413

1 2002, and then the plan of reorganization as filed  
2 on December 20th, 2002. Again, this was the first  
3 bankruptcy, and the first plan of reorganization.

4 But if we look at kind of two, we are  
5 looking at two aspects of how US Airways believed it  
6 would restructure, we are looking at the main line  
7 fleet on the one hand, we are looking at the small  
8 jet fleet or the scope of operations on the other.

9 In 2002 prior to the restructuring, prior  
10 to the bankruptcy filing and restructuring, Airways  
11 operated 311 aircraft, so that was already now a  
12 decrease from 398 aircraft in 2000. On the small  
13 jet side I believe it operated 35 small jets.

14 There was a, the way that language was  
15 then written, as I recall it, was 35, or 9 percent  
16 of the main line fleet, which I think would still be

17 35. It would be the greater of those two numbers,  
18 at 35; by August 15th, which was a prebankruptcy  
19 meeting of creditors to forestall a bankruptcy,  
20 presumably there is an SEC filing which memorializes  
21 a discussion between the company and creditors in  
22 which it identifies that it has excess units at main

1414

1 line with a number to be determined, and it believes  
2 it wants to operate up to, sorry, 300 or more, small  
3 jets of a size range of 35 to 90 seats.

4 So this is it. This is actually a power  
5 point presentation or some similar graphical  
6 presentation given to creditors, and this  
7 information was ultimately filed with the SEC. That  
8 is the source of this.

9 There is a following filing which  
10 memorializes a meeting titled restructuring meeting.  
11 So this is post bankruptcy, on October 22nd, at  
12 which the company identifies, it has identified 30  
13 plus excess main line aircraft, and it believes it  
14 wants to supplement the main line network with 400  
15 or more small jets in a size range of 35 to 76  
16 seats.

17 So we can see on the one hand a more  
18 particular view of what sort of main line fleet  
19 pruning will likely be necessary and a refinement,  
20 if you will, of the scope of small jet operations,  
21 apparently eliminating the largest 90 seat aircraft  
22 and focusing on what I would guess is aimed at the

1 Embraer 175 or 170 aircraft, possibly the CRJ 905  
2 aircraft at a reduced capacity.

3 Then by December 20th of 2002 with the  
4 actual language of the restructuring, the plan of  
5 reorganization, the company affirmed that it indeed  
6 plans to reduce by 31 aircraft in the main line  
7 fleet so that main line fleet would then number 280  
8 aircraft.

9 It specifies that part of the agreement  
10 with pilots and possibly others, that it would  
11 establish a minimum number of aircraft to be  
12 operated at main line of 279 units, so it is  
13 literally essentially at the, it is at that limit or  
14 pretty close to it.

15 And then on the small jet side of the  
16 equation, as part of their transformation plan, it  
17 wishes to operate up to 465 small jets.

18 So this kind of gives a perspective on  
19 what was happening on the main line network on the  
20 one hand and how the company envisioned meeting or  
21 needing to grow the small jet side of the network.

22 Q How were those small jets intended to be

1 operated under this transformation plan?

2 A Well, at this point in time the plan I

3 believe was to operate all these as the wholly  
4 owned. In other words, this was a wholly owned U.S.  
5 Express operation which would really transform that  
6 from a largely turboprop group of operators to a  
7 largely small jet group of operations.

8           And I believe associated with that at this  
9 point in time there were agreements to, that with  
10 would allow US Airways pilots who might be affected  
11 by the downsizing of the main line fleet to move  
12 either on a preferential hiring basis or literally  
13 on a displacement basis into captaincies that were  
14 created by the placement of these new small jets at  
15 the wholly owned subsidiaries of US Airways.

16           Q    So what you have described was what the  
17 plan of reorganization provided for and what US  
18 Airways' exit from bankruptcy strategy for the  
19 future was after bankruptcy one, correct?

20           A    Yes.

21           Q    Let's turn to the next slide, please, this  
22 is page 14. Tell us what this slide shows and what

1417

1 it is that you have to tell us about the first  
2 reorganization?

3           A    Well, unfortunately it was not successful.  
4 Just as a general sense, I think those who were  
5 involved with it have acknowledged that it was  
6 rushed. There was a desire to get in and out  
7 quickly from the first bankruptcy, and as a result  
8 perhaps not all of the due diligence that could have

9 been done was done, with the result that the company  
10 never met its revenue targets. Whether these were  
11 optimistic or whether they just never met whatever  
12 targets were there, it doesn't really matter. The  
13 company did not meet its expense reduction targets.  
14 Again, whether these were optimistic or whether  
15 implemented poorly, it doesn't really matter.

16 One component of the expense reduction  
17 forecast that was affected by outside factors which  
18 arguably could have been at least modeled if not  
19 assumed, was fuel price increases, which increased  
20 monotonically over that period, and in fact  
21 continued beyond.

22 And on the revenue side of the equation,

1418

1 really the competitive side as well, the company did  
2 not forecast what turned out to be a pretty massive  
3 expansion by low fare, low cost competition  
4 including Southwest's announcement in February 2004  
5 that it would enter the Philadelphia market with  
6 first six flights to six cities in May of 2004, and  
7 ultimately 13 cities by July of 2004.

8 Similarly, the former Atlantic Coast  
9 Airlines, a regional jet service agreement operator,  
10 changed into a Dulles-based small jet independent  
11 carrier, Independence Air, and really bated the east  
12 coast with very, very low fares, which seriously  
13 impacted Southwest's ability to -- I am sorry,  
14 seriously impacted Airways' ability to generate the

15 sort of fare levels and revenue that it had been  
16 able to in the past, and would likely be forecasted  
17 to be able to do during its restructuring period.

18 Q What were the consequences of these forces  
19 that you have just described?

20 A Well, the consequences were since  
21 financial targets had not been met there were a  
22 series of agreements that went with exit financing

1419

1 that became imperiled, both in the sense of  
2 covenants associated with those agreements and then  
3 just the overall viability of the airline, such that  
4 further negotiations with employees, including  
5 pilots, were necessary; further negotiations with  
6 creditors including aircraft providers, engine  
7 providers and others were necessary, and these  
8 proceeded with a pretty great and rapid pace in  
9 early 2004.

10 Q Turn to slide 15, please. You mentioned  
11 GECAS before and now GECAS has a prominent place on  
12 this page. I think we all know generally what GECAS  
13 is but can you tell us more particularly what  
14 GECAS's role was in the post bankruptcy, well, in  
15 bankruptcy one emergence and then in the post  
16 bankruptcy one and bankruptcy two period of time?

17 A Well, GECAS is General Electric Commercial  
18 Aviation Services and they and General Electric  
19 Engine Services were a large provider of aircraft  
20 and engines to the company. They both leased them

21 and owned certain equipment operated by US Airways.  
22 GECAS was also a lender to the company in its

1420

1 restructuring; provided liquidity exiting the first  
2 bankruptcy, ultimately provided it again in the  
3 second bankruptcy.

4           So, they were a very major player and had  
5 a very direct say in both the manner in which the  
6 company planned its operation and the manner in  
7 which it tried to meet its financial targets.

8           So, the upshot of this was they became  
9 directly involved in negotiations with employee  
10 groups over wage-related matters,  
11 productivity-related matters and with the company in  
12 terms of what flight assets, airplanes and engines  
13 GE wished to either remove from service, if  
14 financial targets could not be met, or continue to  
15 provide to the company if it was able to meet those  
16 financial targets.

17           It was also a lender in respect of  
18 offering to finance some of the small jet aircraft  
19 that US Airways hoped to place at its wholly owned  
20 regional s.

21           Q    So what is your bullet of April 2004  
22 intended to tell us or what is the, what are the

1421

1 particularities that underlie that?

2           A     Well, again the issue here really is that  
3 they are directly involved in creating conditions  
4 and in fact making demands on employees, and  
5 particularly pilot groups, as well as others.

6                     They are also pulling equipment out of the  
7 airline, proposing to pull equipment out of the  
8 airline if targets cannot be met, and at the same  
9 time proposing to replace some of that main line  
10 equipment by providing financing for small jet  
11 flying at regionals.

12           Q     And then your next bullet on this page is  
13 June 2004. It may speak for itself but why don't  
14 you tell us what happened?

15           A     Well, the, again the event was Standard &  
16 Poor's, which is a credit rating service, lowering  
17 US Airways groups credit rating to a speculative  
18 level. But the impact on this was that it  
19 potentially triggered covenants in several lending  
20 agreements, both with General Electric and Air  
21 Transport Stabilization Board, and the import of  
22 that ultimately is that it affected the company's

1422

1 ability to implement the small jet portion of its  
2 solution to its network.

3           Q     Let's turn to slide 16, please. Does this  
4 further describe the circumstances that followed the  
5 downgrading of the credit rating?

6           A     Right, and this focuses particularly on  
7 the impact on the small jet portion of the



8 transformation plan, in the sense that initially the  
9 company is unable to finance certain deliveries,  
10 hence the delays.

11 It attempts to change the character of the  
12 order book to, from a largely 50 seat aircraft order  
13 book to more of a 70 seat aircraft order book. It  
14 looks to bargain with pilots to include a larger  
15 aircraft which had been discussed in the first  
16 restructuring, but then apparently left behind. So  
17 these were the 86 seat aircraft, the Bombardier  
18 CRJ900 series airplane.

19 Ultimately Bombardier, who is a  
20 manufacturer/financing, essentially back stop  
21 financing for some of the airplanes involved here,  
22 ceases to deliver additional aircraft when it loses

1423

1 confidence in US Airways' ability to satisfy those  
2 financing agreements.

3 And, General Electric concludes that while  
4 it is willing to finance additional small jets it is  
5 no longer able to finance them if they are owned US  
6 Airways. Hence, it seeks to move them to  
7 independent airlines, for example Republic Airlines  
8 or others, who would both be financeable, and then  
9 operate those aircraft on behalf of US Airways.

10 So we have gone from a plan which was at  
11 least in the conceptual stage largely to be a wholly  
12 owned small jet supplement to the main line, to one  
13 which now based upon a lack of financial performance

14 and financial capacity, is likely going to have to  
15 be an independent small jet operation covered under  
16 jet service agreements, and which may not on that  
17 basis have all the capacity to be jets for jobs pass  
18 through sort of airlines with preferential hiring.

19 Q What do you mean by jets for jobs? Why  
20 don't we just take a moment and have you describe  
21 that in general terms for the panel, what that  
22 means?

1424

1 A Well, I guess it might be described as a  
2 series of proposals which in exchange for more rapid  
3 growth at regional carriers affiliated with a  
4 particular main line operation, would allow pilots  
5 furloughed due to downsizing of those main line  
6 airlines to have either preferential hiring or in  
7 some places literally displacement options into the  
8 captain seats on those new airplanes to then be  
9 supplied to those regional airlines.

10 In other words, we are downsizing main  
11 line, we are going to be affecting some main line  
12 pilot jobs, on the other hand we are going to grow  
13 regional operations more rapidly, and some of those  
14 regional operation captaincies would then be made  
15 available to main line pilots who could displace  
16 into them. That is in theory the jets for jobs  
17 structure.

18 When you own both the main line and the  
19 regional subsidiary that is presumably a little

20 easier to control, if not easy to negotiate, but  
21 certainly more controllable than having those new  
22 regional aircraft show up at independent carriers

1425

1 with whom you have no bargaining, direct bargaining  
2 relationship other than trying to specify in your  
3 jet service agreement that they honor a jets for  
4 jobs sort of protocol. And so this is what Airways  
5 found itself needing to do at this point.

6 Q Turning to slide 17 then, what historical  
7 period or more to the point, events are encapsulated  
8 in this page?

9 A Well, there was a Letter of Agreement  
10 termed LOA 93, I believe was put in place in  
11 November 2004, and this would be post -- well, just  
12 about -- yes, post bankruptcy two, which effectively  
13 was a response to the term sheet then being offered  
14 to pilots by management.

15 And the import of this was severe in the  
16 sense that in earlier rounds of pilot productivity  
17 negotiations and in fleet downsizing negotiations  
18 the pilots had put together, pilots at US Airways  
19 had put together a very well crafted series of  
20 safety nets, if you will, in terms of minimum number  
21 of aircraft to be operated main line, minimum  
22 utilization of each of these aircraft in sense of

1426

1 hours per day, and a resulting minimum number of  
2 total block hours to be operated by the main line;  
3 then the clear import here was job preservation.

4           Unfortunately what LOA 93 did, of  
5 necessity, was to remove most of these safety nets.  
6 It removed the number of or it eliminated the  
7 minimum aircraft provision which was earlier that  
8 279 aircraft that we spoke of. It eliminated the  
9 daily utilization minimum and the block hour  
10 minimums. So now there really were no metrics that  
11 provided safety nets to pilot jobs.

12           On the other hand, it increased the  
13 company's flexibility to deploy small jets including  
14 new definitions of equipment which literally read  
15 like large small jets, jumbo shrimp, if you will,  
16 kind of an oxymoron.

17           But it really spoke to the, you know, in  
18 fairness, it spoke to the difficulty of the  
19 negotiation. It was clearly a, you know, to agree a  
20 life or death proposition from the company's  
21 standpoint, but also from the pilot bargaining  
22 perspective.

1427

1           It also eliminated, well, actually going  
2 back to the small jet issue, it also permitted far  
3 more independent operation of these small jets. So  
4 in other words those were not quite so limited to  
5 wholly owned operation, but rather could be more

6 widely operated outside the US Airways wholly owned  
7 network.

8           It also eliminated a provision in the  
9 MidAtlantic Airlines agreement which permitted  
10 affected pilots on the US Airways seniority list to  
11 displace to the left hand seat or the captain's seat  
12 of Embraer 170 aircraft operated by MidAtlantic.  
13 That was eliminated. The ability to displace was  
14 eliminated. I believe they still had the ability to  
15 bid for vacancies if such may occur.

16           It did, however, maintain all of the pilot  
17 productivity enhancement that had been negotiated in  
18 the prior agreements. So what you had was in effect  
19 from the company's perspective, all of the up side  
20 of pilot productivity, enhanced up side in terms of  
21 small jet usage flexibility and more up side in the  
22 sense of the ability to be far more flexible in how

1428

1 far further it trimmed its main line fleet beyond  
2 the minimums that had been previously established.

3           CHAIRMAN NICOLAU: Mr. Freund, I believe  
4 the witness dated LOA 93 as 1994, he meant 2004, I  
5 believe.

6           THE WITNESS: Excuse me, yes, 2004.

7           CHAIRMAN NICOLAU: October 2004, well,  
8 that is what it is dated. I just want the record to  
9 be sure that we have it.

10           Was that post bankruptcy two or was it or  
11 post bankruptcy one?

12 THE WITNESS: Bankruptcy two was  
13 September 2004, so -- so it was essentially  
14 negotiating against the term sheet.

15 CHAIRMAN NICOLAU: Within bankruptcy two?

16 THE WITNESS: Yes, within bankruptcy two.

17 BY MR. FREUND:

18 Q I was going to try to finish through the  
19 slides that deal with US Airways before I suggested  
20 that we take a short break, but I think maybe I  
21 would like to suggest that we take a short break  
22 now, even though we are not quite done.

1429

1 CHAIRMAN NICOLAU: Very good, five or ten  
2 minutes, okay.

3 (Recess-11:32 a.m. -- 11:50 a.m.)

4 CHAIRMAN NICOLAU: I think we are ready.

5 BY MR. FREUND:

6 Q All right. Bob, before we broke you were  
7 telling us a number of things, one was about GECAS's  
8 role in US Airways restructuring and the second was  
9 the elimination of various of the contractual safety  
10 nets in the US Airways pilot contract.

11 With that as background, there is a series  
12 of slides which I thought were sufficiently  
13 complicated that it made sense to take a break  
14 before you took us through them. But now that we  
15 are back if you would turn to slide 18, please, and  
16 since the structure of that slide, at least colors  
17 in that slide are colors that we were going to see

18 in the next few, why don't you tell us what this  
19 slide shows and walk us through in some detail,  
20 through its contents.

