

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22

BEFORE THE

NEUTRAL PANEL CONVENED PURSUANT TO LETTER #50

Richard Bloch, Robert Harris, Fredric Horowitz,

Neutrals

----- x

In re: :

Delta Air Lines, Inc. :

and :

Air Line Pilots Association :

International :

----- x

Washington, DC

Monday, March 20, 2006

REPORTED BY:

CARMEN SMITH

1 Arbitration on Monday, March 20, 2006, in
2 Washington, DC, at The Grand Hyatt, 1000 H Street
3 Northwest, Washington, DC 20001, at 10:01 a.m.,
4 before CARMEN SMITH, a Notary Public within and for
5 the District of Columbia, when were present on
6 behalf of the respective parties:

7

8 APPEARANCES:

9 RICHARD I. BLOCH, ESQ.
10 4335 Cathedral Avenue Northwest
11 Washington, DC 20016
12 202-686-1140

13 Neutral

14

15 ROBERT O. HARRIS
16 5480 Wisconsin Avenue, Suite 1409
17 Chevy Chase, Maryland 20815-3518
18 301-652-4079

19 Neutral

20

21

22 -- continued --

1 APPEARANCES: (Continued)

2

3 FREDRIC R. HOROWITZ, ESQ.

4 Post Office Box 3613

5 Santa Monica, California 90408-3613

6 310-829-6064

7 Neutral

8

9 JACK GALLAGHER, ESQ.

10 BRENDAN BRANON, ESQ.

11 Paul, Hastings, Janofsky & Walker LLP

12 875 15th Street, NW

13 Washington, DC 20005

14 202-551-1712

15 jackgallagher@paulhastings.com

16 On behalf of Delta Air Lines, Inc.

17

18

19

20

21

-- continued --

22

1 APPEARANCES: (Continued)

2

3 ROBERT S. SPAN, ESQ.

4 Paul, Hastings, Janofsky & Walker LLP

5 515 South Flower Street, 25th Floor

6 Los Angeles, California 90071-2228

7 213-683-6253

8 robertspan@paulhastings.com

9 On behalf of Delta Air Lines, Inc.

10

11 BRUCE H. SIMON, ESQ.

12 MICHAEL L. WINSTON, ESQ.

13 PETER D. DECHIARA, ESQ.

14 ROBIN H. GISE, ESQ.

15 PETER HERMAN, ESQ.

16 Cohen, Weiss and Simon LLP

17 330 West 42nd Street

18 New York, New York 10036-6976

19 212-563-4100

20 bsimon@cwsny.com

21 On behalf of Air Line Pilots Association,

22 International

1 PROCEEDINGS

2 MR. BLOCH: I think we're ready to
3 proceed. I'll open the record, and a hand is up.

4 MR. WINSTON: Yes.

5 MR. BLOCH: Mr. Winston.

6 MR. WINSTON: Yes. We have two items.
7 First an SEC filing from the company from 1996 that
8 we're going to have admitted as ALPA Exhibit 46.
9 We've previously shown this to the company, and they
10 have stipulated to its admission.

11 MR. BLOCH: Let's hold on for just a
12 second.

13 Are you okay? Can you hear all right?

14 COURT REPORTER: Yes, I'm fine. Thank
15 you.

16 MR. BLOCH: Go ahead, thanks.

17 (ALPA Exhibit 46 identified.)

18 MR. WINSTON: ALPA Exhibit 46.

19 (ALPA Exhibit 46 received.)

20 MR. WINSTON: And in addition, there is an
21 exhibit that we failed to introduce through Captain
22 Wykoff, so I would like to put Captain Wykoff back

1 on the stand just for this one exhibit. And we have
2 already spoken to Delta's counsel regarding this.
3 So if we could recall Captain Donald Wykoff, please.
4 Whereupon,

5 DONALD WYKOFF
6 was called as a witness and, having previously been
7 duly sworn, was examined and testified further as
8 follows:

9 MR. WINSTON: This document will be marked
10 as ALPA Exhibit 47.

11 (ALPA Exhibit 47 identified.)

12 FURTHER DIRECT EXAMINATION

13 BY MR. WINSTON:

14 Q Good morning, Captain Wykoff.

15 A Good morning.

16 Q Could you identify this document, please?

17 A Yes. This deck here from September 2004
18 was presented to the negotiating committee in
19 advance of what ultimately became the negotiations
20 for letter 45, the post-retirement pilots agreement,
21 as presented to us by the company's negotiating
22 team.

1 Q Okay. And was this presented at the
2 company's headquarters?

3 A I believe that's true.

4 Q Okay. And who was present for the
5 company?

6 A To the best of my memory, Mr. Kruse,
7 Ms. Carolan, Mr. Watson. Might have been one or two
8 other folks from the -- their negotiating team as
9 well. I can't remember exactly.

10 Q Who was present for ALPA?

11 A Our negotiating committee, myself, Captain
12 Canoll, Captain Worrell, Mr. Bill Elliott, and I
13 believe Captain Mike Pinho was with us as well.

14 Q On page 2 it lists the three discussion
15 items that they -- that the company walked you
16 through?

17 A Yes.

18 Q Okay. Then on page 3, could you
19 describe -- I'm sorry, on page -- wondering if we
20 could take a five-minute break so we can get the
21 complete document photocopied.

22 MR. BLOCH: Sure, yes. Let's do that.

1 (Recess from 9:43 to 9:55 a.m.)

2 MR. WINSTON: We now have a replacement,
3 the full document, for ALPA Exhibit 47.

4 BY MR. WINSTON:

5 Q Captain Wykoff, which is the same document
6 but now it's the complete document?

7 A Yes.

8 Q And turning to page 3, just briefly
9 describe what that shows.

10 A My understanding of the document is it was
11 presented to us as basically, as the title says, a
12 pension score for the recently early retired pilots.
13 It just shows -- reflects the amount of the FAE,
14 final average earnings, as a percentage of earnings
15 of full retirement amount at age 60. And then runs
16 down through the different categories on different
17 dates that you see in the columns and rows and the
18 percentages of the normal full retirement.

19 Q Okay. And then turn to page 4. And what
20 was this chart to demonstrate?

21 A It's, once again, based more on pilot age
22 than the demographics of the aircraft and the

1 specific dates. But reflecting, as agreed on the
2 bottom, reflecting number of pilots by age who would
3 receive the noted percentages in the table above of
4 the retirement benefit if they retire on October 1,
5 2004.

6 Q Okay. And the bottom bullet point says
7 611 pilots would achieve 80 percent or more of
8 pension benefits if they retired on October 1?

9 A That's correct.

10 Q Okay. And that's October 1, 2004,
11 obviously?

12 A That is correct.

13 Q And those are the -- if you add up the
14 last two columns, that's the -- where the 611 comes
15 from, the 430 and the 181?