21 A Okay, this is a -- well, this is the first  
22 of a couple of slides which will portray the

1430

1 sequential reduction of aircraft, ultimately other  
2 related factors, that occur during a series of  
3 announcements and negotiations that occur from  
4 November 24, 2004, which was the, I believe that was  
5 a formal announcement from the company and General  
6 Electric which specified General Electric's  
7 willingness to fund on the one hand some liquidity  
8 and some small jet acquisitions in exchange for a  
9 return of certain aircraft over the period 2005  
10 through 2007.

11 And then a series of further calls, if you  
12 will, of aircraft, which occurred and were actually  
13 part of Phil Carey's testimony in the first stage of  
14 the arbitration, culminating in the May 19th, 2005  
15 announcement of the proposed merger between US  
16 Airways and America West.

17 So these are four different fleets which  
18 were envisioned, four different US Airways main line  
19 fleets that were envisioned as of these dates, and  
20 it illustrates how sequential reductions in that  
21 fleet occurred as the company was unable to achieve  
22 certain financial targets that were initially

1 established in November 2004.

2           So, in November 2004 the company was  
3 expecting to operate approximately 256 aircraft. As  
4 of February 25th, 2005, this is the yellow trace  
5 below the upper trace, a further 11 aircraft would  
6 have been reduced.

7           By May 4th, 2005, as was described by  
8 Captain Carey, an additional 10 aircraft would be  
9 proposed to be reduced, and in the final  
10 announcement of the proposed transaction, a final  
11 number of 210 aircraft, which is that bottom trace,  
12 and which would be achieved over the period of 2005  
13 to 2007 would be reached. And that is a series of  
14 reductions but totaling 71 aircraft or roughly a  
15 quarter of the fleet of 281 aircraft that the  
16 company operated in 2004.

17           These are of course significant because,  
18 you know, first they obviously go well below the  
19 former minimum fleet floor of 279 aircraft and they  
20 illustrate the extent to which General Electric was  
21 a prime mover here in taking back additional assets  
22 as the company was unable to achieve cost reduction

1 targets identified in the November 24th  
2 announcement.

3           Now, I guess the other issue to point out  
4 here is that although the final fleet level of 210



5 is shown here, had the transaction not closed in  
6 September 2005, as it in fact did, I don't believe  
7 there is any assurance that this 210 aircraft  
8 minimum would ever have been the lowest level. I  
9 believe there would have been sequential calls by US  
10 Airways, calls on US Airways fleet by GECAS, until  
11 all of GECAS's assets were removed from risk.

12 So while this was, if you will, the final  
13 announcement, had the transaction not closed I don't  
14 believe it would have been the final set of cuts.

15 Q All right. Turning to slide 19, and that  
16 follows the same pattern; is that right?

17 A Follows the same pattern, that is correct.  
18 And what these are is extrapolations from the 2004  
19 actual level of block hours flown US Airways. And  
20 based upon the fleets which were specified in the  
21 earlier slide, a level of block hours which,  
22 assuming no change in aircraft productivity could

1433

1 have been achieved by those successive levels of  
2 cuts of aircraft such that from a level of not  
3 quite, well, 993,946 -- I am sorry, 993,946 hours in  
4 the 2004 time frame, one could envision under the  
5 first set of cuts a reduction to about 905,000 hours  
6 by 2007, associated with the initial November 24th,  
7 2004 calls by General Electric.

8 And then the sequential further cuts in  
9 February 25th, May 4th and May 19th would have  
10 resulted in a reduction overall to a level below

11 750,000 hours, so commensurate with the reduction of  
12 fleet an approximate 25 percent reduction in block  
13 hours.

14 Q Just to be clear, you have said it here on  
15 the slide, and you did say it in your testimony, all  
16 but the 2004 numbers are derived numbers or  
17 extrapolated numbers?

18 A That is correct, yes. And I guess it is  
19 just further, without saying, but extending on the  
20 first chart, had the actual number of aircraft gone  
21 below 210 so would the number of block hours likely  
22 have been lower than the 742,000 shown here.

1434

1 Q You anticipated the question I was going  
2 to ask you.

3 Turning to page 20, please, and this  
4 follows the same structural pattern of the prior two  
5 slides?

6 A It does. It again is based upon the  
7 November 24th announcement of the General Electric  
8 agreement, the two subsequent negotiations and the  
9 outcomes referred to by Captain Carey, and then the  
10 May 19th, 2005 proposed transaction announcement.  
11 And this is a series of, first in the 2004 numbers,  
12 again consistent with the prior charts, these are  
13 actual number of full time pilots and co-pilots that  
14 the company indicated were on hand, and then  
15 extrapolated to the level that would be required in  
16 2005, 6 and 7, based upon the fleet, block hours and

17 no different pilot productivity than in the base  
18 year of 2004.

19 So, what we see here is the incoming 2004  
20 level of FTE employment being 2967 pilots and  
21 co-pilots declining to a projected 2703 by 2007,  
22 under the initial General Electric November 2004

1435

1 announcement, and then declining through the  
2 subsequent renegotiations to 2587, 2481 and finally  
3 associated with the fleet size announced on May 19,  
4 2005 of 2217 pilots required to operate that number  
5 of block hours associated with that fleet.

6 Q Again I take it your point on that final  
7 number on this slide would be the same with respect  
8 to your point about the final numbers on the prior  
9 two slides, that is, what one might anticipate, what  
10 you would have anticipated as based on your expert  
11 view of the circumstances would be the consequences  
12 to manning if the transaction had not closed?

13 A That is correct. I guess there is a  
14 further clarification, just to be clear on this.  
15 The level of productivity that was agreed to and  
16 implemented pursuant to LOA 93 in October of 2004,  
17 is only evident for a portion of the year in 2004.

18 So the annual average for 2004 pilot  
19 productivity would not be the higher level of  
20 productivity called for in LOA 93 and implemented  
21 subsequently to the ratification of LOA 93, such  
22 that the actual number of jobs here, if the full LOA

1 93 level of productivity would be implemented  
2 consistent across the period, would be even lower.

3 Q Okay. The last slide in this series is  
4 slide 21, and we will see a number of slides that  
5 look like this later on through the testimony of  
6 some of the pilots, but can you tell us what slide  
7 21 shows us?

8 A This is the career progression up the  
9 seniority list, if you will, from the bottom of a  
10 July 1988 pilot hire at US Airways, such that in --  
11 this is just an annual value. It is expressed as a  
12 percentage of pilots on the list at that point in  
13 time. I should say percentage of active pilots at  
14 that time, such that in July '88 when that pilot  
15 would have been hired, that individual would have  
16 been at one, essentially the first seniority  
17 percentile, that pilot would have risen to  
18 approximately an 11th percentile, sorry, the 11th  
19 percentile by 1990, which was the point at which the  
20 consolidation of PSA, Piedmont and the others was  
21 formally concluded, would have declined to about a  
22 5th percentile by 1992 as a kind of a post Gulf War

1 One phenomenon, I would guess here, was relatively  
2 stagnant across the period through 1998 when the

3 Metrojet expansion then began, rose to approximately  
4 the 37th percentile by 2001.

5 It is kind of the Apex of the Metrojet  
6 bubble, and then declined thereafter such that then  
7 that individual was then the low active seniority  
8 number from 2003 onward, so effectively back to the  
9 origin.

10 Q I think that completes our discussion at  
11 least to this point on US Airways. Let's turn to  
12 America West and with that turn to slide 22. What  
13 does slide 22 show us?

14 A Slide 22 depicts the long term trend in  
15 America West flying denominated in block hours. It  
16 actually, the company actually commenced operation  
17 prior to 1985 but the data set being employed here  
18 is from 1985 through 2004. These are annual values,  
19 and the annual values show in red, the dashed line  
20 is just a linear curve fit of the data present.

21 And so we can see over the long period of  
22 time, although America West was certainly not immune

1438

1 to the cyclical nature of the industry, and in fact you  
2 know, showed a block hour decline during its period  
3 in bankruptcy, 1992 and 3, chiefly.

4 It then recovered and grew steadily  
5 thereafter at about the long-term growth rate, and  
6 right through a post 9-11 decline and then returned  
7 to growth in 2003 and 2004.

8 Q Slide 22 was block hours. Slide 23 is in

9 pilot positions; is that right?

10 A Correct. This is again the DOT full time  
11 equivalent pilot employment over the period 1985  
12 through 2004, same time period as block hours. This  
13 is pilot FTE, and again it shows a pretty closely  
14 correlated trend with some swings above and below  
15 the long term steady growth line.

16 Again it almost perfectly correlates with  
17 the block hour trend, at least visually. I am not  
18 going to suggest mathematically but visually  
19 certainly it is a pretty good correlation.

20 I guess the important point to note here  
21 is that following the events of 2001 that the  
22 company did return to both hiring and after a brief

1439

1 furlough and recall in 2002-2003.

2 Q Let's stop here for a moment. I think it  
3 is, I think everyone will remember this, but just so  
4 that we have a contrast right here in our minds at  
5 this point, you have told us that after the  
6 furloughs the company, after the post 9-11  
7 furloughs, the company recalled and began hiring.  
8 Remind us what the circumstances were at US Airways  
9 post 9-11?

10 A Post 9-11, kind of a delayed furlough, but  
11 far more severe in the sense of percent of the pilot  
12 group employed, followed by a series of further  
13 furloughs that ensued in the bankruptcy, during the  
14 post bankruptcy restructuring period and then into

15 the second bankruptcy. So we had a series of  
16 further furloughs. We did not have a  
17 re-stabilization or recall or a return there to the  
18 prior trend.

19 Q Let's look at slide 24 for a moment. You  
20 told us earlier on when you were talking about  
21 Metrojet that the object of Metrojet was to try to  
22 match the market rate costs of low cost carriers.

1440

1 What does slide 24 show us on that subject, that is  
2 on the -- well, what does it show us, not so much on  
3 costs but on who it is we are looking at and what it  
4 is that we are seeing?

5 A Sure, chart 24 depicts the relative unit  
6 cost or cents per SM costs of a number of carriers  
7 including network carriers, US Airways, Continental,  
8 America West, and some low cost carriers, both I  
9 guess pseudo network and point-to-point, Frontier,  
10 Spirit, Air Trans, Southwest and Jet Blue. And I  
11 guess of note here is that the truly low cost  
12 carriers are in a pack towards the bottom of that  
13 chart, in the 8 cent to 9 cent per ASM cost range.

14 Continental, which was often viewed by  
15 management at least as a target level of cost, is in  
16 the \$0.09 to \$0.10 per seat mile range, and US  
17 Airways, albeit flying a shorter mile route network,  
18 these are stage length adjusted, is in the 12, 13 or  
19 14 cent per mile range.

20 And I guess of note in response to your

21 question about Metrojet era, if we call that the  
22 1999 through 2000 era, let's call it, 2001 being an

1441

1 aberration for a variety of reasons, we really don't  
2 see much positive effect, if any, of the presumed  
3 benefit of Metrojet. It was perhaps only 10 percent  
4 of the operation. It did have only one cost  
5 variable that differed from main line costs at  
6 large, that being the pilot group, and thus it  
7 really did not contribute substantially to an  
8 overall unit cost reduction. It certainly created  
9 nothing close to a cost level competitive with low  
10 cost carriers.

11           You know, if you have to say what factor  
12 or what factors were responsible for America West  
13 being able to return to a growth path after  
14 experiencing what many carriers did, you know, the  
15 aftereffects of the first Gulf War, aftereffects of  
16 9-11, run up in fuel costs, what you have to say is  
17 that the, you know, the ability to generate low  
18 costs for the network business model has been really  
19 critical to America West's success over the years.

20           And if you note America West, which is  
21 kind of pink or red trace among the carriers shown  
22 at the bottom of the chart, is quite competitive,

1442

1 again on a non stage length adjusted basis, with all  
Page 56



2 of the low cost carriers present and substantially  
3 below even Continental which was long held out as  
4 the target level of costs that most network carriers  
5 would love to be able to achieve.

6 (Discussion off the record.)

7 BY MR. FREUND:

8 Q Back on. The orange line is Southwest,  
9 which I think everybody anecdotally knows in terms  
10 of about its success in operations. Why don't you  
11 tell us a thing or two about Southwest before we  
12 turn our attention to the next set of slides?

13 A Well, as you say, I think everybody knows  
14 about Southwest. But I guess in the context here,  
15 it is important to note the comparison of cost  
16 levels between America West and Southwest, because  
17 over the years America West and Southwest have  
18 competed extremely vigorously both in the Phoenix  
19 and Las Vegas hub operations and elsewhere.

20 And indeed, you know, from personal  
21 experience being kind of a straw man manager at  
22 America West during their restructuring, while I was

1443

1 at SH&E, one of the key objectives to be achieved  
2 during that restructuring was to make the company  
3 cost competitive with Southwest in all respects  
4 possible, because that would be, it was the view at  
5 the time, that would be the basis on which America  
6 West either could successfully reorganize and then  
7 continue to grow thereafter.

8 If America West were not able to do that  
9 during its restructuring and afterward the view was  
10 it could not be successful and, indeed, if you look  
11 at the relative costs of America West and Southwest,  
12 again not adjusted for stage length but just  
13 relatively, it is quite competitive for those levels  
14 of cost.

15 Southwest until the advent of some brand  
16 new entrant carriers was often judged to be the low  
17 cost producer, and among carriers who are shown  
18 here, certainly not every carrier is shown here but  
19 among the carriers shown here, Southwest is again  
20 quite competitive and a low cost producer.

21 Q Let's see how Southwest and America West  
22 stack up against one another, where they compete,

1444

1 and to do that let's start first at slide 25 and  
2 tell us what we are seeing on slide 25?

3 A Well, what this slide shows is the yield  
4 curves, that is to say the yields achieved at, in  
5 respective markets by America West, which is kind of  
6 the red trace here and the red dots which are the  
7 individual markets, and by Southwest which is the  
8 orange trace and the orange individual markets.

9 The individual markets chosen here are  
10 markets with an origin point in Phoenix in which  
11 both carriers compete on a nonstop basis.

12 So this is not every market that Southwest  
13 flies from Phoenix, it is not every market that

14 America West flies from Phoenix, but on a head to  
15 head basis these are markets in which both carriers  
16 are flying nonstop. It is for the year ending the  
17 first quarter 2005 which is effectively that period  
18 of data which is the year prior to the deal  
19 announcement, and the curves here are power series  
20 fits, of least squares fit to the market data  
21 present.

22 And what we see is 750-mile trip length,

1445

1 which is a little longer than Southwest's and a  
2 little shorter than America West's. The America  
3 West yield curve is about 25 percent higher. So its  
4 average fare at a 750 mile notional market is  
5 25 percent higher.

6 And if you again look at just how the  
7 curves themselves compare you can see that while the  
8 percentage difference and perhaps the absolute  
9 difference change at various trip lengths, America  
10 West is evidencing a higher yield and a higher  
11 average fare value across the board. And these are  
12 for again Phoenix markets nonstop competitive with  
13 Southwest.

14 Q So it may be self-evident to everybody and  
15 I am doing something that isn't necessary, but just  
16 so we know, so we understand the data that is on the  
17 chart, if you look to the far end right of the  
18 chart, just by way of example, there are two dots.  
19 There is a pink dot and a yellow-orange dot. If I

20 understand what you are telling us those two dots  
21 are, the pink dot being a Phoenix to someplace route  
22 for America West, and the yellow-orange dot a

1446

1 Phoenix to the same place for Southwest?

2 A That is correct.

3 Q And that follows throughout the chart?

4 A That is correct. And just comparing the  
5 dots, you know, you can see that there is a  
6 strong -- well, there is a strong correlation where  
7 America West's value exceeds that of Southwest, and  
8 in fact there happen to be 30 markets shown here  
9 where they both serve, and both serve nonstop  
10 competitive with each other.

11 There is no market out of the 30 where  
12 Southwest achieves higher yield, so 30 out of 30  
13 America West has a higher yield.

14 Q They also compete in Las Vegas; is that  
15 right?

16 A Yes, both carriers have extensive  
17 operations at Las Vegas.

18 Q So, looking at slide 26 what does that  
19 show us?

20 A That is a similar set of constraints,  
21 which is to say, nonstop markets served from Las  
22 Vegas by both America West and Southwest during the

1447

1 year ending first quarter of 2005.

2           The same color convention applies. The  
3 same sort of a curve if it was applied to both; in  
4 this case, in the Las Vegas markets which are more  
5 of a point to point destination as opposed to a flow  
6 market that Phoenix represents as a hub.

7           America West yield is about 10 percent  
8 higher at an average, at a notional journey length  
9 of 700 miles, which again is midway between the  
10 shorter Southwest and the longer America West trip  
11 lengths. And in this case actually there are a  
12 couple of instances where Southwest's performance  
13 are better than America West. I believe there are  
14 two out of 28 markets, where Southwest's yields are  
15 higher than America West's.

16       Q   And finally on this point let's look at  
17 slide 27?

18       A   This is just a bullet point summation, and  
19 again there were 30 Phoenix markets that both served  
20 nonstop. If you were to actually weight those  
21 performances by the number of passengers carried  
22 what you find is that the passenger weighted fares

1448

1 are higher by 39 percent. That is partially as a  
2 consequence of longer trip lengths and it is  
3 partially the consequence of higher yield.

4           In all 30 cases, however, the America West  
5 fare yields were higher, and in the Las Vegas case

6 there were 28 comparable markets. Again on a  
7 passenger weighted basis the America West average  
8 fares were 22 percent higher, again consequence of  
9 both yield and trip length, and the America West  
10 fares were higher in 26 of 28 of those markets.

11 I mean a reasonable question is if every  
12 carrier offers the same fares how can, you know, how  
13 can one carrier be that much greater than the other?  
14 Of course some of this is passenger mix, both, you  
15 know, the consequence of having a first class cabin  
16 and certain fare levels which Southwest does not  
17 have.

18 Part of it is the network effect,  
19 especially in Phoenix, where you have the ability  
20 to, or America West has the ability to network at  
21 Phoenix and carry passengers on journeys beyond  
22 Phoenix whereas again Southwest is chiefly a point

1449

1 to point operator, and although they do transfer  
2 quite a few passengers at every one of those cities,  
3 it is not the basis of their business model.

4 So, some of this is passenger mix, some of  
5 it is trip length mix, some of is fare mix and some  
6 of it is just the nature of the operation.

7 Q Taking these three slides into account and  
8 incorporating those into your general knowledge and  
9 understanding of America West's operation, is it  
10 fair to say that you have America West as structured  
11 in a way to compete successfully against Southwest?

12           A     I would view it as capable of being  
13 competitive with Southwest, but independent of how I  
14 might view it, I think if one looks at the way  
15 industry bargaining has proceeded in the last  
16 several years in particular, what you will find, and  
17 this is including the case of how the US Airways  
18 pilot agreement at least was bargained, the America  
19 West contract and structure and business process is  
20 what many carriers seek to emulate.

21                     And so while I believe that both their  
22 cost performance makes them competitive and

1450

1     certainly that revenue performance makes them quite  
2 competitive with Southwest, it also makes America  
3 West quite competitive with other network carriers  
4 who have yet higher costs and who may or may not  
5 have the same revenue performance.

6           Q     Turning to slide 28 we have a slightly  
7 different kind of comparison, not slightly  
8 different, an entirely different kind of comparison  
9 than what we have been talking about. Again like  
10 some of the slides, this is a busy slide with lots  
11 of information, and if you could tell us what it is  
12 showing us, please?

13           A     Sure. This shows the comparative revenue,  
14 I should say unit revenue trend of US Airways in the  
15 blue and America West in the red. These are first  
16 off, four quarter ending numbers, so in other words  
17 the fourth quarter, ending fourth quarter of '04

18 would be calendar year 2004. The four quarters  
19 ending first quarter of 2005 would be the second  
20 quarter of 2004, third and fourth quarters of 2004  
21 plus the first quarter of 2005, and onward.

22 Q So it is a rolling four quarters?

1451

1 A It is a rolling four quarters, and then it  
2 is a year over year comparison.

3 So the values shown for fourth quarter '04  
4 is in effect the calendar year 2004 versus calendar  
5 year 2003 comparison, and then rolling one-quarter  
6 along such that by the furthest right comparison on  
7 the slide would be calendar year 2005 relative to  
8 calendar year 2004.

9 And what we see here, I would like to move  
10 from right to left, is that through calendar year  
11 2005 what you see is, and this is actually quite  
12 consistent with a number of the comments that we  
13 will later hear, but I think we are all aware of,  
14 that were made by the company in its first quarter  
15 2005 analyst conference call.

16 It really saw, experienced and achieved a  
17 much better revenue, much better unit revenue  
18 performance improvement than did the industry as a  
19 whole, and as shown on this chart, than did US  
20 Airways. By that last value, which was again  
21 calendar year 2005 versus 2004, you see that America  
22 West's unit revenue performance was about 13 percent



1 better than the prior year, whereas US Airways was I  
2 guess we will give it generous 2, might be 1 or 2  
3 there.

4           And then what we can also see is that  
5 while both of these progressions build over time,  
6 during a critical period in the middle of the chart,  
7 which was the first and second quarter of 2005, we  
8 see, you know, a much faster achievement of revenue  
9 improvement at America West than we do at US  
10 Airways, and in fact while America West is  
11 improving, US Airways is still declining.

12           So, again it is perhaps the consequence of  
13 all that new competition on the east coast with  
14 Southwest, at Philadelphia, there are portions of  
15 this chart which would include Independence Air  
16 activity at Dulles airport, there is a lot of, of  
17 course, low cost activity on the east coast in  
18 general, with other airlines including Jet Blue,  
19 Spirit, some Delta Song activity, whatnot.

20           But in terms of the -- there is a clear  
21 inflection here which says that at a critical point  
22 in the late 2004, early 2005 America West is

1 achieving improvements, while US Airways continues  
2 to show decline.

3           Q     Changing subjects again, looking at slide  
4 29, and harkening back to what you told us earlier

5 about what was going on in the hiring universe at  
6 America West post 9-11 as a kind of a lead off to  
7 where we are headed, tell us about the data shown on  
8 slide 29?

9 A Well, we earlier depicted the US Airways  
10 pilot employment trend for the same period of time  
11 which showed a series of sequentially deeper  
12 furloughs, such that the junior active pilot was  
13 then, I believe it was a July 1988 hire.

14 By contrast, at America West we had fairly  
15 significant, approximately 10 percent of the pilot  
16 force reduction in the fourth quarter 2001, very  
17 quickly after the events of September 11th, which  
18 was maintained through the first quarter of 2002,  
19 but which starting in the second quarter of 2002  
20 actually reversed, resulting in recalls such that by  
21 the third quarter of 2002 there were no further, I  
22 am sorry, by the end of the third quarter 2002 there

1454

1 were no additional pilots on furlough, and in fact  
2 in the fourth quarter of 2002 the company began to  
3 hire anew. And then continued to do so right  
4 through the first quarter of 2005 such that it  
5 incrementally hired an additional 380 pilots.

6 So it furloughed approximately 185 at  
7 peak, approximately 10 percent of the pilot force,  
8 fairly quickly recalled all those individuals and  
9 then began hiring afresh, and indeed even beyond the  
10 first quarter of 2005, at the announcement date, the

11 company still had pilots in the school house being  
12 trained and had additional pilots on hold for a call  
13 to a class date who had already gone through the  
14 formalities, and were essentially waiting a call.

15 Q We will hear more about those pilots later  
16 but just so that we have it finally in mind, if you  
17 flip back to slide 11 just for a minute, is that the  
18 contrasting slide with slide 29, showing US Airways  
19 during the same time period?

20 A Yes, it is, that is correct.

21 Q Slides 30 and 31, 31 is a blow-up of slide  
22 30, but why don't you tell us what we are looking at

1455

1 and what you have derived from what you are  
2 looking at in these two slides?

3 A Sure. Consistent with the way many  
4 airlines communicate with airline industry analysts,  
5 America West industrial relations group periodically  
6 issues guidance to investors and to analysts. For  
7 analysts it is chiefly for their own modeling  
8 purposes, for forecasting the company's performance.  
9 For individual investors I suppose it is one of the  
10 many things they may look at, on a decision-making  
11 basis.

12 But on April 20th, 2005, at the same time  
13 that the company was conducting an analyst briefing  
14 that surrounded the first quarter 2005 financial  
15 results, it issued a one of its periodic industrial  
16 relations updates or IR update as it is called, and

17 this basically covers a whole series of issues that  
18 are of importance to analysts, chiefly, including  
19 capacity levels, forecasts for future periods,  
20 various cost expectations, increases or decreases in  
21 forecast costs, fuel price and hedging information,  
22 information on capital expenditures committed for

1456

1 future periods, how the airline is selling its  
2 product, whether it be through its own web site or  
3 traditional travel agency distribution systems.

4           And as part of that a fleet plan update,  
5 which in this case comments on the company  
6 expecting, this is now April 20, 2005, expecting to  
7 operate 160 aircraft by year end 2006. And,  
8 although it is shown here as year end 2007, in fact  
9 on a month-to-month basis that 161st aircraft was  
10 expected to be placed in service in January of 2007.

11           Q    Right now, today?

12           A    Right now, today.

13           Q    I don't mean literally today but this  
14 month?

15           A    This month, exactly. Beyond which the  
16 company had an additional 13 firm options for Airbus  
17 equipment. Now, this is characterized as  
18 reaffirmed, if we move to page 31. What we can see  
19 here is that there are certain numbers in blue and  
20 certain numbers in black, and while I am not going  
21 to suggest to you I can read all of those, some of  
22 them are blue and some of them are black.

1           The convention here is that information in  
2 blue represents a change from prior guidance, and  
3 information in black represents no change from prior  
4 guidance. And if you will note, the circle towards  
5 the bottom right comments on the year end 2006. And  
6 as we discussed, January 2007 fleet levels of 160  
7 and 161 aircraft, and these were reaffirmed, not  
8 changed, as of April 20th, 2005.

9           So that would be within roughly a month of  
10 the actual proposed transaction announcement on  
11 May 19th, 2005.

12         Q     There is a slide we are going to look at  
13 later, I won't have you look ahead to it, but how  
14 does this projected fleet plan comport with some of  
15 the history of expansion of the fleet over time?

16         A     Well, if you characterize this in a broad  
17 view, which is to say compared to what were expected  
18 to be fleet levels in the mid 140s increasing to  
19 160, 161 aircraft over a two-year period, what you  
20 see is approximately a 7 percent growth in fleet  
21 over two years, approximately a 3 1/2 percent growth  
22 per year. And in fact, it is neither inconsistent

1 with the long-term growth path nor is it  
2 inconsistent with just general economic activity

3 which tends to drive air travel demands.

4           So, in the sense of, so it represents a  
5 hockey stick sort of wild improvement or increase in  
6 activity relatively to historical trend, no, it does  
7 not. It is essentially a linear continuation of  
8 what the company had been previously growing at.

9           Q   Turning to slide 32, please, again these  
10 next few slides are text rather than data, but tell  
11 us what the message is from slide 32?

12           A   Well, we have kind of portrayed this as a  
13 tale of two airlines, and it is a pretty stark  
14 contrast. The long term trend at US Airways were  
15 fleet, flying, jobs perspective had been a decline,  
16 and by contrast America West's plan which, while it  
17 wasn't certainly immune to outside factors, was a  
18 long-term steady increase.

19                   That is a consequence, as I suggested a  
20 moment ago, of a couple of factors, but chiefly it  
21 is from a network carrier perspective what are  
22 clearly industry-leading low costs, and you know,

1459

1 the low cost producer tends to have a real  
2 sustaining ability in any industry. And as a  
3 consequence that has been a kind of an Ace up  
4 America West's sleeve in having that industry low  
5 costs.

6           More recently the company has also seen  
7 much greater than average improvement in unit  
8 revenue, and that was evident again from really the

9 early parts of 2005 and it has continued  
10 consistently.

11 We saw a fleet plan in April of 2005 that  
12 was both consistent with the long term trend,  
13 released subsequent to the earnings conference call  
14 on about that same date, which specified 100 and  
15 then 161 -- I am sorry, 160 and then 161 aircraft by  
16 year end 2006 and January 2007, with additional  
17 capacity available in the form of firm options  
18 beyond that.

19 We also saw, following that April 2005  
20 earnings conference call, a number of Wall Street  
21 analysts opinions about the company's prospects  
22 reflected in either improved ratings of the stock,

1460

1 than just the America West stock or improved  
2 earnings projections.

3 So it really was, you know, as stark a  
4 contrast as one could imagine on the one hand  
5 operationally and on the other hand, in terms of how  
6 that played out in terms of employee expectations.

7 If an employee was aware of the, you know,  
8 the situation, pilots particularly situational  
9 awareness is a big deal, importantly so and  
10 appropriately so, and for any pilot who was  
11 situationally aware of the financial condition of  
12 their respective companies they would come to have  
13 different conclusions, I believe, about prospects  
14 for their careers.

15 Q Well, this may be a good point to show you  
16 an exhibit that we just kind of dug up kind of at  
17 the 11th hour, which I don't have a tab for it. We  
18 will give you a tab later on. Pass one to you  
19 first, actually why don't you pass that across to  
20 Dan?

21 A Sure.

22 Q I will pass that to you.

1461

1 CHAIRMAN NICOLAU: Does this go into  
2 Tab 2, does it?

3 MR. FREUND: Why don't we put it at the  
4 end of tab 2.

5 CHAIRMAN NICOLAU: Okay.

6 MR. FREUND: We might be able to give you  
7 a tab 8 actually to put this behind, so that it will  
8 be easier to refer to it.

9 CHAIRMAN NICOLAU: You can do that or you  
10 could just number this one 37 under Tab 2. It is up  
11 to you.

12 MR. FREUND: Yes, let's do that. We won't  
13 worry about tab 8, we will just put page No. 37 on  
14 this exhibit.

15 CHAIRMAN NICOLAU: Okay.

16 BY MR. FREUND:

17 Q What are we looking at?

18 A Well, this is a communications document  
19 issued by the US Airways MEC in their publication  
20 USAir Waves. It is dated summer 2005, so I would



21 guess that means what, July-August, so it may or may  
22 not have actually been distributed prior to the

1462

1 closing of the transaction in September, but  
2 presumably it was being worked on during the summer  
3 in 2005. And the author is Captain Jack Stephan who  
4 was then the chairman of the communications  
5 commission and now the MEC chairman at US Airways.

6 Q And you are talking about pilots, I forget  
7 your term, situational reality --

8 A Situational awareness, right.

9 Q Situational awareness?

10 A Right.

11 Q Does this article by Captain Stephan talk  
12 to that point?

13 A It does. I mean I would characterize it  
14 as a candid kind of narrative on where things were  
15 on the one hand, a year of the year prior, call that  
16 summer of 2004, versus where things seem to stand  
17 after the announcement of the merger in May, but  
18 perhaps before it closed, and kind of a sense of  
19 relief that Captain Stephan writes about in this  
20 article.

21 And it is, I mean I don't think we want to  
22 read the whole thing into the record but I think if

1463

1 you were to kind of look at maybe the beginning of  
Page 73

2 the second paragraph --

3 Q I was going to ask you to look at the  
4 whole second paragraph?

5 A All right. In which case, shall I read  
6 it?

7 Q Please.

8 A This is again quoting Captain Stephan, "I  
9 can't remember a darker time in our history, both  
10 morale and available cash were at an all time low,  
11 our pilot group was sharply divided on how best to  
12 proceed. Many were simply fed up and were promoting  
13 a max pay to the last day approach to management's  
14 increasing tasks. Others were willing to cut their  
15 losses and simply voted with their feet, pursuing  
16 other careers and other flying jobs, even if it  
17 meant living in the deserts of Dubai; it was that  
18 bad."