16 A Correct.

17 Q Okay. And was this the number of pilots
18 that the company was expecting to retire as of
19 October 1?

20 A If -- as it was presented to us, this is
21 their modeling of the number of pilots that they
22 thought potentially could retire on October 1, 2004.

1 Q Okay. And page 5?

2 A This runs down and basically take the 611
3 pilots that were previously modeled and then start
4 taking a look at them across the demographics of the
5 different aircraft being flown at the company. And
6 where those specific pilots would -- what aircraft
7 they would come off of if they were retiring.

8 Q Okay. And at the 611 pilots, if they
9 retired on October 1, this would lead to the
10 grounding of the number of aircraft that are listed
11 on the right?

12 A That's correct. So basically, if you
13 take, as I understand this document from that time
14 frame, if you took the pilots in the table to the
15 left, it would correlate to the numbers on the right
16 of numbers of aircraft that could be grounded.

17 Q Okay. And then on page 6, what does this
18 reflect?

19 A This now takes that and kind of puts a
20 projected training required overlay on top of it,
21 number of potential early retirements and what kind
22 of stress and pressure it puts on the training

1 department.

2 Q Okay. And page 7, what does that reflect?

3 A I'm sorry, say again?

4 Q What does that reflect?

5 A Page 7 is just the aircraft grounded by

6 month from the 611 pilots, out through starting

7 October 4 and running through January of '06,

8 basically as -- if you had all these pilots go out,

9 the number of aircraft, and then overlay the

10 training capacity on top of it, when the aircraft

11 could be brought back into the fleet, based on

12 pilots.

13 Q Okay. Now, slide 8?

14 A We start taking a look at the revenue loss

15 from the numbers of aircraft that potentially could

16 be grounded, through the same period, October '04

17 through January of '06. And basically, the

18 cumulative amount there, as you can see in the box

19 below, is the revenue loss could be greater than \$1

20 billion from the grounding of aircraft. And there's

21 some additional book-aways as well, the two factors.

22 Q And the book-aways, they're saying, is

1 over \$250 million?

2 A That's correct, according to this.

3 Q Okay. And in September of '04 is when

4 ALPA and the company reached letter of agreement 45

5 on the PRP pilots?

6 A That's correct.

7 MR. WINSTON: We would move for the

8 admission of ALPA Exhibit 47.

9 MR. GALLAGHER: No objection.

10 MR. BLOCH: It will be admitted.

11 (ALPA Exhibit 47 received.)

12 MR. WINSTON: Thank you. We have no

13 further questions of Captain Wykoff.

14 MR. BLOCH: Any questions, Mr. Gallagher?

15 MR. GALLAGHER: Yes, Mr. Chairman. I

16 would like to reserve the opportunity to consult

17 with my client about this latest exhibit, which had

18 not been given to us in advance. But I can proceed

19 with cross-examination of Captain Wykoff's testimony

20 from Friday.

21 CROSS-EXAMINATION

22 BY MR. GALLAGHER:

1 Q Good morning, Captain Wykoff.

2 A Good morning, Mr. Gallagher.

3 Q I want to go back to the subject of
4 negotiations about the bankruptcy protection letter.

5 Did you personally ever tell the company
6 representatives across the negotiating table or in
7 negotiations that once the bankruptcy protection
8 letter was properly triggered and the 30-day
9 consultation period had expired, that then the
10 section 1113 relief the company could seek would be
11 limited to the amount of relief to the amount of the
12 material shortfall?

13 A Well, we specifically said in --

14 Q Can you answer my question first and then
15 explain?

16 A Did I --

17 Q Did you ever tell the company that the
18 amount of relief the company could achieve in
19 section 1113 was limited to the amount of the
20 material shortfall?

21 A Specifically by definition, no.

22 Q Thank you.

1 No further questions, Mr. Chairman, at
2 this time, subject to reviewing the document. And
3 we can either review that at the next break and
4 reserve the option to recall the witness or we can
5 take a break now to give us a chance to look at it.
6 But --

7 MR. BLOCH: I think I would prefer to move
8 forward, if there's no problem with that.

9 Mr. Winston, is that all right?

10 MR. WINSTON: Yes.

11 MR. BLOCH: Do you have any additional
12 questions for -- I'm sorry.

13 MR. GALLAGHER: I do have one more
14 document, Mr. Chairman. I'm passing out Company
15 Exhibit 94.

16 (Company Exhibit 94 identified.)

17 BY MR. GALLAGHER:

18 Q Captain Wykoff, I'll give you a few
19 minutes to look at this document. It is a lengthy
20 document, but I believe once you review it, you'll
21 discover you are familiar with it. But I'll give
22 you a few minutes. Would you just let us know when

1 you're comfortable that you know what the document
2 is?

3 (Witness reviewed the document.)

4 And I would call your attention, the cover
5 page is not dated, but the fourth page into the
6 document is dated.

7 Are you ready to proceed?

8 A Ready.

9 Q Do you recognize this document, Captain
10 Wykoff?

11 A Yes, I do.

12 Q What is it?

13 A This is the slide deck from the road show,
14 we called it, a presentation we made to the pilots
15 in November of 2004 at the Georgia Convention Center
16 by the airport.

17 Q This is the same meeting -- excuse me.

18 Is this the meeting that was webcast?

19 A Yes, that's correct.

20 Q And is this the full deck of slides?

21 A It appears to be.

22 Q All right. Would you tell us what slide

1 in here -- what page references the importance of
2 the bankruptcy protection letter?

3 A There is no slide that we briefed the
4 bankruptcy protection letter per se.

5 Q All right. Indeed, there is no mention of
6 the words "bankruptcy protection letter" in this
7 deck, is there?

8 A That's correct.

9 MR. GALLAGHER: Thank you. Now I have no
10 further questions, Mr. Chairman.

11 MR. BLOCH: Mr. Winston.

12 MR. WINSTON: We have no questions.

13 MR. BLOCH: Captain Wykoff, thank you very
14 much. We appreciate your --

15 MR. GALLAGHER: Offer Company Exhibit 94.

16 MR. BLOCH: Any objection to that?

17 MR. WINSTON: No objection.

18 MR. BLOCH: It will be admitted.

19 (Company Exhibit 94 received.)

20 MR. BLOCH: Thank you again.

21 (Witness excused.)

22 MR. DECHIARA: Good morning, Peter

1 DeChiara from Cohen, Weiss and Simon.

2 ALPA calls as its next witness Dr. Donald

3 Hudson.

4 Whereupon,

5 DONALD HUDSON

6 was called as a witness and, having first been duly

7 sworn, was examined and testified as follows:

8 DIRECT EXAMINATION

9 BY MR. DECHIARA:

10 Q Good morning, Dr. Hudson.

11 A Good morning.

12 Q Could you please state your current

13 position?

14 A I'm the director of ALPA's aeromedical

15 office in Denver, Colorado.

16 Q How long have you held that position?

17 A Been the director for 13 years and staff

18 physician for 20.

19 Q Okay. What is the ALPA aeromedical

20 office?

21 A It's a confidential medical service

22 offered to the members of the Air Line Pilots

1 Association.

2 Q And what is its purpose and function?

3 A It's basically to assist airline pilots if
4 they have medical questions that might affect their
5 FAA medical certification.

6 Q What is your professional training?

7 A I am a 1978 graduate of Mayo Medical
8 School in Rochester, Minnesota; did a psychiatric
9 residency at the University of Colorado
10 San Francisco. And as the rest of the physicians in
11 my office, also attended the U.S. Air Force School
12 of Aerospace Medicine and my board certification is
13 in aerospace medicine.

14 Q As the director, you supervise a staff?

15 A I do. I supervise a staff of six other
16 physicians and six administrative staff.

17 Q Approximately how many pilots do you and
18 your staff consult with a year?

19 A Approximately 8000.

20 Q And how does that work? Is that in person
21 or over the phone? Describe how that works.

22 A Most of our -- most of our patients

1 contact us through the phone and through the mail,
2 "most" meaning 80 percent. About 20 percent we
3 actually see personally in the office in Denver.

4 Q To what extent are commercial airline
5 pilots required to submit to FAA medical
6 examinations to maintain their license to fly?

7 A Airline pilots are required, depending on
8 their crew position, to take FAA medical
9 examinations either once per year, in the case of a
10 first officer, or every six months, in the case of a
11 captain.

12 Q Can you describe for us certain medical
13 conditions that would disqualify a pilot from flying
14 if it were not corrected?

15 A In a temporary way, a common condition
16 would be hypertension or high blood pressure. If
17 you can't meet the FAA standards, then you have to
18 have an evaluation. If medication is required, it
19 has to be approved medication, and then those
20 records have to be reviewed by the FAA and approved
21 before that airman could resume their duties.

22 Q What about cataracts?

1 A Cataracts is another common condition,
2 opacity of the lens of the eye. If it degrades
3 vision past FAA standards, which is 20/20 corrected,
4 then a pilot would need to have that corrected
5 before they could resume their duties.

6 Q Can you describe for us any medical
7 conditions that would permanently disqualify a pilot
8 from flying?

9 A Currently in a permanent sense, a common
10 example would be diabetes mellitus that requires
11 insulin treatment. An airline pilot that requires a
12 first- or second-class medical could not fly under
13 those circumstances.

14 Q Can you think of any other common example?

15 A Actually, there's -- even more common
16 example than diabetes and that is coronary artery
17 disease that, even if treated, remains symptomatic.
18 If that's the case in an airline pilot, then they
19 are currently disqualified.

20 Q How common are these two conditions you
21 just mentioned, coronary heart disease and diabetes?

22 A They're very common. Our population is

1 overwhelmingly males, 90 percent male, and so those
2 diseases are reflected in our population as they are
3 in the general population.

4 Q Let's take coronary heart disease. In
5 your view, in your experience, would coronary heart
6 disease necessarily prevent someone like you or me,
7 a doctor or a lawyer, from plying our trade?

8 A Generally speaking, no. If you are a
9 lawyer, for instance, and you have diabetes that
10 requires insulin treatment, that would not keep you
11 from working in your profession.

12 Q Okay. I'd like to show you a document
13 that I'll ask to have marked as ALPA Exhibit 48.

14 (ALPA Exhibit 48 identified.)

15 BY MR. DECHIARA:

16 Q Can you tell us what ALPA Exhibit 48 is?

17 A This is what we call the standard summary
18 page from the FAA guide for aviation medical
19 examiners.

20 Q And who issues this document?

21 A The FAA issues this document.

22 Q If you look at the bottom box of the page,

1 there's a box that says "disqualifying conditions."

2 What are those referred to?

3 A These 15 conditions are the conditions
4 that if an applicant shows for an FAA medical exam
5 and has any of these conditions, the examiner must
6 disqualify them from holding a medical.

7 Q Do you have an estimate of what percentage
8 of commercial airline pilots at some point in their
9 career before they hit age 60 are permanently
10 disqualified for medical reasons from flying?

11 A Currently that figure is about 9 to 12
12 percent of airline pilots do not reach age 60
13 retirement because of medical reasons.

14 MR. DECHIARA: No further questions on
15 direct.

16 MR. GALLAGHER: No questions,
17 Mr. Chairman.

18 MR. BLOCH: Doctor, thank you very much
19 for your help.

20 THE WITNESS: You're welcome.

21 (Witness excused.)

22 MR. SIMON: May we have a two-minute

1 recess, please? No more than two minutes. I

2 suggest we stay in place.

3 MR. BLOCH: If we want to --

4 MR. SIMON: Not necessarily the panel.

5 (Laughter.)

6 MR. BLOCH: Two minutes.

7 (Recess from 10:13 to 10:18 a.m.)

8 MR. DECHIARA: One housekeeping matter.

9 ALPA moves the admission of ALPA Exhibit 48, the
10 one-page exhibit from Dr. Hudson's testimony.

11 MR. GALLAGHER: No objection.

12 MR. BLOCH: Thank you.

13 (ALPA Exhibit 48 received.)

14 MS. GISE: Good morning.

15 MR. BLOCH: Good morning.

16 MS. GISE: Robin Gise from Cohen, Weiss

17 and Simon.

18 MR. BLOCH: Please proceed.

19 MS. GISE: I would like to call Jack

20 Parrack.

21 Whereupon,

22 JACK PARRACK

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

3 DIRECT EXAMINATION

4 BY MS. GISE:

5 Q Good morning.

6 A Good morning.

7 Q Could you please state your current
8 position?

9 A I'm employed by the Air Line Pilots
10 Association in the retirement and insurance
11 department as an actuary.

12 Q And how long have you held that position?

13 A Since August of 1999.

14 Q Can you briefly describe your duties?

15 A Basically, I provide actuarial support to
16 the various ALPA pilot groups, often involved with
17 costing of benefits proposals and negotiations.
18 I've also been involved since 2002 with many of
19 ALPA's pension legislation initiatives.

20 Q And can you briefly describe your
21 employment prior to ALPA?

22 A Immediately prior to ALPA, I was vice

1 president of client services and actuarial support
2 for Lynchval Systems, that's an actuarial software
3 firm that provides software to many consulting firms
4 for valuing defined benefit plans and
5 post-retirement medical plans. For about five years
6 in that position.

7 Immediately prior to that, I worked for
8 Alexander & Alexander Services, which was eventually
9 absorbed by Aon Consulting. I actually worked for
10 them two different periods for a total of about six
11 years.

12 Q How long have you worked in the actuarial
13 field?

14 A I've held pension actuarial positions
15 since January of 1977.

16 Q And can you describe your educational
17 background, including your actuarial credentials?

18 A I have a bachelor of science degree in
19 mathematics with actuarial science. I am an
20 enrolled actuary under the Employee Retirement
21 Income Security Act, ERISA. I'm also a member of
22 the American Academy of Actuaries and a member of

1 the American Society of Pension Professionals and
2 Actuaries.