19 Q One more thing before we leave slide 32,  
20 you mentioned analyst reports in April 2005  
21 reflecting the improvement. My friend Kevin Barry  
22 put in an exhibit when he testified I think, if I

1464

1 remember correctly, as a Bear Stearns report in  
2 January of 2005 that was not particularly  
3 flattering. Are you telling us that analysts, post  
4 January 2005, more particularly in April 2005, were  
5 issuing quite differing reports on America West's  
6 prospects?

7 A Well, analysts generally but also that

8 particular firm and that particular analyst David  
9 Strine of Bear Stearns, issued a series of updates  
10 following that April conference call, indeed both  
11 his rating on the stock changed in a favorable way  
12 and his commentary on the stock in general changed  
13 in a favorable way.

14 Q Turning to slide 33, please, slide 33 and  
15 34 are both entitled -- they are both I guess  
16 expectation slides, one of them expectations prior  
17 to May 19th and the second expectations after  
18 May 19th of 2005. These I take it, at least --  
19 well, these summarize both what we have seen and  
20 your opinion with respect to the state of the two  
21 carriers at these points in time?

22 A They do represent my opinion, but

1465

1 apparently, you know, even in -- even a kind of a  
2 strict reading of Captain Stephan's document here  
3 maybe suggests that there were people at US Airways  
4 that thought the same way.

5 Q Why don't you run us through them?

6 A Sure. Well, on the Airways side, again  
7 simply because the company had experienced it, the  
8 expectation had to be that either the downsizing  
9 would continue in a sequential kind of peel the  
10 onion fashion, or in the absence of an ability to  
11 continue the carrier would have ceased operations  
12 and liquidated.

13 Now, the result of that from the

14 standpoint of pilots would have been either  
15 incremental series of furloughs, beyond those  
16 already experienced, or associated with a cessation  
17 of service and a liquidation, a mass furlough.

18 Now, by contrast on the America West side,  
19 again thinking back to those charts which show the  
20 trend in fleet, flying and job growth, continuing  
21 and in particular a rehiring pattern after  
22 September 11th, the expectation there would have

1466

1 been a continuing steady growth. The experience had  
2 been both before 9-11 and certainly in the period  
3 between the bankruptcy and 9-11, and then following  
4 the return to hiring, approximately a seven-year  
5 period between date of hire to upgrade to captain.

6 Q We will put on more precise evidence on  
7 that question later in the case.

8 A As we mentioned, as of the time of the  
9 announcement on May 19th, but also prior to  
10 May 19th, there were trainees in the school house  
11 being trained by America West for its growth plan,  
12 and as we also mentioned, a pool of prospective  
13 pilots was already identified, had already been  
14 processed and was simply awaiting a call to a school  
15 date.

16 So that was kind of the stark set of  
17 expectations east and west. West was, you know,  
18 next letter I get is an up upgrade to captain or  
19 maybe if I am a prospective pilot, a school date,

20 whereas at east, you know, you just hope you don't  
21 get the furlough message.

22 Q Next slide shows changed expectations

1467

1 after May 19th?

2 A Well, you know, things can turn in a  
3 moment. And on the one hand, and I think this is  
4 kind of aptly capsulized by Captain Stephan's note  
5 here in the summer 2005, it is understood that in  
6 giving back some more aircraft to General Electric,  
7 associated with the transaction announcement on  
8 May 19th, 25 in addition to 46 already-announced  
9 aircraft to go, the company will probably end up  
10 trimming more jobs.

11 On the other hand, the prospect had to be  
12 that this was a transaction that has the likelihood  
13 or at least the possibility of saving the airline,  
14 and with the rest of the jobs, pilots and others.  
15 So it had to be viewed from the standpoint of a, you  
16 know, just a great sense of relief.

17 Now, on the flip side of that of course is  
18 that from the standpoint of America West pilots, and  
19 I would guess probably employees generally, there  
20 was great concern about the transaction in the sense  
21 that well, you know, America West seems to be  
22 absorbing the transaction risks here. It is

1468

1 initiating a lot of these changes and a lot of what  
2 is proposed may have impact on the progression path  
3 of America West employees.

4           And in fact, as we saw, in only a few  
5 weeks after the May 19th announcement there were  
6 suggestions that aircraft that were on order might  
7 be deferred, that the fleet because its now being  
8 thought of at least notionally as a combined fleet  
9 of east and west might aircraft, the west aircraft  
10 might contract, and indeed all those pilots who were  
11 in the pool would to be contacted for the next class  
12 dates were never contacted. So the hiring that had  
13 been in place, the hiring plan that had been in  
14 place associated with that 160, 161 aircraft fleet,  
15 did not manifest, did not occur. And the growth was  
16 over.

17           Q    The last two slides depict long term  
18 pictures showing kind of in two separate places,  
19 fleet and employment trends that you have already  
20 talked about in sort of time sensitive, time driven  
21 snapshots, but why don't you take us through those  
22 briefly before you close your testimony.

1469

1           A    Sure. Well, these two charts are a  
2 composite of actual data for 1994 through 2004, and  
3 this is aircraft in service, and to that are grafted  
4 the projections that we previously saw, both the  
5 final fleet expectation for US Airways that was

6 announced with the May 19th, 2005 merger  
7 announcement, down to 210 aircraft, and then the  
8 America West April 20th, 2005 fleet reaffirmation of  
9 161 aircraft by January 2007, but also true at year  
10 end of 2007.

11 So if we take the prior trend which was  
12 evident in 1994 through 2004 and then graft on these  
13 projections of future fleet to be flown at each  
14 property, we would see both a continuation of the  
15 decline at airways and a continuation of the steady  
16 growth at America West.

17 So there, you know, those actually formed  
18 the expectations, if you will, particularly of  
19 pilots since these are you know, fleets that will  
20 then extrapolate to block hours which will then  
21 extrapolate to pilot jobs.

22 Q Would you say that these are -- well,

1470

1 again up through 2004, that is showing reality.  
2 Would you say that from 2004 on that these are  
3 aggressive or conservative assessments?

4 A Well, in the sense of the America West  
5 plan, again as we previously noted, the actual  
6 growth in aircraft was, if anything, a more moderate  
7 continuation of the growth plan which had been in  
8 evidence from 2003 onward.

9 From the US Airways perspective, although  
10 that is labeled as the final GECAS series of cuts  
11 announced on May 19th, had the transaction not

12 closed I don't think for a minute that it would have  
13 been the final set of reductions in the US Airways  
14 fleet, and indeed, you know, in the worst case  
15 characterization had the transaction failed to  
16 close, numbers could have gone lower or they could  
17 have gone ultimately to the origin, you know, no  
18 aircraft at all.

19 But it is not clear that even the 210  
20 aircraft at US Airways could be characterized as a  
21 stable stand alone situation, because I am not sure  
22 that had been established.

1471

1 Q Then finally turning to slide 36, I take  
2 it that -- well why don't you tell us about slide  
3 36?

4 A Well, again that prior chart was the, was  
5 fleet, actual through 2004 and then projected, and  
6 this final slide is actual pilot employment trends  
7 of both airlines, 1985 through 2004.

8 And as we can see, the trend at US Airways  
9 from 1990 onwards, with that brief interruption for  
10 Metrojet, was a long-term decline, and by contrast  
11 the long term trend at America West was a long-term  
12 growth trend punctuated by a series of positive and  
13 negative events that all carriers experience.

14 Q I take it that it is correct, is it not,  
15 that in contrast to your slide 35, slide 36 does not  
16 show what would have followed had the fleet trends  
17 reflected on slide 37 in fact been put into place?



18 A That is correct.  
19 Q And not to beat a dead horse any deader,  
20 that, and I didn't mean that in a pejorative way, I  
21 meant that about this witness's testimony, that the  
22 trend that would have been reflected, had you gone

1472

1 out to 2007, based on slide 35, would have shown a  
2 continued decline of the blue line and a continued  
3 increase in the pinkish-purple line, correct?

4 A That is correct, if you were to simply  
5 graft on the data on slide 20 to the US Airways data  
6 on slide 36 you would see the final projection under  
7 the May 19th, 2005 scenario of somewhere around 2217  
8 pilots.

9 If you were to then just increase the  
10 America West pilot force commensurate with the 161  
11 aircraft fleet you would see a number of around  
12 2100.

13 MR. GILLEN: I think the color is magenta.

14 MR. FREUND: Magenta. I have never been  
15 able at naming colors let alone recognizing.

16 That concludes my direct examination.

17 CHAIRMAN NICOLAU: Let's go off the  
18 record.

19 (Discussion off the record).

20 CHAIRMAN NICOLAU: Very good, 2:30.

21 (Whereupon, at 12:55 p.m., the hearing was recessed,  
22 to be reconvened at 2:30 p.m. this same day.)

1 AFTERNOON SESSION (3:12 p.m.)

2 CHAIRMAN NICOLAU: Proceed.

3 MR. KATZ: Okay. We are back on the  
4 record?

5 CHAIRMAN NICOLAU: Yes.

6 Whereupon,

7 ROBERT W. MANN, JR.

8 resumed the stand and, having been previously duly  
9 sworn, was examined and testified further as  
10 follows:

11 CROSS-EXAMINATION

12 BY MR. KATZ:

13 Q Mr. Mann, let me ask you about just one  
14 thing. You have been here for virtually every day  
15 of the hearings haven't you?

16 A Yes, I have.

17 Q You have been advising the America West  
18 team on matters concerning cross-examination during  
19 that period of time?

20 A Not concerning cross-examination per se,  
21 but I have been kind of more of a note taker than  
22 that.

1 Q You have been sitting in on every single  
2 day of the hearings to take notes on what is  
3 happening?

4 A For my own information, yes.

5 Q I see. Let me clarify a few things that,  
6 I think I understand you are not saying before we  
7 get into the things that you are saying, okay?

8 One, I didn't see in your background any  
9 experience as an investment banker, and I take it  
10 you are not here to testify about investment banking  
11 matters?

12 A That is correct.

13 Q The next witness is going to cover that  
14 subject?

15 A I think that is more likely, yes.

16 Q And I don't see anywhere in the exhibits  
17 you prepared any information about profit and loss  
18 data; is that correct?

19 A I believe that is correct.

20 Q So there is nothing on operating profits,  
21 net profits or EBITDAR, any other form of profit and  
22 loss information?

1475

1 A That is correct.

2 Q And except for two or three exhibits  
3 referring to the first US Airways bankruptcy I don't  
4 see any balance sheet data. Is that correct, you  
5 are not here to testify about cash or other assets  
6 of America West or US Airways?

7 A I have not done that, no.

8 Q Is it true that you have made predictions  
9 about airline performance in the past and been wrong  
10 about that?

11           A    I suspect that is correct and I suspect I  
12 have been probably correct on a number of occasions  
13 as well.

14           Q    Isn't it true that your initial reaction  
15 to this proposed merger was quite negative?

16           A    Absolutely so.

17           Q    And in fact, you said shortly after the  
18 announcement of the merger that the carriers had  
19 developed a large financing package which was a big  
20 bridge they built over a potentially deep ravine, do  
21 you remember saying that?

22           A    Words to that effect, yes.

1476

1           Q    And that you thought the combined airline  
2 would desperately need a thick cash cushion to  
3 absorb the inevitable money losses that they would  
4 be facing?

5           A    I believe that was to bridge the  
6 implementation of the plan over a period of  
7 18 months or so, yes.

8           Q    And in fact you called instead of  
9 operation Barbell, the code name that the carriers  
10 coined for the merger, you called it operation  
11 dumbbell, did you not?

12           A    I absolutely did, and I think it is  
13 reflective of the risk that America West was taking  
14 and the general implementation risk of this sort of  
15 a transaction.

16           Q    And that turned out to be wrong, didn't

17 it?

18 A It turned out to be much more, much better  
19 implemented than I would have given credit for, yes.

20 Q And you agree it has been quite a success?

21 A I believe it has been a success to date,  
22 yes. It is, as Yogi Berra would say, it ain't over

1477

1 'til it's over.

2 Q Isn't it also true that you said that the  
3 merger wasn't ever going to take place, that was  
4 your prediction at one point, wasn't it?

5 A That I don't recall. I do recall, you  
6 know, quite vividly the dumbbell comment.

7 Q Let me mark as our cross-examination  
8 Exhibit Number 1, this is USA today, April 22, 2005,  
9 a column by Ben Mussbaugh, M-u-s-s-b-a-u-g-h, let me  
10 give you a copy Mr. Mann and if you will pass three  
11 of these to the America West pilot representatives.

12 This is a binder for cross-examination  
13 exhibits. So let's call this exhibit G-1. So this  
14 is before the actual announcement of the merger but  
15 after the carriers had confirmed they were engaged  
16 in merger talks, and Mr. Mussbaugh says,  
17 confirmation of merger talks between US Airways and  
18 America West set the airline industry abuzz, but a  
19 number of experts say such a link up will never take  
20 place, quote, this proposed deal isn't likely to go  
21 far, airline consultant Robert Mann, Junior tells  
22 the Atlanta journal constitution. Do you remember

1 telling that to Mr. Mussbaugh?

2 A Actually, I think what has happened here  
3 is that Mr. Mussbaugh has misattributed that quote  
4 to Mr. Laurer and misattributed the  
5 Barbell-dumbbell, which I did make, not to me but to  
6 Mr. Laurer. So that is what most likely occurred  
7 there.

8 Q You think the reporter made a mistake?

9 A I think that is quite possible.

10 Q Because you didn't say it?

11 A Because certainly Mr. Laurer didn't make  
12 the dumbbell comment.

13 Q Or he might have stolen your line?

14 A That may be true, too. But it looks to me  
15 as if that is a transposition of the quotes.

16 Q Is in any reason to think that your  
17 current projections are any better than these?

18 A In what respect, sir?

19 Q The projections that you are making in  
20 this case?

21 A I think we have a lot more factual data at  
22 hand, in particular this is at a point where if it

1 is when you say it is, it is a month before the deal  
2 was announced, it is two months before I have had a

3 chance to look at the actual Barbell business model,  
4 which we eventually did once it was released by the  
5 company to both pilot groups, and it is, we have  
6 also had the ability to see how well the companies  
7 do implement as opposed to really commenting on the  
8 track record of prior mergers and the difficulties  
9 that ensue from a merger of this sort.

10 Q So you are suggesting that just looking at  
11 the historic data isn't sufficient to make a  
12 prediction of what is going to happen in the future;  
13 is that correct?

14 A No, what I am suggesting is that  
15 commenting about a deal that has been rumored but  
16 not yet described, one might come to a different  
17 conclusion than you would once you have either seen  
18 the deal described as occurred on May 19th, about a  
19 month after this, or actually had a chance to look  
20 at the business model underlying the transaction as  
21 occurred about a month after the transaction was  
22 announced, in June of 2005.

1480

1 Q It is true isn't it, Mr. Mann, that you  
2 were not advising US Airways or America West  
3 management during the period 2004 and 2005?

4 A That is correct.

5 Q So your testimony -- that is still true  
6 today isn't it?

7 A That is correct.

8 Q So, what you are basing your testimony on

9 today is public information filed with the DOT and  
10 the SEC and information provided to you by the  
11 America West pilot merger committee and MEC; is that  
12 true?

13 A And via the company any information that  
14 was requested of the company by the US Airways,  
15 because there is an information sharing protocol  
16 there.

17 Q Is there something in your exhibits that  
18 is derived from information requested by the US  
19 Airways MEC?

20 A I believe some of the seniority lists were  
21 provided under that auspices, yes.

22 Q Didn't you get those from the America West

1481

1 MEC, the seniority list for America West pilots?

2 A Directly from them, yes, but the question  
3 is, your question was to the source of the  
4 information. I don't think they had that  
5 independently. I assume that came from the east  
6 MEC, the incumbent.