3 MS. GISE: I'd like to qualify Mr. Parrack
4 as an expert in actuarial evaluations.

5 MR. GALLAGHER: No objection.

6 MR. BLOCH: Thank you.

7 BY MS. GISE:

8 Q Can you describe your involvement in prior
9 ALPA negotiations?

10 A Right after I started in 1999, one of my
11 first assignments was to work with the Delta pilots
12 on contract 2000. After that, I also worked with
13 the USAirways pilots, both before and during the
14 first bankruptcy. I worked with the Hawaiian pilots
15 during their bankruptcy. I also worked with the
16 Delta pilots in their negotiations in 2004. I
17 worked with the Aloha pilots during their
18 bankruptcy, and I also worked with the Continental
19 pilots in their last negotiations.

20 Q And can you describe your involvement in
21 the current negotiations between ALPA and Delta?

22 A I worked with the Delta pilot negotiating

1 committee and retirement and insurance committee,
2 trying to help them cost changes in the benefit
3 programs, also review information that's provided by
4 the company's actuaries, Towers Perrin. I also
5 interface with an outside consulting firm, the Segal
6 Company, who ALPA has hired as actuarial support for
7 the Delta pilots.

8 Q Are you familiar with the Delta defined
9 benefit plan for pilots?

10 A Yes, I am.

11 Q What is a defined benefit pension plan?

12 A Essentially, defined benefit plan is a
13 plan that makes a promise to pay you usually an
14 annuity for the rest of your life once you retire,
15 as opposed to define contribution plan, where the
16 promise that the company is making is regarding the
17 contributions that are going into a fund and the
18 ultimate benefit that you receive from a defined
19 contribution plan is simply based upon the
20 accumulation of assets in that fund.

21 Q And how are your pilot DB plan benefits
22 calculated?

1 A Under the Delta pilot plan, the benefit is
2 based on years of service, final average earnings.
3 Basically, the pilot gets 2.4 percent of final
4 average earnings for each of his first 25 years of
5 service. Service beyond age 25 doesn't count beyond
6 that. So the maximum would be 60 percent of final
7 average earnings after a 25-year or more career. If
8 a pilot only had 10 years of service when he
9 retired, he'd get 24 percent.

10 Q What is final average earnings?

11 A Final average earnings is the highest 36
12 consecutive months of earnings out of the last 120
13 months.

14 Q And what are the options Delta pilots have
15 for receiving their pension benefits?

16 A Essentially, there are two main options.
17 They can receive their entire benefit as an annuity.
18 If they do that, half of the benefit is paid as a
19 fixed annuity, which means that the dollar amount
20 doesn't change over time, and half of the benefit is
21 paid as a variable annuity, which has the potential
22 for changing over time, depending on the earnings of

1 the trust that covers the plan.

2 The other option that the pilot has is to
3 receive half of his benefit again as the fixed
4 annuity and the other half of his benefit in the
5 form of a lump sum. So if he takes the lump sum
6 portion, he gives up the variable annuity.

7 Q Are there penalties for pilots if they
8 retire before age 60?

9 A There's several different kinds of
10 penalties that would apply for early retirement.
11 One obviously, the pilot stops receiving paychecks
12 from Delta Air Lines. To the extent that had he
13 continued working, his final average earnings might
14 have increased, he may be giving up increases in
15 final average earnings.

16 If the pilot had less than 25 years of
17 service when he retired, he would. Also be giving
18 up 2.4 percent of final average earnings for each
19 year up until he would have had 25 years also, the
20 plan has early retirement adjustment for pilots that
21 leave prior to age 60. The benefit that would
22 normally -- that would be paid at age 60, if it's

1 paid earlier, would be reduced 3 percent per year
2 for each year of age under age 60.

3 Q So even if a pilot had 25 years of service
4 but retired before attaining age 60, the pilot would
5 be subject to this 3 percent a year benefit
6 reduction?

7 A That's correct. If he retired at age 50,
8 for example, the benefit would be reduced by 30
9 percent. If he retired at 55, it would be reduced
10 by 15 percent.

11 Q Are there any other penalties for retiring
12 early?

13 A Pilots that retire early have to pay for
14 their own medical insurance up until the time that
15 they are 60 years old.

16 Q Can you tell us the difference between a
17 hard freeze and a soft freeze of a pension plan?

18 A Essentially, as I described the formula
19 for the pilots, it's based on service and final
20 average earnings. When a plan is hard frozen, then
21 both of those components are frozen, no more --
22 salary doesn't count towards the 2.4 accruals, for

1 example, and future increases in final average
2 earnings would not count in the formula.

3 Under a soft freeze, at least with respect
4 to the way it was done for the Delta pilots plan --
5 I've actually heard soft freeze used in other
6 regards. But for the Delta pilot retirement plan,
7 the soft freeze was with respect to the service
8 component of the formula only. So whatever amount
9 of service the pilot had in 2004 when the plan was
10 soft frozen, that fixes what his percentage of final
11 average earnings will be when he retires ultimately.

12 But if his final average earnings when he
13 retires is higher than it was back in 2004 when the
14 soft freeze was put in place, he would get the
15 impact of that higher final average earnings.

16 Q And that would assume that the pilot had
17 salary increases?

18 A That's correct.

19 Q What does it mean for pension benefits to
20 be qualified?

21 A "Qualified" really refers to the tax
22 qualification of the trust that underlies the

1 qualified benefits. Essentially, the company is
2 allowed to make contributions to a qualified trust,
3 tax qualified trust, up to certain limitations.
4 Those moneys accumulate tax-free and provide the
5 benefits, then, to the pilot when they retired.

6 Q What are nonqualified benefits?

7 A Under ERISA, there are two main
8 restrictions in terms of the benefits that could be
9 paid from qualified plans. The first restriction
10 involves the amount of compensation that can be used
11 in calculating the final average earnings.

12 There's a second restriction, which
13 applies to the total dollar amount that can be paid
14 from a qualified plan. Any benefits from a defined
15 benefit plan which would be in excess of the
16 benefits calculated using those limitations would be
17 considered excess plan benefits, nonqualified
18 benefits.

19 Q Are those benefits paid out of a trust?

20 A No, they are not prefunded. They are paid
21 from the company directly.

22 Q Can you briefly describe how the funding

1 requirements for the Delta defined benefit pilot

2 plan are calculated?

3 A Under ERISA, there's a mechanism that

4 takes the present value of all the future benefits

5 that are expected to be paid under the plan,

6 subtracts the assets, and that amount of difference,

7 that underfunding, if you will, based on the present

8 value of benefits is spread over the future working

9 lifetime of the pilots.

10 In calculating the present value of future

11 benefits that's used in that calculation, the

12 enrolled actuary for the plan is allowed to make all

13 of the assumptions that go into that calculation.

14 Each of those assumptions have to be reasonable

15 under ERISA, but the actuary has the latitude of

16 choosing the assumptions. There are none that are

17 mandated by the government for that purpose.

18 There is a second set of funding rules

19 that applies if a plan is considered severely

20 underfunded. In that case, the liability that's

21 calculated is calculated using mandated mortality

22 table and interest rate.

1 Q And presumably that would be less
2 favorable than the one that -- if the actuary chose
3 the --

4 A Yes, currently that is true.

5 Q Is the Delta pilot plan subject to
6 those -- that second set --

7 A Yes, they are.

8 Q -- of requirements?

9 A That's correct.

10 Q Is the Delta pilot plan currently
11 underfunded?

12 A Yes, it is.

13 Q And by how much?

14 A The funding level of the plan is
15 approximately 54 percent.

16 Q Is the nonpilot plan currently
17 underfunded, and by how much?

18 A It's currently approximately 63 percent
19 funded.

20 Q And can you briefly describe what it means
21 for a pension plan to be underfunded?

22 A Unfortunately, there's not one definition

1 of funding that's used with respect to defined
2 benefit plans. Even under ERISA, there are several
3 different definitions. There's definitions that
4 would be used under the accounting rules, and there
5 are completely different definitions that are used
6 by the pension benefit guaranty corporation, if they
7 take over a terminated plan.

8 The one that I've just talked about, the
9 54 percent and 63 percent funding levels, is based
10 on one of the ERISA measures of the funding level of
11 the plan. And in that measure, we compare the value
12 of the assets of the plan to the liabilities that's
13 called current liability.

14 Current liability is the value of benefits
15 earned to date, so it's the value of the accrued
16 benefits at the point in time when the calculation
17 is being done. So there would be no reflection of
18 future salary increases or increases in the formula
19 due to service.

20 By taking the ratio of the assets to that
21 current liability, that produces what's called the
22 current liability funded percentage. And that

1 current liability is calculated using mandated
2 assumptions with respect to interest and mortality.

3 Q What does it mean for a defined benefit
4 plan to be in liquidity shortfall?

5 A Liquidity shortfall is a quarterly
6 calculation that defined benefit plans are required
7 to do to show that they have enough liquid assets in
8 the trust to cover what is expected to be the next
9 three years worth of benefit payments and plan
10 expenses that would normally be paid out of the
11 trust.

12 As a proxy for what each of those future
13 years of payments would be, the actuary looks back
14 to the last 12 months, it's a rolling 12 months.
15 Each time this is done, every quarter, looks at the
16 benefit payments that were made and the plan
17 expenses that were paid and includes a portion of
18 lump sums that were paid out.

19 Once they have that calculated, multiplied
20 by 3, that's the amount of payments that are
21 expected to be made in the next three years that are
22 subject to this liquidity shortfall.

1 If the liquid assets of the plan are not
2 sufficient to cover that amount, that three-times
3 amount, then the plan is considered to be in
4 liquidity shortfall.

5 Q And what are the consequences of a plan
6 being in liquidity shortfall?

7 A Basically, the company is required to make
8 a contribution, it's due 15 days after the end of
9 that quarter, to bring the liquid value of the
10 assets up to at least the level of those three years
11 of projected payments.

12 If the company does not make the required
13 contribution by that due date, then if the plan pays
14 lump sums, lump sums have to be turned off at that
15 point, essentially.

16 Q Is the Delta pilot plan currently in
17 liquidity shortfall?

18 A Yes, it is.

19 Q And how long has that been the case?

20 A Since October 2005.

21 Q And so was Delta required to make a
22 liquidity shortfall contribution in October 2005?

1 A Yes, they were, based on the September 30
2 calculation.

3 Q And did Delta make that contribution?

4 A They did not.

5 Q Do you know how much that contribution was
6 for?

7 A Based on the last information I saw from
8 Towers Perrin, which is the plan's actuary, the
9 amount was about \$146 million.

10 Q Has Delta missed other required
11 contributions since that October liquidity shortfall
12 contribution?

13 A Yes, as I said, the liquidity shortfall
14 calculation is done quarterly, so another
15 calculation would have been done December 31, with a
16 contribution due 15 days thereafter. That
17 contribution was not made.

18 And I believe that they also missed a
19 contribution probably last week, would have been due
20 March 15, which would have been the final
21 contribution to the pilot plan for the plan year
22 that actually started back in 2004, July of 2004. I

1 believe the amount of that contribution would have
2 been about \$18 million.

3 Q If Delta doesn't make any more
4 contributions to the pilot plan, will the plan stay
5 in liquidity shortfall?

6 A Not necessarily, no. As I described, the
7 liquidity shortfall calculation uses a rolling
8 12-month look-back period. So as we get further out
9 into the future, while lump sums have been turned
10 off, you have fewer and fewer lump sums being
11 included in that calculation. So it's quite likely
12 at some point, even if no further contributions are
13 made to the plan, that it will come out of liquidity
14 shortfall.

15 Q Do you know when the pilot plan is
16 expected to come out of liquidity shortfall?

17 A Again, based on projections by Towers
18 Perrin, the company's actuary, it's expected that
19 once the September 30, 2006 calculations are done,
20 the plan would come out of liquidity shortfall,
21 then, in October.

22 Q And will the plan be permitted to pay lump

1 sums once it's out of liquidity shortfall?

2 A Yes, once that quarterly calculation shows
3 that the liquid assets are enough to cover whatever
4 the expected payments, lump sums could continue.

5 Q Were you present for Mr. Bastian's
6 testimony?

7 A I was.

8 Q And have you reviewed Mr. Bastian's
9 declaration in connection with this proceeding?

10 A Yes, I have.

11 Q Do you recall Mr. Bastian's either -- both
12 his testimony and in the declaration, a statement
13 that the company projected that as many as 800
14 pilots may retire early if the plan comes out of
15 liquidity shortfall?

16 A Yes, I do remember that.

17 Q Does that estimate sound reasonable to
18 you?

19 A Yes, it does.

20 Q Do you believe that many of those pilots
21 would elect to take the lump sum option?

22 A I would think that they would all elect to

1 take the lump sum option.

2 Q And why is that?

3 A Those that would be retiring early, which
4 would be the majority of them, the reason they would
5 be retiring early would be to protect the lump sum
6 from the defined benefit plan. And even those that
7 were required to retire because of turning age 60
8 would want to take the lump sum, again to protect
9 the maximum amount of their defined benefit plan, in
10 case the plan were to be terminated.

11 Q If such a large number of pilots retired
12 with lump sums, how would that affect the pilot
13 plan's assets?

14 A Obviously, it would drain money out of the
15 trust.

16 Q Do you have any sense as to how -- I mean,
17 given that projected number of lump sums, do you
18 have any sense of what the dollar impact would be on
19 the plan's assets?

20 A Again, according to the projections that
21 I've seen from Towers Perrin, in the fourth quarter
22 of 2006, I believe they projected approximately \$460

1 million worth of lump sum payments out of the plan
2 at that time.