7 Q But you got the information from the  
8 America West MEC?

9 A Yes.

10 Q And in connection with your testimony you  
11 had a couple of conclusions, one was a description  
12 of America West and one was a description of US  
13 Airways, could I break you down into those two  
14 parts, is that fair?



15           A     That is fair.  
16           Q     And starting with page 22 you talked about  
17 America West and its steady growth in block hours,  
18 and on page 23 and in pilot full time equivalents,  
19 right?  
20           A     Yes.  
21           Q     Let's look at Exhibit 23, please. In 1999  
22 the DOT Form 41 filing for America West showed 1813

1482

1 pilots, full time equivalents for that year?  
2           A     Correct.  
3           Q     And last year shown 2004, the company's  
4 Form 41 data showed 1851 full time equivalent pilots  
5 for that year, an increase of 38 pilots; is that  
6 right?  
7           A     Over that period, yes, that is correct.  
8           Q     And would you say that an increase of 38  
9 pilots, 2 percent, for the entire 5 years, is that 6  
10 years -- one, two, three, four, five years of  
11 growth, is a steady growth in pilot FTE?  
12           A     Over the long term it is, yes. I think  
13 you are choosing a peak versus a different point.  
14 My point here with the chart was to illustrate the  
15 long term trend, which I think is illustrative of  
16 steady growth.  
17           Q     But if you put a piece of paper over the  
18 years up to '90-'98, you don't really see much  
19 steady growth in the last six years, do you, 1999 to  
20 the present is less than a half percent a year of

21 growth; isn't that correct?

22 A Well, choosing the points that you have

1483

1 chosen, I think that is mathematically about  
2 correct. However, I don't think that represents the  
3 long term trend.

4 Q But it is the most recent six years, isn't  
5 it?

6 A It is a particular set of comparisons. It  
7 is certainly not the long term trend.

8 Q And if you turn back a page to Exhibit 22,  
9 it is one of those pages without the data points on  
10 it, but if you block off the period on the left and  
11 just look at the last five or six years it is pretty  
12 flat in terms of the block hour growth, isn't it?

13 A So you are saying 1999 versus 2004, same  
14 basis?

15 Q Well, why don't you look at 2000 to 2004,  
16 last five years?

17 A Well, again you know if you want to be  
18 selective about the point that is certainly, you  
19 know, you can ascribe that to that particular  
20 five-year period. I guess the question is whether  
21 that represents the long term trend, and I suggest  
22 it doesn't.

1484

1 Q If you look at the period, the last year  
Page 90

2 from 2003 to 2004, there is an increase in block  
3 hours, according to your Exhibit 22, isn't there?

4 A Yes, there is.

5 Q Do you know whether the company achieved  
6 that increase based on an increase in aircraft?

7 A I suspect that the company increased it  
8 upon a combination of aircraft utilization and  
9 perhaps completion factor, and all three would bear  
10 on what the actual numbers ended up being.

11 Q Let's look at page 35, of your exhibits,  
12 the block hour data we were just looking at. Did  
13 they come from DOT Form 41 data?

14 A Yes.

15 Q Page 35 you are showing Form 41 data for  
16 that period of time, actually shows a decrease in  
17 aircraft, doesn't it?

18 A On the way it is measured annually, yes,  
19 it does.

20 Q 141 to 139 aircraft?

21 A Correct.

22 Q So that the increase in block hours was

1485

1 achieved through an increase in daily aircraft  
2 utilization, wasn't it?

3 A Yes, I think that probably coincides with  
4 the transcontinental entry on Airways system -- I am  
5 sorry, on the America West system, but would it have  
6 been utilization, yes.

7 Q Was that the transcontinental sign that

8 was dropped in the spring of 2005, Mr. Mann?

9 A It was that flying that was dropped and  
10 that flying having been dropped that is one of the  
11 factors that prompted the dramatic increase in unit  
12 revenue at America West, yes.

13 Q So in the case of the block hours, they  
14 were increased from 2003 to 2004 shown on page 22 by  
15 adding transcontinental flights which had an impact  
16 that was favorable in terms of the daily aircraft  
17 utilization, correct?

18 A Yes, I think that is part of the factor.  
19 The annual aircraft in service measure doesn't well  
20 reflect the utilization differences that may occur  
21 during the portions of the year. The aircraft stays  
22 in service, doesn't correlate well with seasonal

1486

1 changes and utilization, such that reduction in  
2 aircraft days in service, if done during a period  
3 when aircraft are less utilized, would create a  
4 smaller impact on overall block hour differences.

5 So I think you, you know, you are correct  
6 that it would have resulted in part, less than 2  
7 percent, I would guess about 1 1/2 percent based  
8 upon the 139 to 141 difference.

9 Q But then when the transcon routes were  
10 dropped because they were not yielding much revenue  
11 as measured in terms of passenger revenue per ASM  
12 you made much of the fact that the year over year  
13 increase in passenger revenue per ASM went up in the

14 spring of 2005?

15 A Right, and it was a very dramatic  
16 increase.

17 Q As a result of dropping that flying?

18 A Well, it was far more than that. It was  
19 the result of industry pricing power, it was the  
20 result of changes that the industry was able to push  
21 through in terms of fare changes beginning in 2005.  
22 It was a whole series of issues. It certainly is

1487

1 much greater than the impact of 2 percent or  
2 actually 1 1/2 percent change in the fleet.

3 Q Let's look at these fleet numbers on page  
4 35, Mr. Mann. The number for America West for 2002  
5 is wrong, isn't it?

6 A I am sorry, which page, sir?

7 Q 35.

8 A That is actually the number that is, that  
9 comes out of DOT. It does look visually incorrect  
10 but it is the number that comes out of DOT.

11 Q I wasn't necessarily suggesting that you  
12 had pulled the data incorrectly, but the number is  
13 clearly an error on somebody's part, isn't it?

14 A It would appear so, but I am not going to  
15 suggest that I will be in the business of fixing DOT  
16 files.

17 Q But it is possible, is it within the realm  
18 of your experience, sir, that a carrier would make  
19 an erroneous filing like that on a DOT Form 41

20 submission?

21 A I suspect it is more likely that  
22 one-quarter worth of data was either misfiled or not

1488

1 filed, but --

2 Q So that the carrier in essence made an  
3 error?

4 A It is unlikely because typically there is  
5 a lot of cleaning that goes on in the Form 41  
6 filing. This one wasn't caught.

7 Q But it could be an error on the part of  
8 the carrier or the Department of Transportation or  
9 someone who pulled the data from the Department of  
10 Transportation records, right, or from someone who  
11 pulled the information from the Form 41 data?

12 A All of those things are possible.

13 Q Would you say that it is more likely than  
14 not that the carrier didn't drop from 143 airplanes  
15 in 2001 to 107 in 2002 and then bounce back to 141  
16 the following year?

17 A Yes, that is correct.

18 Q What about the number for 2000, is that,  
19 do you know whether that is correct or not?

20 A I don't have any reason to believe that  
21 any of these are incorrect. I think I would agree  
22 with that observation that the 107 is inconsistent

1489

1 with the prior and following but --

2 Q Did you check these data against SEC form  
3 10 K data?

4 A SEC 10 K data is not the same basis as --  
5 10 K data is year end, it is not aircraft in service  
6 data, so there really is no comparison. They should  
7 be closely comparable. But no, I did not check  
8 that. I am using airline data, not SEC data.

9 Q Just looking at 2001 and 2004, we don't  
10 really see steady fleet growth during that four-year  
11 period of time, do we?

12 A Well, Mr. Katz, you know I could go back  
13 and make similar observations about particular pairs  
14 of data on the US Airways side. I guess what I  
15 prefer to do is just reestablish what I have  
16 previously done, which is to say that over the long  
17 term there are two clearly evident trends. One is a  
18 decline in infrastructure and activity at US Airways  
19 and another is at America West an increase in  
20 infrastructure and activity; not only actual but  
21 planned.

22 Q But according to your own data, the four

1490

1 years, the four full calendar years prior to the  
2 announcement of the merger, there was not steady  
3 fleet growth, there was actually a drop in the fleet  
4 of America West, wasn't there?

5 A Over the long term. I don't know how many

6 times we want to do this, but if you want to choose  
7 particular pairs I am sure you can find different  
8 trends on a year-to-year basis than you can find on  
9 the overall long term basis.

10 In that particular case that you refer to  
11 it would seem to suggest you are talking about a 141  
12 versus a 139 comparison. You just a moment ago  
13 spoke to the fact that 139 based aircraft fleet, you  
14 acknowledge produced far more block hours than did  
15 the apparent change in the fleet.

16 And I will suggest to you, sir, that pilot  
17 jobs are far more correlated with block hours than  
18 they are airplanes. So if I were going to do my  
19 projections of pilot employment, and I think if  
20 these gentlemen in this room who are pilots look at  
21 block hour projections, they find that to be a far  
22 more, a far better predictor of employment trends.

1491

1 Q Have you included any block hour  
2 projections in your exhibits, Mr. Mann?

3 A I have.

4 Q Where are they?

5 A They are Exhibit 19, or page 19.

6 Q But this is really a fleet projection,  
7 isn't it?

8 A It is based on a fleet projection.

9 Q You simply took the 2004 block hours and  
10 divided by the number of airplanes you had projected  
11 for 2007, to get 742,807, isn't that the arithmetic



12 you went through to get that number?

13 A Actually it would have been the 2004 block  
14 hours per aircraft, actual, times the number of  
15 aircraft projected in future periods.

16 Q Right, so you took the actual block hours,  
17 the actual Form 41 filing on aircraft for 2004,  
18 divided the airplanes into the block hours, and then  
19 you multiplied by 210, right?

20 A For that particular data value, yes.

21 Q And the 210, flipping back one page to 18,  
22 I just want to defend poor Phillip Carey here where

1492

1 you attribute your source to carrier filings and his  
2 testimony. Isn't it a fact that he never said that  
3 210 was the correct number for US Airways for 2007?

4 A His testimony was on the two intermediate  
5 values, the yellow and the red trace, which were the  
6 subsequent reductions of fleet that followed the  
7 original General Electric-US Airways announcement on  
8 November 24, 2004, and preceded the public  
9 announcement at the time of the proposed transaction  
10 on May 19th, 2006. So his comments were to those  
11 two intermediate values.

12 Q The 210 number is yours, not his?

13 A The 210 number is mine; correct.

14 Q All right, and do you also have similar  
15 block hour projections for America West in your  
16 exhibits?

17 A I don't believe we have those here, no.

18 Conceptually I can tell you that if one were to  
19 increase the fleet from the 2004 value to the 160 or  
20 161 aircraft that would be in service by year end  
21 2006 or January 2007, hence for the full year, you  
22 would see an increase in block hours and, therefore,

1493

1 drive an increase in pilot manpower required?

2 Q So, if we assume as you did 161 airplanes  
3 and you proportionally increase the block hours you  
4 will get more block hours?

5 A That is correct.

6 Q That is not a surprise, is it?

7 A As it is not a surprise that a reduction  
8 in US Airways growth would drive a commensurate  
9 reduction in block hours and manpower requirement,  
10 no, it is not.

11 Q And other than Exhibit 30 and the blow up  
12 for 30 which is No. 31, what other evidence have you  
13 presented to support the 161 number for America West  
14 as of December 31, 2007?

15 A What I am aware of, I don't believe we  
16 have a print of it, is that in the second quarter  
17 2004 investor update, which would have been the year  
18 prior to this particular quarter update, the company  
19 was then expecting a year end 2006 fleet of 160  
20 aircraft.

21 And that second quarter 2004 IR update was  
22 the first time at which the year end 2006 fleet was

1 established at 160. Subsequent to that the 160  
2 value for the year end 2006 was reaffirmed in each  
3 case.

4           And as for the 161, that appears to be a  
5 change related to a particular January, the  
6 particular shift of an aircraft into January  
7 of 2007, so that the 161st aircraft, which is the  
8 January 2007 airplane, does not apparently appear  
9 until this prior update. In other words I cannot  
10 find it in the prior, but on the other hand, it is  
11 not listed in here as a change, so in theory it  
12 should be somewhere.

13           Q    Even if we can't find it.

14                    Let's look across at fuel update, on the  
15 same Exhibit 31, which is a little easier to read  
16 because 31 is bigger than 30?

17           A    Yes.

18           Q    If you look just across to the left, under  
19 fuel update, it has got price, and since this was  
20 issued on April 20th, 2005 the figures for the  
21 second quarter, third quarter, fourth quarter, and  
22 for fiscal year 2005 are all estimates, correct?

1           A    That is correct.

2           Q    And the estimate is that it is going to  
3 drop from the second quarter, estimate of \$1.65 --  
4 why don't I just say \$1.65 to a \$1.70, it will drop

5 in each of those periods down to fourth quarter  
6 number of \$1.63 to \$1.68; is that right?

7 A That is the estimates shown here, yes.

8 Q And that is the premise for this fleet  
9 plan, isn't it, one of them?

10 A There are a number, yes, there are lots of  
11 variables that would go into that.

12 Q Do you know as we sit here what happened  
13 to the price of fuel during the last nine months of  
14 2005?

15 A It was quite a bit higher than what was  
16 predicted here.

17 Q It went up like a rocket didn't it?

18 A Uh-huh, during the hurricane influence  
19 period it was quite high and certainly has been  
20 quite a bit higher than these projections throughout  
21 the period.

22 Q I would like to give you our exhibit, our

1496

1 volume A to show you some exhibits that relate to  
2 this projection, unless you have one handy. Do you  
3 have one for the panel?

4 A If I could just make one note on that fuel  
5 issue.

6 Q I will come back to that in a minute.  
7 Let's just get this volume A set up.

8 A Sure.

9 Q Because I need to find mine as well.

10 CHAIRMAN NICOLAU: Are you giving one to  
Page 100

11 the witness, Dan?

12 MR. KATZ: Yes, I would like to give one  
13 to the witness so that he can answer my questions  
14 better.

15 CHAIRMAN NICOLAU: Okay.

16 MR. KATZ: It is going to be 6 and 7 --  
17 hold on, I am sorry. Did I say A? I meant C.

18 Let's start with 6 and 7.

19 MR. BRUCIA: Fleet volume.

20 BY MR. KATZ:

21 Q Yes, fleet volume; that is what we are  
22 talking about. Let me just give you a minute to

1497

1 look at these, exhibits 6 and 7 are excerpts from  
2 the 2003 and 2004 10-K filings?

3 A Yes.

4 Q You are familiar with those documents?

5 A Yes.

6 Q You have reviewed them in the past?

7 A In the past yes.

8 Q It shows at the bottom of the first page  
9 of six, 139 airplanes at the year end 2003 for  
10 America West?

11 A Yes.

12 Q And two fewer at the year end 2004,  
13 correct?

14 A Yes, that is correct. These would be the  
15 2003 annual report numbers, that is correct.

16 Q And these are the year end totals as

17 opposed to the Form 41 which is something a little  
18 different, isn't it?

19 A It is actually quite different, but, yes,  
20 they are different.

21 Q The second page that we have included here  
22 is page 7 of the report, and I would like to show

1498

1 you the second paragraph where it says, "We expect  
2 that expirations of aircraft operating leases  
3 scheduled to occur over the next several years will  
4 allow America West the flexibility to manage the  
5 growth of its fleet size and related financial  
6 obligations in response to unfavorable economic  
7 conditions." You were aware that was the company's  
8 stated plan as of the end of 2003 and the beginning  
9 of 2004?

10 A To the extent that those conditions were  
11 evident, yes, that was their plan. What we have  
12 also seen is that they didn't execute that plan,  
13 they executed a growth plan instead.

14 Q Well, the plan reduced the growth, the  
15 growth was negative from 2003 to 2004, but it shows  
16 in the table on this page we are looking at, page 7,  
17 of the 10K filing, that there were no fewer than 57  
18 scheduled lease expirations for 2004 through 2008  
19 providing the flexibility discussed there is that  
20 right?