3 Q Are you aware of how many pilots retired
4 in the six months prior to lump sums being turned
5 off?

6 A I believe it was approximately 560.

7 Q And do you know about how many of those
8 were early versus normal retirements?

9 A I believe that only about 17 were normal
10 retirements. The remainder, the very vast majority,
11 were early retirements.

12 Q And do you know how many pilots have
13 retired since lump sums were turned off?

14 A I believe it's approximately 20.

15 Q Can you describe under what circumstances
16 a defined benefit pension plan can be terminated?

17 A There are three types of plan terminations
18 under ERISA. There is a standard termination, a
19 distress termination and an involuntary termination.

20 Under a standard termination, the assets
21 of the trust are sufficient to cover all of the
22 benefit liabilities of the plan, the sponsor goes to

1 an insurance carrier, purchases annuities to provide
2 for all the accrued benefits, so no employee loses
3 any benefit that's been accrued. Once the annuities
4 are purchased, the plan is shut down and PBGC does
5 not really get involved at that point.

6 The second type is a distressed
7 termination. In a distressed termination, there's
8 not enough money in the trust to go out and buy
9 annuities to cover all the benefits. In that case,
10 the company would essentially move to terminate the
11 plan, require a relatively high standard to
12 accomplish that. The plan would be turned over to
13 the PBGC, if it was terminated, and PBGC would pay
14 benefits up to their guaranteed levels.

15 The third type of a termination is an
16 involuntary termination. That's where the PBGC
17 itself would step in and terminate the plan. They
18 would then take over the assets and, again, pay
19 benefits up to their guarantee levels, once they
20 took the plan over.

21 Q Under what circumstances can the PBGC
22 involuntarily terminate the plan?

1 A One circumstance would be if minimum
2 contributions had not been made when they were
3 supposed to be made, which is the case, obviously,
4 with the Delta pilot plan. Another would be if the
5 plan was unable to pay benefits when they were due.
6 Third option would be for the PBGC to step in and
7 terminate a plan, if they felt that without
8 terminating the plan, their long-term liability for
9 the liabilities of that plan would increase
10 unreasonably.

11 Q For a distressed termination, can you
12 describe the procedural requirements that a company
13 would have to fulfill?

14 A Essentially, in bankruptcy, the company
15 would have to go to the bankruptcy court, make a
16 case to the bankruptcy court that the plan meets the
17 ERISA requirements for a distressed termination in
18 bankruptcy. They would have to notify the
19 participants. There's what's called a notice of
20 intent to terminate that they would have to provide
21 to the participants, as well as to the PBGC.

22 Q Does it make a difference if the pension

1 plan is covered by a collective bargaining

2 agreement?

3 A Yes, if the plan is covered by a

4 collective bargaining agreement, then they must also

5 get the agreement of the union for the termination.

6 Q And can you describe the procedural

7 requirements for an involuntary termination by the

8 PBGC?

9 A Essentially, the PBGC would basically

10 announce that they were terminating the plan. They

11 don't have to provide any advance notice. That's

12 what happened back at the end of 2004, December 30,

13 2004, the PBGC involuntarily terminated the United

14 pilot pension plan.

15 Q Do you recall that Mr. Bastian testified

16 about the high standard that Delta would have to

17 meet in order to seek a distressed termination?

18 A Yes, I do.

19 Q So is it correct to say that even if Delta

20 could not meet this high standard under ERISA, the

21 PBGC could still terminate the plan if one of its

22 criteria were met?

1 A Yes, they certainly could.

2 Q In your view, would the PBGC be concerned
3 about the drain on plan assets if lump sums were
4 turned back on?

5 A Yes, I think they would be very concerned.

6 Q And why do you think that?

7 A I think they would be looking at their
8 potential long-term net loss from an eventual plan
9 termination from that plan, the assets were going
10 out of the trust at that point would not be there to
11 pay those benefits.

12 Q If lump sums for the Delta pilot plan were
13 to resume on October 1, 2006, as you indicated might
14 be possible, do you think it's likely that the PBGC
15 may terminate the plan before that happened?

16 A Yes, I think that is likely.

17 Q Are you familiar with pension reform
18 legislation efforts?

19 A Yes, I am.

20 Q And can you describe the current
21 legislative proposals?

22 A There are basically two bills, one on the

1 Senate side, one on the House side, each passed by
2 their respective houses. Senate Bill 1783 contains
3 a provision which would allow commercial passenger
4 airlines to elect 20-year amortization period to pay
5 off the unfunded liabilities of their defined
6 benefit plans. The liabilities themselves would be
7 calculated using an interest rate and all the other
8 assumptions selected by the plan's actuary as it
9 accrues to a mandated interest rate.

10 For other plans or for those airlines that
11 did not elect that relief, the bill would provide
12 for only a seven-year period for plans to pay off
13 their unfunded liabilities. And in that case, the
14 unfunded liabilities would have to be calculated
15 using mandated mortality table and interest rate.
16 The interest rate would be based on corporate bond
17 rates, which would generally be lower than the rate
18 the actuary would choose.

19 Q And what's the consequence of the lower
20 rate?

21 A The lower -- the interest rate, since it's
22 used as a discount to come up with a present value,

1 the lower the interest rate, the higher the
2 liability of the plan.

3 The Senate bill also includes what is
4 called the Akaka amendment, that was offered by
5 Senator Akaka when the bill was passed.
6 Essentially, the Akaka amendment would allow airline
7 pilots to receive the full age-65 guarantee from the
8 PBGC, when the pilot retires at age 60.

9 The House bill, 2830, does not include any
10 specific relief for airlines. It does include
11 virtually the same seven-year period with mandated
12 assumptions for calculating contributions.

13 Q What needs -- both these bills passed
14 their respective houses?

15 A That is correct.

16 Q And what needs to happen in order to pass
17 the legislation?

18 A There has to be a conference committee
19 that reconciles the differences between the two
20 bills.

21 Q And are you aware of the status of those
22 efforts?

1 A The conference committee has been
2 appointed and they are in the process of working
3 through the reconciliation process.

4 Q And are you aware of the Bush
5 administration's view on pension and reform
6 legislation?

7 A Yes, the administration's advisors have
8 indicated that if the final version of the bill
9 includes airline relief, specific airline relief or,
10 in fact, any industry-specific relief, that they
11 would advise the president to veto the bill.

12 Q Assuming there is no White House veto,
13 when do you think it's likely that pension
14 legislation would pass?

15 A I would expect it would be sometime right
16 before April 15, 2006. Essentially for calendar
17 year defined benefit plans, the first quarterly
18 contribution that they need to make is due April 15.
19 If history is any guide, two years ago when there
20 was pension relief put in effect in 2004, the
21 Pension Funding Equity Act of 2004, the president, I
22 believe, signed that into law on April 11, 2004.

1 Q And how would -- assuming there is pension
2 legislation with airline relief ultimately passed,
3 how would such legislation help Delta Air Lines?

4 A Essentially, it would allow Delta Air
5 Lines to calculate the liability of the plan, using
6 a higher interest rate, that one selected by the
7 actuary, which would produce a lower liability, and
8 then to spread the unfunded liability out over a
9 20-year period.

10 Q Mr. Parrack, I'm going to hand you a set
11 of slides in connection with the remainder of your
12 testimony. And I'd like this exhibit to be marked
13 as ALPA Exhibit 49.

14 (ALPA Exhibit 49 identified.)

15 BY MS. GISE:

16 Q Mr. Parrack, look at the first slide.

17 A Yes.

18 Q Can you read the title of the slide?

19 A "Cost Savings to Delta Air Lines from
20 Pilot Defined Benefit Plan Termination on September
21 30, 2006, in Millions."

22 Q And why -- did you prepare this slide?

1 A Yes, I did.

2 Q Why did you choose the date for the plan
3 termination of September 30, 2006?

4 A As we discussed, that's when the liquidity
5 shortfall calculation has been projected to allow
6 essentially lump sums to be turned back on. So
7 we're working under the assumption that the PBGC
8 would probably step in and terminate the plan
9 somewhere around that date.

10 Q And I see that the slide distinguishes
11 between cash savings and expense savings. Could you
12 briefly describe what the difference is?

13 A Yes. On the cash savings, it's actually
14 different for nonqualified and for qualified. As we
15 discussed earlier, there's no prefunding of the
16 nonqualified benefits, so the cash savings that are
17 shown here are basically the amount of money that is
18 not being paid as nonqualified benefits from Delta
19 to the pilots.

20 On the qualified plan, the cost savings
21 that are shown are the ERISA minimum required
22 contributions that the company would not have to

1 make were the plan terminated.

2 On expense savings, defined benefit plans
3 are subject to -- both qualified and nonqualified,
4 are subject to expense on the company's books under
5 financial accounting standards. So the numbers
6 shown on the expense saving side are based on those
7 accounting standards.

8 So the savings involved here would be
9 expenses that the company would not have to put on
10 their books, essentially, if the plan was
11 terminated.

12 Q Is it correct that the qualified cash
13 savings numbers are assuming that pension
14 legislation with 20 year amortization for airlines
15 is passed?

16 A Yes, it does make that assumption.

17 Q Okay. Let's look at calendar year 2006.
18 For nonqualified -- for the nonqualified plan, the
19 cash savings indicated would be \$84 million.

20 A That's correct. That's the amount of
21 benefit payments that would normally be being made
22 on an annual basis for nonqualified benefits to the

1 pilots, but they're not being made currently.

2 Q And where does that figure come from?

3 A I believe it was part of the joint

4 stipulation from the bankruptcy court.

5 Q And I see for qualified -- for a qualified

6 plan, the slide shows no savings in 2006. Why is

7 that?

8 A Well, essentially, there's basically very

9 little money going into the plan during 2006. The

10 only contributions going in are the post-petition

11 contributions. So the plan terminating that late in

12 the year would not expect any cash savings.

13 Q And on the expense side for 2006, you have

14 \$20 million in nonqualified expense savings.

15 A Yes, since we assumed that the plan was

16 going to terminate, would be basically gone for one

17 quarter of the year, we included one quarter of the

18 year's expenses as savings in 2006.

19 Q And how did you get to the 20 -- how did

20 you get to 20 million being a quarter of the total

21 number?

22 A We had information from the company that

1 indicated that the full year's expense for 2006 for
2 the nonqualified plan was approximately \$80 million.

3 So we simply took one quarter of that amount.

4 Q And is that the same for the qualified
5 expense savings?

6 A That's correct. We took one quarter of
7 the amount.

8 Q Okay. Let's look at calendar year 2007.

9 The nonqualified cash savings are identical.

10 A We assumed no increase in the nonqualified
11 plan benefits, so we simply kept those static
12 throughout the period.

13 Q And now, the cash savings for the
14 qualified plan shows a much larger number of \$1.208
15 billion. Why is that number so large?

16 A That number is large because of the
17 liquidity shortfall calculations. Because the plan
18 would be expected to come out of the liquidity
19 shortfall and pay more lump sums means -- it would
20 then go back into liquidity shortfall and require a
21 large contribution to be made.

22 Q So it -- this is assuming that the lump

1 sums would begin to be paid on -- would be able to
2 be paid on October 1, 2006?

3 A Correct.

4 Q In which time it would be out of liquidity
5 shortfall?

6 A That's correct.

7 Q And then you would anticipate that the
8 plan, as a result of that, would go back into
9 liquidity shortfall?

10 A Yes, that is correct.

11 Q And then have a large contribution
12 required?

13 A Large contribution due, yes. Those are
14 based on projections done by Towers Perrin.

15 Q So for the years 2006 through 2009, what
16 would the total cash savings be for Delta Air Lines
17 if the plan were terminated 9/30/2006?

18 A For the nonqualified plan, it would be
19 \$330 million. For the qualified plan, it would be
20 \$1,291,000,000.

21 Q What would the total expense savings be
22 for that time period?

1 A For both the qualified and nonqualified

2 together it would be about \$471 million.

3 Q Mr. Parrack, I'm going to refer you to the

4 testimony from Mr. Bastian's direct testimony from

5 Tuesday, March 14. Do you have that available?

6 MR. HOROWITZ: We have it. Give us a

7 minute to call it up.

8 MS. GISE: Okay. I'm going to be looking

9 at the bottom of page 435.

10 Is the panel ready?

11 MR. BLOCH: Well, give us one second.

12 MS. GISE: Okay.

13 BY MS. GISE:

14 Q Mr. Parrack, can you look at the bottom of

15 page 435, the last answer from Mr. Bastian, and read

16 that? It will continue onto the next page.

17 A "Which is one of the reasons why, you

18 know, even with the legislative discussions going

19 on, we have -- I have concluded personally after

20 spending even more time and research in this area,

21 that it's likely the plan is not going to survive."

22 Q And is that statement referring to the

1 pilot plan?

2 A Yes, it is. The next question is, "That's
3 the pilot plan?" The answer is, "The pilot plan."

4 Q Thank you. Mr. Parrack, in your view, if
5 Delta does not pay the required \$1.2 billion
6 contribution in 2007, will the plan be terminated?

7 A Yes.

8 Q And why is that?

9 A I think the PBGC will step in at that
10 point, if they haven't already, to protect their own
11 interests.

12 Q And why -- wouldn't the pension
13 legislation, though, enable Delta Air Lines to
14 stretch that payment over 20 years?

15 A Unfortunately, the airline relief does not
16 address the liquidity shortfall issue. As the House
17 and Senate bills are currently written, the same --
18 virtually the same liquidity shortfall calculation
19 would be required. The plans that use the airline
20 relief would not be given a pass on that.

21 Q Could you please turn to your slide number

22 2?