21 A That would provide the company with the  
22 flexibility to do what fleet planners normally do,

1 which is to say they ladder the expiration of leases  
2 such that you have the flexibility to either take,  
3 or in other words extend, or not extend, based upon  
4 conditions both of the new aircraft market and the  
5 used aircraft market, and just these particular  
6 airplanes.

7 Q And is it fair to say that the company is  
8 saying here in the event of unfavorable economic  
9 conditions it intends to exercise its option to  
10 return airplanes at the end of their scheduled lease  
11 expiration instead of renewing the leases?

12 A That is what it says at this point, which  
13 was December 31st, 2003, and it is not an unprudent  
14 response to a view of uneconomic conditions, but as  
15 we know, things change.

16 Q All right. Let's look at Exhibit 7 which  
17 is the next year's 10K report, and there it says that  
18 the company began the year 2004 with 139 aircraft,  
19 it retired seven Boeing 737's, parked one leased  
20 aircraft, sold one owned aircraft, it has got the  
21 recitation, and ended up with 138 aircraft at the  
22 end of the year, right?

1 A That is what it says, yes.

2 Q Do you have any reason to argue with the

3 accuracy of that SEC filing?

4 A No.

5 Q And then on the next page of our exhibit  
6 at the bottom of the page it says, "In January 2005,  
7 America West retired its one remaining 737-200  
8 aircraft. While this is the only forecasted 2005  
9 retirement, America West has the ability to return  
10 five additional leased Boeing 737-300 aircraft and  
11 one leased Airbus A320, and retire five owned Boeing  
12 737-300 aircraft, if market conditions necessitate  
13 such a response."

14 So the company a year later was still  
15 touting the flexibility it had in fleet planning, is  
16 that true?

17 A Well, I think that is a selective read,  
18 Mr. Katz, in the sense that near the top of the page  
19 the company states that in August 2004 it amended  
20 its Airbus purchase contract to acquire 22 A320s,  
21 with 18 of them directly from the manufacturer, so I  
22 think this is -- it is described as an incremental

1501

1 order. And it is described as being offered with  
2 extensive flexibility from Airbus with respect to  
3 prior orders.

4 Q And in the middle of the page there is a  
5 table indicating that firm orders remaining at the  
6 end of the year a total of 13 for 2005, and one for  
7 2006, that refers to the Airbus aircraft as well,  
8 doesn't it?



9           A     That is correct.

10          Q     And it also says on the next page that the

11 price of gas went up from \$0.89 a gallon to \$1.24 a

12 gallon from the year 2003 to the year 2004, is that

13 also true?

14          A     I have no reason to dispute the company's

15 number.

16          Q     Have you looked at the last page of this

17 exhibit? It indicates that every penny increase in

18 a gallon of jet fuel adds \$5.7 million to America

19 West's annual operating expenses?

20          A     Sounds about the right leverage, sure.

21          Q     So, if it went up from a \$1.24 in 2004 to

22 say a \$1.80 in 2005, that would add a couple hundred

1502

1 million dollars to the expenses, wouldn't it?

2          A     Well, let's see, let's call it 6 million

3 times, what is that, 55 cents, so, yes, 300 million,

4 thereabouts.

5          Q     Let me just ask you one more question

6 about this 2004 annual report. On page 11 at the

7 bottom of the page, it is the fourth page of the

8 document, the company says in its 2004 annual report

9 that its liquidity and borrowing options are limited

10 and "we may not be able to survive a prolonged

11 economic downturn, decreases in demand for air

12 travel or further increases in jet fuel. The

13 inability to sustain profitability may impair our

14 ability to satisfy our obligations as they become

15 due, obtain future equity or debt financing, respond  
16 to competitive developments or otherwise sustain or  
17 expand our business."

18 Are you aware of anything that would  
19 indicate that was not true at the time it was  
20 submitted and filed with the SEC?

21 A I would say in general that since it  
22 applies to literally every carrier it is in almost

1503

1 every SEC document from every airline, has these  
2 sort of the boilerplate risk factors language  
3 included in it. It is not extraordinary.

4 You know, I think it is a little  
5 cautionary in the sense that it doesn't recognize  
6 the hedge position that the company had, and it  
7 doesn't recognize the flexibility that the company  
8 has, as you had pointed out on capital expenditures,  
9 and it doesn't reflect what the company acknowledged  
10 within a few months of this document being  
11 published, that it was able to pass through  
12 substantially more of fuel and other cost increases  
13 beginning in 2005.

14 So in the sense that it is kind of  
15 boilerplate, you know, safe harbor language, I don't  
16 think it is extremely worrisome, in the sense that  
17 it doesn't necessarily comment on many of the  
18 favorable factors that are mitigating. I think it  
19 has probably left people with a negative impression.

20 Q You are not suggesting that Southwest

21 Airlines has a provision in its annual report that  
22 says it may not be able to continue in business,

1504

1 sustain or expand its business if the price of fuel  
2 goes up, are you?

3 A With their hedge position that existed at  
4 this point in time, no, that probably wouldn't have  
5 been there relative to fuel. However, relative to  
6 many of the other factors that are involved I  
7 suspect that, in fact I wouldn't be surprised, I  
8 haven't looked, but I wouldn't be surprised if a  
9 paragraph titled risk factors relating to the  
10 company and industry-related risks wasn't quite  
11 similar as respected terrorism incidents, SARS,  
12 economic factors, whatever.

13 That said, you know, with their balance  
14 sheet and with their liquidity, it is much more  
15 capable of withstanding any particular external or  
16 cyclical event.

17 Q It referring to Southwest Airlines?

18 A Yes.

19 Q Now, I would like to ask you to turn to  
20 our exhibit book A, since I had everybody pull it  
21 out.

22 Exhibit 38 is the one I am going to point

1505

1 the witness to. Mr. Mann, Exhibit A-38 of US  
Page 107

2 Airways pilots is the Bear Stearns report dated  
3 January 21 2005 to which you referred in your  
4 testimony this morning or earlier today?

5 A Right. This was what was introduced by  
6 the US Airways pilots for the week prior to this.

7 Q It does have on the second page an America  
8 West fleet plan that shows 160 airplanes in fiscal  
9 year 2006, and 161 in fiscal year 2007 like the  
10 document you showed us at page 31 of your exhibits;  
11 is that correct?

12 A Right, and as I stated a moment ago, I  
13 believe the origin of those particular figures, the  
14 160 in particular was rather dated to a second  
15 quarter 2004 investor relations update issued by  
16 America West.

17 Q All right, the one difference that I note  
18 is on the Bear Stearns document at the bottom of the  
19 chart, I guess you called it tables, it says, "Note:  
20 Leases for 16 737-300 aircraft will expire in 2005  
21 and 2006." And I don't see a note like that on the  
22 page 31 of the collection of exhibits you have put

1506

1 into evidence. Do you have any explanation for  
2 that?

3 A Well, I think the company has generally  
4 commented, at least as I have been able to see on  
5 prior guidance updates, the company has generally  
6 placed those puts and calls on the fleet in its  
7 quarterly filings as opposed to in the investor

8 relations updates.

9           It may be that Mr. Strine in this report  
10 from January 2005 is actually citing information  
11 from a prior SEC filing, but I guess, you know, the  
12 added to the question about leases expiring, you  
13 know, as I say, that is a fleet planning laddering  
14 sort of strategy. One really does not want a  
15 balloon of aircraft departing the fleet at one, you  
16 know, instantaneously at one point in time. One  
17 wants to see a nice progression of lease option  
18 extensions or terminations.

19           Q    You would say that is a sound management  
20 practice to have?

21           A    Absolutely, to have the option to be  
22 flexible, yes.

1507

1           Q    And to have a series of lease expirations  
2 going out in the event that economic times are poor?

3           A    Well, again, the issue is not so much  
4 the -- the decision as to when have leases expire  
5 are made when the leases are initiated, by and  
6 large, and many of these leases probably go back to  
7 the period either during the restructuring in 1994  
8 or prior, or shortly thereafter.

9           So it could have been 10, 12, 15-year  
10 leases initiated at that point in time. It is not  
11 surprising that you see 10 percent of the fleet  
12 covered by the flexibility to either extend or  
13 replace or if conditions warranted, to simply

14 dispose.

15 Q All right. In the first page of  
16 Mr. Strine's report, Exhibit A-38 of the US Airways  
17 merger representatives, he says after talking about  
18 the liquidity concern, he says "Given the slowing  
19 growth plans -- now just 3 percent in 2005 -- we  
20 believe America West could choose not to renew  
21 leases on six 737-300s this year and 10 737-300s in  
22 2006. If there is a real liquidity crunch, perhaps

1508

1 the carrier would work to sell or defer the 23  
2 Airbus deliveries slated over the next two years."

3 Now, you mentioned a later report by  
4 Mr. Strine. Did you see anything in the later  
5 report that withdrew his analysis in this area on  
6 fleet issues?

7 A Well, to be blunt, I don't recall it  
8 offhand as to whether it appeared or did not. I  
9 think the -- his primary concern which triggered the  
10 fleet comment was a more pronounced concern about  
11 liquidity in this January 21st report, based upon  
12 the year 2004 results, which seemed to have been  
13 mitigated by the analyst conference call that  
14 occurred on April -- well, April 20th, 2005, after  
15 which he issued updated opinions, which as we  
16 pointed out this morning were generally more  
17 favorable.

18 Q But while more favorable they did not  
19 suggest that liquidity concerns were over for

20 America West, did they?

21 A No, I don't think any carrier can ever  
22 presume that liquidity concerns are over, because it

1509

1 is a highly leveraged business. One has to be  
2 concerned about that.

3 Q In this Volume A we have a transcript of  
4 Doug Parker's video in Phoenix, I guess it is tab  
5 34. I think you were present when that was shown  
6 life, weren't you?

7 A I was.

8 Q And if you flip to page 13 much exhibit  
9 A-34 you can see Mr. Parker talking about liquidity  
10 concerns; isn't that correct?

11 A This is the part where he begins to talk  
12 about \$2.6 billion of cash.

13 Q Well, he actually starts that -- yes, that  
14 is where he starts talking about, "Our bank account  
15 is a little over 2.6 billion dollars of cash."

16 A Right, uh-huh.

17 Q And he talks about America West being in  
18 there with three bankrupt guys, I guess he is  
19 talking about US Airways, Delta and United. And he  
20 thinks that the company has moved into a much nicer  
21 neighborhood now.

22 A Oh, he is talking about his favorite

1510

1 chart, yes, I see that.

2 Q Remember that chart with cash and the  
3 percentage of revenues?

4 A Right, right, right.

5 Q Do you think there is anything faulty  
6 about his analysis?

7 A Well, I guess the, you know, this is kind  
8 of like the premise that any given version of the US  
9 Airways fleet would have been the final version.  
10 You know, the only thing we can say after the fact  
11 of the transaction is that, you know, the fleet is  
12 what it is.

13 The issue with America West and cash was  
14 if they were concerned about liquidity what would  
15 they have done about it. And I think, you know, you  
16 are suggesting based upon these comments, that they  
17 would have, you know, carefully studied and went to  
18 some lower set of numbers, and you know, not  
19 proactively managed that. And I would submit that  
20 is incorrect.

21 This is a company that has a record of  
22 managing things proactively. And when I sat through

1511

1 the analyst conference in February of 2005, before  
2 the April quarterly announcement, you know, there  
3 was no concern at all in Derek Kerr's voice or Doug  
4 Parker's voice about liquidity. They believed that  
5 they had lots of options to deal with a liquidity



6 event should it be presented to them, and indeed,  
7 their view at the time, which was reiterated about  
8 two months later at the analyst call, was that, you  
9 know, that they believed they had turned the corner  
10 on unit revenues, they had turned the corner on the  
11 ability to in effect pass through increased costs  
12 for energy, among other things.

13 And so they you, you know, to use the  
14 counter to this particular view of the world, quote  
15 weren't losing any sleep, end quote, over liquidity  
16 issues, and I think that has, you know, we have two  
17 differing views.

18 This being a brown bag lunch in front of  
19 an employee group, and the other being comments made  
20 in the context of an analyst guidance briefing, and  
21 I think those are just fundamentally different  
22 venues and fundamentally different circumstances.

1512

1 Q Don't you think that some of these  
2 employees were shareholders of the company?

3 A I suspect that they were.

4 Q So that Mr. Parker's comments on  
5 January 25th, 2006 were subject to the restrictions  
6 that the SEC puts on executives talking to  
7 shareholders, weren't they?

8 A Well, they were never filed as an FD, so I  
9 don't believe that the company considered that to be  
10 the case. But one would have to presume that if  
11 they did they would have made such a disclosure.

12 Q Take a look at the page before the one we  
13 were just looking at, and Mr. Parker there talks  
14 about this issue some more. He says, there was a  
15 lot of downside in this company. I will phrase it  
16 in two ways. First off, there is the near term  
17 downside, we were looking at cash balances at the  
18 end of this year that would have us, absolutely,  
19 needing either to raise a lot of financing between  
20 when we closed the merger in the fourth quarter or  
21 we would have filed bankruptcy. And that was, I  
22 mean, in our board room that was the plan. It was

1513

1 merger or file. There wasn't really anything in  
2 between, because we didn't have enough cash.

3 You are not saying Mr. Parker was  
4 misrepresenting facts in talking to these pilots and  
5 flight attendants over a brown bag lunch, are you?

6 A Well, I am not sure what he had in mind,  
7 here. You know, he is in negotiations on a series  
8 of combined contracts with many of these employees,  
9 you know. I don't know whether he is managing  
10 expectations on one side or another, or one group or  
11 another, but certainly these sorts of comments were  
12 never evidence in any of the filed statements that  
13 related either to the period prior to the  
14 announcement of the proposed transaction or  
15 subsequent to the transaction. And there were  
16 numerous occasions when the company did release such  
17 filings. They never looked like this.

18 So, I will just leave it at that.

19 Q He says down here on the same page that  
20 Phoenix and Vegas were never going to be Atlanta,  
21 Chicago, Dallas, he also mentioned Philadelphia and  
22 Charlotte as having better revenue generating

1514

1 abilities, capabilities.

2 Did you do any analysis, Mr. Mann,  
3 comparing the yield that America West derived from  
4 Phoenix and Vegas to the yields that other carriers  
5 got from there hubs in Atlanta, Dallas, Chicago,  
6 Philadelphia and Charlotte.

7 A Well, you know, it is kind of like stage  
8 length adjustment, Mr. Katz. If I don't fly the  
9 network, if you don't use that hub it is great to  
10 comment on it, but it doesn't have much relevance to  
11 your operation. You are never going to achieve  
12 those stage length adjusted costs unless you fly  
13 that stage length, and you are never going to  
14 achieve some other guy's revenue or some other guy's  
15 hub unless you fly out of that hub or something  
16 quite similar.

17 It is clear, I don't have to run the  
18 numbers, that the revenue potential for the industry  
19 of the Phoenix or Las Vegas is not the equivalent of  
20 the industry revenue potential out of a much larger  
21 market with a lot more business travel. That, you  
22 don't have to do the numbers to know that.

1 Q So you agree with his generalization about  
2 the yield from these various hubs?

3 A No, and I think what have you to do is you  
4 have to place this in context. Does Southwest worry  
5 about not being in La Guardia or at O'Hare, I don't  
6 think they do. In fact I think it is the last thing  
7 they would consider, and that is because their costs  
8 are low enough that whatever the revenue is in  
9 markets that, in which they participate, it is  
10 sufficient to make them a lot of money.

11 And similarly, as long as one has the  
12 costs that will support a particular operation on a  
13 particular set of markets, that is all you need.  
14 You don't need to be in La Guardia in order to make  
15 money.

16 Q I am trying to find out first of all  
17 whether you agree or disagree with Mr. Parker's  
18 characterization of Phoenix and Vegas as low  
19 yielding hubs compared to the ones that he  
20 mentioned. Can you answer that for me, please?

21 A I think there is less business travel out  
22 of both of those markets.

1 Q Phoenix and Vegas?

2 A Yes, than many of the others that were  
3 mentioned there, so it would not be surprising to me  
4 that the yield potential in those markets was less

5 than the yield potential in some of the other  
6 markets referenced.

7 Q Let's come back to the point that you were  
8 making a minute ago, which is that if you have the  
9 costs to succeed in those markets that you don't  
10 worry about the yield. He says next, I just thought  
11 that we had a business model that was just going to  
12 slowly die as more and more guys got their costs  
13 down to ours, or eventually we would sell the place  
14 to somebody.

15 Isn't he saying there that as United and  
16 Delta and Northwest and USAir cut their labor costs  
17 to approximate those of America West that the cost  
18 advantage that America West had historically enjoyed  
19 would evaporate, wasn't that his point?

20 A I think his point was that if they were  
21 successful in doing so they had some of the same  
22 input costs that America West and other low cost

1517

1 carriers had. You know, the real problem for any of  
2 these network carriers is that historically having  
3 parity input costs such as wage rates or, you know,  
4 costs of airplanes, costs of fuel, landing fees,  
5 et cetera, has never resulted in comparable output  
6 costs or unit costs per ASM because the business  
7 models simply are not as efficient in converting any  
8 set of input or output or unit costs.

9 So in that respect I understand his  
10 concern that they would make progress again. So I

11 think his concern was that as other carriers make  
12 progress against his cost basis they are able at the  
13 margin to either lose less money or make more money  
14 and given their higher revenue potential, make more  
15 money than America West could against a series of  
16 lower revenue markets, or lower yield markets.

17           So I think that was his concern. And you  
18 know, if you extend that thought, frankly a long,  
19 long way, you would conclude that in those carriers  
20 are more profitable they will attract more capital  
21 and it will be tougher for other carriers to do  
22 other things.

1518

1           So it is a rational set of thoughts that  
2 he is articulating. It occurs over a long period of  
3 time. And it assumes that these other carriers are  
4 actually successful in reducing their unit costs as  
5 opposed to simply their wage rate, for example.

6           Q    You mentioned a minute ago that you didn't  
7 see any SEC filings that were comparable to what  
8 Mr. Parker's comments were in his, in the transcript  
9 of his remarks to the pilots and flight attendants  
10 in January 2006, in Phoenix.

11           But I would like you to refer to  
12 Exhibit 23 in that same book you are at, which is an  
13 SEC form 425 filing dated June 13th, 2005, and there  
14 is a question and answer series that the company had  
15 published and then filed with the SEC.

16           We have one marked about halfway down the  
Page 118

17 page after the cover, where the question that the  
18 company asks itself is "Why not let US Airways just  
19 tank and go belly up? That way there is no  
20 bothering with seniority integration, or bickering  
21 about the way that their employees are being paid  
22 more to do the same jobs than we are."

1519

1 And the company answers, "The proposed  
2 merger is about making our company stronger and  
3 bringing in the kinds of assets - gates, slots, and  
4 aircraft - that allow us to grow our network  
5 instantly. Yes, a merger comes with tremendous  
6 challenges, including the task of integrating  
7 seniority lists. But we believe that this merger  
8 is in the best interests of the employees,  
9 shareholders and travelers. Without the merger,  
10 America West will continue as it has; however, we  
11 have to consider the long-term viability of our  
12 company, and with fuel prices high and industry  
13 capacity in excess, we (like most of the industry)  
14 could also face bankruptcy if those fundamentals  
15 don't change."

16 So there is some SEC filings that back up  
17 the same kinds of statements as in that transcript,  
18 aren't there?

19 A Well, I don't think that these are  
20 specifics as opposed to highly qualified statements,  
21 and they certainly don't pertain to Mr. Parker's  
22 favorite chart as he has referred to it or I think

1 as it has been memorialized here. So there are  
2 certainly no numbers, other than a general kind of  
3 waiving of hands at an issue which may or may not  
4 materialize, and which if it were to materialize,  
5 America West would be far more able to deal with  
6 than, for example, what US Airways has been.

7 Q On page 32 of your exhibits, I am going  
8 back to your book of exhibits, you talk about the 160  
9 aircraft at the end of 2006 and you have got a  
10 reference on the same page to network industry  
11 leading low unit costs, and when I read network  
12 industry I thought about United, Northwest, Delta,  
13 USAir, all of those have been cutting their unit  
14 costs, haven't they?

15 A They have been cutting them. They  
16 certainly are not at this point in time anywhere  
17 close to those of America West.

18 Q Exhibit 25, your Exhibit 25, that is the  
19 comparison of the Phoenix yield curve?

20 A Yes.

21 Q And this chart would go with the next page  
22 No. 26 concerning Las Vegas markets as well. Are

1 you using true O & D passengers here?

2 A This is actually market O & D, so these



3 are the comparable nonstop market O & D statistics  
4 for these 30 Phoenix markets and 28 Las Vegas  
5 markets.

6 Q So are they true O & D passengers?

7 A They are not true O & D, no.

8 Q This would include connecting passengers?

9 A To the extent they were -- to the extent  
10 they were separately priced coupons, yes.

11 Q And what would be the impact of using true  
12 O & D, if you know?

13 A I don't think I could make a general  
14 statement about that. Certainly these are domestic  
15 passengers only, it is -- again it is only nonstop  
16 market data, so it is a subset of the overall true O  
17 & D from Phoenix, either for America West or  
18 Southwest or clearly the industry.

19 Q Wouldn't it reduce the America West  
20 numbers if you used true O & D?

21 A It would depend on the allocation of  
22 revenue between sectors, if there were multiple

1522

1 sectors involved, multiple coupons involved.

2 Q So you don't know the answer?

3 A You know, generally, since America West is  
4 a longer haul carrier than is Southwest in either of  
5 these markets, the effect would be, to the extent  
6 there was an effect, the effect would be that  
7 America West is already bearing the generally lower  
8 allocations that go with the long haul sector. So I

9 am not sure you could make a general -- I am not  
10 sure you could make a general comment on that, or I  
11 wouldn't be comfortable making a general comment on  
12 that.

13 Q Exhibit 28, your 28, you have provided us  
14 over the break with the actual numbers that go with  
15 these bars, but they are percentages. Do you know  
16 what the absolute numbers are?

17 A The absolute unit revenues?

18 Q Right.

19 A If you would like I could find them. I  
20 mean in general what you are going to see here is  
21 that as a shorter haul area the US Airways absolute  
22 unit revenues are going to be higher than are the,

1523

1 or I should say yield would be absolute higher than  
2 the America West yields, just through the yield  
3 curve related change and yield with distance.

4 Q For each of these periods of time shown on  
5 the chart the US Airways yields would be higher as  
6 measured in cents per available seat mile, wouldn't  
7 they?

8 A Well, again, I don't frankly remember, but  
9 given that I will submit that US Airways is a  
10 shorter haul carrier, it is likely, but I simply  
11 can't remember, that its yields ought to be higher.

12 But I think the important part of this  
13 chart is to suggest that they were declining through  
14 a period when America West was already realizing and

15 achieving improvement in unit revenues.

16 Q I wrote in my notes you had a lot of  
17 explanations about -- hang on one second.

18 You attributed the decline at US Airways  
19 to Southwest coming into Philadelphia, Independence  
20 Air at Dulles, those were a couple of the things you  
21 mentioned?

22 A Sure, just low fare competition in

1524

1 general.

2 Q But what you didn't mention was that in  
3 September 2004 US Airways filed its second  
4 bankruptcy petition and in the fourth quarter of  
5 2004, the first one shown on the left of your chart,  
6 they were going through the process of public  
7 hearing on Section 1113 motions which create the  
8 doubt about their ability to survive?

9 A I absolutely believe that it raised  
10 serious doubts about their ability to survive. I  
11 think that is one of the issues that is at the core  
12 of the expectation question here.

13 Q And the press was getting a lot of fear  
14 from US Airways put out into the bankruptcy court  
15 proceedings that was necessary to rattle the 1113  
16 motion in order to get it approved, and that was  
17 going on and causing some of this decline in the  
18 yield to US Airways, wasn't it?

19 A I don't believe that any of those, you  
20 know, levers shall we call them, to get an 1113

21 motion either ratified or an LOA that looked very  
22 similar ratified, would have improved the company's

1525

1 standing with the traveling public. But, by the  
2 same token, I wonder whether there would be much of  
3 a favorable effect on the employee groups involved  
4 either. So you know, it is unfortunate that  
5 companies choose to negotiate in that fashion.

6 Q I couldn't agree with you more.

7 A You know, I really believe that. And I am  
8 fully in agreement with you on that.

9 But, that is an unfortunate manner in  
10 which these cases have proceeded.

11 Q But that is another possible explanation  
12 of the data that you are showing on Exhibit 28,  
13 isn't it?

14 A I think, you know, there are a lot of  
15 external factors that bear on these. Some of these  
16 are manageable by the company. Some of them are  
17 manageable, you know, only in the context of -- well  
18 some of them are just flat unmanageable, competitive  
19 and external forces, for example, are generally just  
20 unmanageable.

21 Q Would you turn to Exhibit 33, please, or  
22 your page 33 of this exhibit?

1526

2 continuing steady growth and whether there was  
3 steady growth or not. I would like to skip down to  
4 the next item, seven years hire to captain.

5           Mr. Mann, you have worked with numbers  
6 long enough where I would expect that you are not  
7 suggesting that because that is historically, if we  
8 assume that has historically been what has happened,  
9 you are not projecting that is going to continue  
10 indefinitely, are you?

11           A     Well, let's look at what causes that to  
12 occur or not. Issues such as growth of the airline,  
13 issues such as attrition of the pilot force and  
14 external factors such as, you know, economic cycle,  
15 whatnot, all bear on that. But if one looks at the  
16 actual number of years to captain at US Airways over  
17 the very long term what you will see is that these  
18 numbers range from six months, which I would not  
19 forecast being the norm, to three years which I  
20 still would not be willing to forecast would be the  
21 norm, to seven years prior to the, for the first  
22 bankruptcy or you know, America West bankruptcy in

1527

1 1991, rose to about nine years during that period  
2 of, during the bankruptcy. Subsequently returned to  
3 seven years thereafter.

4           And then with the exception of a period  
5 right around the 9-11 furlough where it went up  
6 again to about nine years, returned to seven years  
7 again thereafter.

8           So I would think that in the very long  
9 term, while a number has varied from six months to  
10 nine years, seven years has been a good, you know,  
11 sweet spot for that particular pilot group over the  
12 long term.

13           And given the company's projection that it  
14 would continue to grow from what had been 143  
15 airplanes to 161 airplanes over a two-year period,  
16 the company had, the company was engaged in hiring,  
17 the company had additional pilots identified to be  
18 called to training. There is no reason to believe  
19 that would not have continued to be a  
20 seven-year-progression.

21           Q    First of all you made a mistake, you said  
22 US Airways and you meant America West --

1528

1           A    We were talking about America West, yes.

2           Q    And second of all, you were talking about  
3 growth, 143 airplanes to 161 airplanes in the space  
4 of two years that is 20 airplanes or more?

5           A    Actually, it is kind of where you measure  
6 again. But if you are talking about year end 2005  
7 versus, you know, May of -- sorry, year end 2007  
8 versus May of 2005, that would be 2 1/2 years, it  
9 would be a little over 10 percent in 2 1/2 years, so  
10 the blended growth rate cumulative 3 1/2, 4 percent,  
11 something like that, that is not out of line with  
12 the economy. It is not out of line with the  
13 historical.

14                   So on that basis to the extent it is  
15 comparable to this, the historical trend, I believe  
16 the progression would be somewhat comparable as  
17 well.

18           Q     But it is a comparable over the last five  
19 years was no growth at all, then adding 10 airplanes  
20 a year would be quite excessive, wouldn't it?

21           A     Well, one has to look I think at the  
22 actual record, which was the company was hiring.

1529

1     You suggest that there is no growth, but in fact the  
2 company was flying more block hours, hiring more  
3 pilots to cover those block hours, and to the extent  
4 it brought on additional aircraft to do more flying  
5 would require even more pilots.

6           Q     Have you done the calculation to figure  
7 out what the ASM growth would have to be in order to  
8 keep pilots checking out every seven years as the  
9 new ones were hired?

10          A     Well, pilots generally aren't demanded or  
11 not demanded based upon ASM growth, they are in  
12 demand based upon block hour growth.

13          Q     What would the block hour growth have to  
14 be on an annual basis to generate seven-year captain  
15 check out consistently, have you done that  
16 calculation?

17          A     I have not.

18          Q     I mentioned trainees in school house on  
19 page 33, those are people like Dave O'Dell who was

20 hired in April 2005 just before the announcement of  
21 the merger, right?

22 A Correct.

1530

1 Q And you are talking about people who were  
2 in ground school at the time of the announcement of  
3 the merger then?

4 A Well, I don't know where Dave was in the  
5 ground versus, you know, other components of his  
6 training at that point in time, but I don't think he  
7 had done his initial operating experience at that  
8 point in time.

9 Q Well, do you know if he was hired in --

10 A April.

11 Q Middle of April?

12 A Yes.

13 Q And merger was announced in middle of May  
14 where would he be?

15 A Couple months, he would be in some form of  
16 training, I don't know exactly where.

17 Q Wouldn't you agree that he doesn't have  
18 much invested in America West airways as of  
19 May 2005?

20 A No, I think you know, when you sign up for  
21 a position in a seniority-based organization you  
22 have made a bet on your career, and whatever

1531



1 progression that may bring. So I think there is an  
2 investment there of the career.

3 Q What about these prospective pilots who  
4 hadn't been hired yet in your last entry here on  
5 page 33, what sort of equity have they built up?

6 A Well, these are I guess, you know, some  
7 number of individuals, there appear to be about 39  
8 of them that may be in the next two classes let's  
9 call it, who had not received, to the best of my  
10 knowledge, had not actually been inducted, had not  
11 gotten training dates.

12 So I don't think we are, at least I would  
13 not, I don't get a vote, but I would not suggest  
14 that these individuals have placed the same bet with  
15 the company, because in order to actually enter  
16 training they may have, in some cases, to tender  
17 resignations to other prior employers. That is the  
18 point at which that career bet is made, when you  
19 check out of your old position which, in which you  
20 may have some number of pilots below you on a  
21 seniority list, and you sign up with the new firm,  
22 where you start out at the lowest seniority -- well

1532

1 the highest seniority number, lowest seniority  
2 individual on that new property.

3 So I think to be sent there in the pool  
4 but have not been given a training date and hence  
5 have not committed, I think that is a different

6 category; to the extent that individuals such as  
7 Dave O'Dell who are in that class have, you know,  
8 formally been inducted, have, you know, tendered  
9 whatever they had to do in order to deal with prior  
10 employment situation, they are invested.

11 Q So the people in this last category who  
12 haven't even gotten an offer of employment, we can  
13 ignore them, right?

14 A The issue is not ignoring them, the issue  
15 is that because the company was growing it  
16 anticipated having to hire beyond Dave O'Dell and  
17 his class, and indeed it had identified one, perhaps  
18 two additional classes worth of individuals that it  
19 had preselected, if you will, and to be given  
20 options to become new hires.

21 So that is a validation of a future growth  
22 plan as much as anything else.

1533

1 Q Do you have any evidence that you can lay  
2 your hands on that anyone was offered position at  
3 America West as a pilot after Dave O'Dell?

4 A To the best of my knowledge, but I am not  
5 an expert on that subject, no one was. But the  
6 issue is why would you pre-identify these  
7 individuals and have them lined up for the next one  
8 or two classes if you had no intent to implement  
9 that selection at some reasonably close future date?  
10 And indeed that is what the company had arranged.

11 Q What evidence do you have of that?

12 A I think there are some individuals who  
13 would be glad to put that on, but I have certainly  
14 seen the list, and I feel comfortable making that  
15 statement.

16 MR. FREUND: We will be putting on  
17 evidence on that point.

18 MR. KATZ: I think this would be a good  
19 time for a break.

20 CHAIRMAN NICOLAU: Okay. Five or ten  
21 minutes.

22 MR. KATZ: That is fine.

1534

1 (4:37 p.m. -- recess -- 4:50 p.m.)

2 BY MR. KATZ:

3 Q A couple more questions. Let's call this  
4 exhibit G-2. Here are three copies for the panel  
5 and one for the witness and some more for the  
6 America West pilot representatives; page 64 of the  
7 2005 10K. You have seen the 2005 company 10K,  
8 haven't you, Mr. Mann?

9 A On prior occasions, yes, I have.

10 Q And it shows the block hours I think in my  
11 copy at least it is marked, highlighted in yellow,  
12 is yours set up that way?

13 A Yes.

14 Q And it shows 928,000 block hours for the  
15 year ended December 31, 2005, right?

16 A That is correct.

17 Q You don't have any reason to question

18 that?

19 A Other than I don't know whether it is  
20 consistent with the same Form 41 basis we were  
21 using, I don't have any reason to question it, no.  
22 I just don't know what it represents, whether it is

1535

1 all services or what it is. It is not a DOT number,  
2 it is an SEC number but I have no reason to doubt  
3 its veracity.

4 Q On page 19 of your exhibit you have some  
5 DOT Form 41 data from which you have extrapolated a  
6 calculation, and just to put these numbers next to  
7 each other, it would appear there is some variance  
8 in the 2004 number where you are showing essentially  
9 994,000?

10 A Uh-huh; correct.

11 Q And the SEC filing is showing a lower  
12 number, 961,000?

13 A So it is.

14 Q But then we talked about your calculation  
15 here to derive the 2005 figure. You have taken the  
16 number of airplanes, you have taken a number of  
17 airplanes that you assumed based on November 24,  
18 2004 information and put that as the first entry  
19 under 2005, you have used that to calculate the  
20 first entry under 2005, right?

21 A We have taken the 2004 DOT filed number  
22 the 993,946 and in effect factored it to reflect the

1 fleet in effect for 2005, that is correct.

2 Q And your number is significantly lower  
3 than the actual reported data for 2005, isn't it?

4 A The actual reported data for 2005, again  
5 we don't know what basis, would have been based upon  
6 a full year of activity at a different fleet count  
7 than was projected either under the 11-24-2004 or  
8 any of the other expectations. So I am not  
9 surprised that the actual would differ when in fact  
10 the fleet did not change as reflected in any of  
11 these particular either statements or subsequent  
12 negotiations.

13 Q And what you did to do the calculation,  
14 flipping back to page 18, you just showed the fleet  
15 dropping from 281 to 256 in 2005 and assumed that  
16 entire reduction was going to occur in calendar year  
17 2005, correct?

18 A That is correct.

19 Q And the same thing then for page 19 with  
20 regard to the block hours calculation?

21 A That is also correct.

22 Q But if you look in our exhibit Volume C at

1 Exhibit 11-I. Exhibit 1-I, Volume C-1-I is a chart.

2 Do you have the chart, Mr. Mann, it looks like this?

3 A Volume C-1-I?

4 Q It looks like this.

5 A Okay, yes.

6 Q And if you look at the column for  
7 December 2005 it doesn't show 256 airplanes, does  
8 it? It shows more. Can you read that?

9 A I see 251?

10 Q 260 is what, if you follow December 2005,  
11 down at the bottom says 260 aircraft?

12 A Sorry, I was looking -- 260, correct,  
13 uh-huh.

14 Q So with regard to No. 18, Mr. Carey never  
15 said 256 airplanes in 2005, did he?

16 A I don't know, do I have his testimony? I  
17 am not sure, actually. Was he commenting on this  
18 particular chart?

19 Q He wasn't commenting on your chart, he  
20 hadn't seen your chart.

21 A I say was he commenting on this particular  
22 chart, Exhibit 1-I.

1538

1 Q Oh, yes, he did testify about  
2 Exhibit 1-I, he certainly did.

3 I am going to show you another exhibit,  
4 let's mark this as exhibit G-3. You may recall I  
5 asked you about your exhibit page 28 where you  
6 compared America West and US Airways changes in  
7 passenger revenue per available seat mile in the  
8 fourth quarter of 2004 to the fourth quarter of  
9 2005.

10 Based on this excerpt, G-3 from the 2005  
Page 134

11 10K report can you now answer my question about the  
12 absolute value of US Airways passenger revenue per  
13 available seat mile as compared to America West?

14 A From this exhibit, is there some other  
15 exhibit you --

16 Q Exhibit G-3, page 53 of the 2005 10K, are  
17 we looking at the same document now?

18 A We are now, yes.

19 MR. FREUND: You weren't before.

20 BY MR. KATZ:

21 Q Oh, okay. Let me go back and restate the  
22 question, since we have all got page 53 in front of

1539

1 us now.

2 And the question is does this help us with  
3 the information about which of the carriers has a  
4 higher passenger revenue per available seat mile?

5 A Well, as I previously indicated, the fact  
6 that US Airways is a shorter haul carrier and known  
7 shape of the yield curve would suggest that it ought  
8 to be a substantially higher yield and unit revenue  
9 at the same load factor. So in fact I am not  
10 particularly you know, thrilled with the small  
11 difference between these.

12 Q So at the end of 2005 --

13 A I think we are talking about the same  
14 thing. It is a 13 percent increase on the part of  
15 America West and a 1 percent increase on the part of  
16 --

17 Q Right, what were the increases to, America  
18 West ended up at 8.27 cents per available seat mile?

19 A Correct.

20 Q And USAir ended up at 9.44 cents per  
21 available seat mile?

22 A That is what it says, yes.

1540

1 Q Let me ask you about your exhibits, you  
2 have a number of exhibits about what you called the  
3 Metrojet bubble?

4 A Uh-huh.

5 Q And I believe they start on page 5?

6 MR. FREUND: Page 4, actually, 3 actually.

7 BY MR. KATZ:

8 Q Let's look at page 5. In the yellow line  
9 on the bottom you have got just the Metrojet hours,  
10 right?

11 A Correct.

12 Q And is it fair to say that at the end of  
13 1999 they are pretty flat through the second quarter  
14 of 2001?

15 A No, maybe the first quarter of 2000  
16 through the second quarter of 2001.

17 Q At approximately 50,000 block hours?

18 A Right, right, uh-huh.

19 Q Now going up from the first quarter of  
20 2001 to the blue line --

21 A Yes.

22 Q -- we see that there is a dramatic



1 increase from the second quarter of 2000 through the  
2 fourth quarter of 2000; isn't that correct?

3 A The second quarter of 2000 through the  
4 fourth quarter of 2000?

5 Q Yes, do you see a dramatic increase there  
6 where the block hours have gone up, looking at the  
7 left margin, the left --

8 A Correct, yes.

9 Q -- index from approximately 340,000 to  
10 380,000?

11 A Correct, yes.

12 Q They have increased more than the total  
13 value of Metrojet's block hours, well, almost --  
14 they have increased 80 percent of the value of the  
15 full Metrojet flying, haven't they?

16 A I think you will see that the red line  
17 actually shows that. The system without Metrojet  
18 grew from 280,000 to 320,000 and that is the level  
19 it was in the second quarter of 1998.

20 Q And that increase during the year 2000 was  
21 a result of the start of approximately 100 Airbus  
22 deliveries, are you aware of that, Mr. Mann?

1 A We are talking about the effect of  
2 Metrojet in that chart and we are subtracting

3 Metrojet from the system flying of US Airways.

4 Q That is exactly my point.

5 A And what this illustrates is that the  
6 second quarter 1998 level of flying is the same as  
7 the second quarter of 2001 level of flying, if one  
8 subtracts out the effect of Metrojet.

9 Q But if you look at the increase from the  
10 first quarter of 2000 all the way up to the third  
11 quarter of 2001, you see that there is an increase  
12 from 280,000 on the red line, from 280,000 up to  
13 320,000. It is the same 40,000 block hours  
14 increase, fully 80 percent the size of Metrojet's  
15 entire operation, that is increased totally without  
16 regard to anything happening at Metrojet, isn't that  
17 a fact?

18 A Well, I think what this shows is what I  
19 earlier suggested, which is that as of the second  
20 quarter of 1998 US Airways flew approximately  
21 320,000 block hours per quarter, and as of the  
22 second quarter of 2001, if one excludes Metrojet, it

1543

1 still flew 320,000 hours per quarter.

2 Q If you look at this increase in block  
3 hours in the red line, that has nothing to do with  
4 Metrojet, and it shows there is an increase, a  
5 bubble so to speak, that occurred with block hours  
6 as a result of other flying being added to the US  
7 Airways system during that period of time, isn't  
8 that a fact?

9           A     I am sure that airplanes were retired, I  
10 am sure that airplanes may have been exchanged, but  
11 this illustrates what it illustrates, which is that  
12 over that period of time essentially nothing at main  
13 line, excluding Metrojet, changed; the same level of  
14 flying that it as it was in 1998.

15           Q     In one year you have got 40,000 hours  
16 being added on the base of 280,000. That is a  
17 14 percent increase --

18           A     With respect, Mr. Katz, I think we are  
19 down to the issue of let's choose selected reference  
20 points. I am choosing the long term look at system  
21 hours with and without Metrojet. And if one starts  
22 at a point when Metrojet begins and, you know,

1544

1 forget about when Metrojet ends, but I will give you  
2 the credit for two quarters prior to that before  
3 9-11, we are at the same level of flying as we were  
4 before, 320,000 hours a quarter.

5           Q     In fact isn't it true that the Metrojet  
6 bubble, as you called it, is a result of Airbus  
7 deliveries and not anything to do with Metrojet?

8           A     The yellow trace here shows the Metrojet  
9 bubble, you know. If there are other things going  
10 on, that is wonderful. But indeed the Metrojet  
11 bubble didn't improve system flying ex-Metrojet over  
12 the period 1998 through 2001. I think it is  
13 appropriate, or it is not inappropriate then that it  
14 be termed some sort of a bubble; it arrived, it went

15 away.

16 Q Look on page 4, you have got a circle  
17 around the bubble for 2000, the year that I have  
18 just been pointing you to, when there was no change  
19 in Metrojet hours and there was a change in the non  
20 Metrojet system block hours. So the Metrojet bubble  
21 isn't what is causing the blue line to increase,  
22 because you have got that red circle around it on

1545

1 page 4, because if you compare that to page 5 there  
2 isn't any corresponding increase in Metrojet hours  
3 during that period of time, can't you see that?

4 A So you are saying that there was no  
5 Metrojet bubble, is that your argument?

6 CHAIRMAN NICOLAU: No, he is simply asking  
7 you if you knew the cause of the increase in the red  
8 line. On the first quarter of 2000 to the --

9 THE WITNESS: I guess what I will suggest  
10 to you is if the company had dispensed with Metrojet  
11 earlier that the block hour flying would have been  
12 lower and the percentage increase would have been  
13 smaller and who knows, they might even have made  
14 more money or lost less.

15 BY MR. KATZ:

16 Q The fact is that Exhibit 4 is incorrect  
17 because you circled the year 2000, a 10 percent  
18 increase in block hours in the year 2000, and there  
19 isn't that kind of an increase in the Metrojet  
20 flying but there is in the non Metrojet flying; is

21 that true?

22 A The numbers depicted in chart 4 are system

1546

1 level numbers. There is nothing inconsistent about  
2 the charts.

3 Q You have got a circle, a red circle around  
4 the year 2000. Isn't that what you are intending to  
5 show, and you have got an arrow to it and pointing  
6 it out as the Metrojet bubble, and yet when you flip  
7 to page 5 there isn't a similar increase in the  
8 Metrojet hours on page 5. So what is the  
9 explanation for that?

10 A I see your point, okay. The issue is  
11 would the number have been higher without the  
12 Metrojet bubble or would it have been lower. You  
13 are suggesting that this was all due to Airbus  
14 deliveries and not due to Metrojet. I don't think  
15 so. If you are suggesting that there were perhaps  
16 other influencing factors in addition to Metrojet,  
17 that is entirely possible.

18 But, if one looks at the amount of  
19 Metrojet flying which looks to be approximately 200  
20 -- well, call it 200,000 hours a year, you know,  
21 that would be 50,000 hours per quarter. That is the  
22 difference between the blue and the red lines on

1547

1 chart 4, and that is the level of the bubble we are  
Page 141

2 talking about.

3 If you are suggesting that there wasn't a  
4 bubble, I think you are incorrect. If you are  
5 quibbling about whether some of the increase in that  
6 particular year 2000 was attributable to something  
7 other than the Metrojet bubble, I won't argue that  
8 point.

9 Q I am just saying your charts are  
10 inconsistent, and your periods of time studied are  
11 inconsistent. On page 4 you are looking at 1991 to  
12 2004 to study US Airways block hours.

13 When you go to study America West fleet  
14 growth you want to go back to 1985, don't you, and  
15 look at 1985 through the end of 2004. And when you  
16 want to study revenue growth you want to look at the  
17 first three months of 2006. So you pick whatever  
18 period of time is convenient for you to study  
19 whatever issue it is you want to take a look at;  
20 isn't that true?

21 A Well, Mr. Katz, now with respect, again,  
22 if you are going to suggest that I should have

1548

1 chosen as a long-term growth profile, Allegheny  
2 Airlines in 1988 or, I can't remember whether it was  
3 even then called USAir, versus the 2004 statistics  
4 and drawing a line between those two points  
5 represented growth in the overall operation, I  
6 wouldn't sign up for that one.

7 But I think the choice of these time  
Page 142

8 frames are relevant to the situation being analyzed.  
9 And I am sure you can choose other, you know,  
10 reference time points that would lead you a slightly  
11 different conclusion. I am not sure they would be  
12 equally relevant.

13 Q Let's look at exhibit G-4, which is  
14 another. One of those is for you, the rest is for  
15 Jeff.

16 A Yes.

17 Q This is another updated and reaffirmed  
18 June through 2005 America West airlines investor  
19 relations update, and it says in the footnote "as  
20 part of America West's recently announced plan to  
21 merge with US Airways, America West has negotiated  
22 to return aircraft to lessor's and defer some

1549

1 aircraft deliveries whether or not the merger  
2 closes," and it shows America West's fleet forecast  
3 at 138, 143 airplanes on out into future. Doesn't  
4 this show the flexibility that management had  
5 preserved in fleet planning?

6 A I think what it shows is the effect on  
7 management's thinking of the ability to negotiate  
8 with Airbus by virtue of having entered a merger  
9 transaction. That is I think what it says directly.

10 Q And it says it is going to follow this  
11 plan whether or not the merger closes, doesn't it?

12 A It states that, yes.

13 MR. KATZ: Thank you, Mr. Mann. That is  
Page 143

14 all I have.

15 MR. FREUND: We don't have any questions.

16 CHAIRMAN NICOLAU: Any questions?

17 MR. BRUCIA: No, sir.

18 MR. GILLEN: No.

19 CHAIRMAN NICOLAU: Thank you, Robert.

20 THE WITNESS: Thank you, sir. Thank you,  
21 panel, thank you, gentlemen, and lady.

22 CHAIRMAN NICOLAU: Next witness? Tomorrow

1550

1 morning, what time?

2 MR. FREUND: Dan's call.

3 MR. KATZ: Whatever you want to do is fine  
4 with me.

5 CHAIRMAN NICOLAU: 7:00?

6 MR. KATZ: I would have to leave for home  
7 right now to get some sleep.

8 MR. FREUND: Let's say 9:30, that way we  
9 have a shot at getting finished.

10 CHAIRMAN NICOLAU: 9:30 tomorrow morning.  
11 (Whereupon, at 5:22 p.m., the hearing was recessed,  
12 to be reconvened at 9:30 a.m., on Wednesday, January  
13 10, 2007.)

14

15

16

17

18

19



20  
21  
22

1551

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22

C O N T E N T S

WITNESS

EXAMINATION

ROBERT W. MANN, JR.

by Mr. Freund

DX 1379

by Mr. Katz

CX 1473