1 MR. GALLAGHER: Mr. Chairman, I have voir
2 dire on slide number 1, if I may.

3 MR. BLOCH: Would you like to do that now?

4 MR. GALLAGHER: I think it would be more
5 efficient for absorption of these, because they do
6 range in subject matter.

7 MR. BLOCH: So you would like to voir dire
8 now?

9 MR. GALLAGHER: Yes, please.

10 MR. BLOCH: That will be fine.

11 MR. GALLAGHER: I can try to do it from
12 here, if the reporter to hear me clearly.

13 COURT REPORTER: So far it's fine,
14 Mr. Gallagher.

15 MR. GALLAGHER: I don't know about the
16 audience.

17 MS. GISE: You can come up here, if you
18 want.

19 MR. BLOCH: Jack, if you don't mind, I
20 think we're going to take a 10-minute break and you
21 can come back for voir dire.

22 MR. GALLAGHER: Fine.

1 MR. BLOCH: Let's just take a 10-minute
2 break.

3 (Recess from 10:46 to 11:19 a.m.)

4 MR. BLOCH: Mr. Gallagher.

5 MR. GALLAGHER: Thank you, Mr. Chairman.

6 VOIR DIRE EXAMINATION

7 BY MR. GALLAGHER:

8 Q Mr. Parrack, do you have ALPA Exhibit 49,
9 page 1 in front of you?

10 A Yes, I do.

11 Q I want to call your attention to the
12 right-hand side of the page, the side that deals
13 with expenses.

14 A Yes, sir.

15 Q Your footnote 3 says that the source of
16 the numbers under expenses is the company
17 presentation of February 23; is that right?

18 A Yes, sir, that is correct.

19 Q Do you have that presentation with you?

20 A I do not.

21 Q Would it surprise you to learn that the
22 company people do not recognize the \$80 million

1 entries for 2007, '08 and '09, they do not believe
2 that to be company-provided information?

3 A I understand what you're saying.

4 Q Would that surprise you?

5 A No, sir, it would not.

6 Q Well, how did you derive the \$80 million
7 numbers for 2007, '08 and '09?

8 A We assumed that the nonqualified plan
9 expense would remain level throughout the period.
10 We were told that the 2006 full-year expense was \$80
11 million, and we assumed that would remain level.

12 Q So that was an assumption on your part?

13 A Yes, sir it was.

14 Q So footnote 3 is not wholly accurate that
15 it's provided from the company presentation?

16 A Not with respect to the breakdown between
17 qualified and nonqualified. The total expense
18 numbers are -- should be from the company's
19 presentation. We did not have the individual years
20 for 2007, '8 and '9 for the company for the
21 nonqualifying.

22 Q Now, the qualified expenses decreased in

1 each of those years; correct?

2 A They did --

3 MR. SIMON: Objection, this is going

4 beyond voir dire.

5 MR. GALLAGHER: I don't believe it is,

6 Mr. Chairman.

7 MR. SIMON: Voir dire is addressed to the

8 document, not to cross-examination.

9 MR. GALLAGHER: I'm going to the accuracy

10 of what the witness has presented this document to

11 be.

12 MR. BLOCH: I'll allow you to continue.

13 BY MR. GALLAGHER:

14 Q Qualified numbers decrease, do they not,

15 over the years?

16 A After you get past 2007, yes.

17 Q Yes. But wouldn't it be likely that the

18 nonqualified would also decrease?

19 A The nonqualified plan is not a funded

20 plan. The main reason, I believe, that the

21 qualified plan numbers decrease is because of the

22 assumed \$1.2 billion contribution made in 2007.

1 Q Now, you mentioned on the nonqualified,
2 cash side of the ledger, that the \$336 million is
3 money that would be paid to the pilots; is that
4 right?

5 A Yes, sir, that's correct.

6 Q Is it to the active pilots?

7 A No, sir.

8 MR. SIMON: Once again, with all due
9 respect, Mr. Chairman, this is appropriate for
10 cross-examination. It has nothing whatsoever to do
11 with the preparation or the source of the document
12 and goes beyond the scope of a voir dire
13 examination.

14 MR. BLOCH: It is a fine line at times.
15 It sounds to me like we are getting the stuff that
16 is better reserved for cross, Mr. Gallagher.

17 MR. GALLAGHER: I'm okay with that,
18 Mr. Chairman. I have made my point on the
19 nonqualified expense numbers being assumed rather
20 than sourced.

21 MR. BLOCH: Okay. If you wish, you can
22 pursue this on cross.

1 MR. GALLAGHER: That's very well. Thank
2 you.

3 DIRECT EXAMINATION (RESUMED)

4 BY MS. GISE:

5 Q Mr. Parrack, can I direct you to your
6 slide number 2.

7 A Yes.

8 Q Can you read the title of the slide,
9 please?

10 A "Projected Cost to Delta Air Lines for
11 Nonpilot Defined Benefit Plan in Millions."

12 Q And where did you get the information
13 contained on this slide?

14 A The information, both the cash and
15 accounting expense information, is from the company
16 presentation of February 23, 2006.

17 Q Were the numbers broken out in the way
18 demonstrated on this slide in that presentation?

19 A With respect to each of the calendar
20 years, yes.

21 Q And as between cash and expense?

22 A Yes.

1 Q In order for Delta Air Lines to maintain
2 the nonpilot defined benefit plan, how much in cash
3 contributions would it be required to make during
4 the years 2006 through 2009?

5 A According to the company's projections,
6 \$435 million.

7 Q And what would the total accounting
8 expense be for that period?

9 A \$349 million.

10 Q Does the nonpilot plan include management
11 employees?

12 A Yes, it does.

13 Q Please turn to your slide number 3.

14 Please read the title of this slide.

15 A "Impact of September 30, 2006 Defined
16 Benefit Plan Termination on Pilots' Benefits Payable
17 At Age 60, Examples."

18 Q And what does this slide show?

19 A It basically shows the amount of lost
20 benefits that might occur to the three sample pilots
21 if the defined benefit plan were terminated.

22 Q Are these three sample pilots based on

1 actual pilots?

2 A Yes, they are.

3 Q Let's look at pilot number 1. Can you

4 describe the breakdown listed under pilot 1?

5 A Yes, pilot number 1 is 52 years old with

6 nine years of service. His contractual defined

7 benefit plan, benefit payable at age 60, is

8 approximately \$14,533 -- all the dollar amounts are

9 annual in this slide, by the way.

10 The maximum that the PBGC will pay to a

11 pilot retiring at age 60 is \$30,978 on an annual

12 basis. Since the pilot has not earned a benefit as

13 high as that, PBGC would actually cover the entire

14 accrued benefit for this pilot, so there would be no

15 lost benefit for him.

16 Q And is that PBGC maximum true for -- or

17 the number for 2006?

18 A That is the 2006 maximum, yes.

19 Q And do they increase each year?

20 A They increase each year, but once a plan

21 terminates, the table of guarantees that applies to

22 those participants is frozen in time, they no longer

1 increase.

2 Q So in a plan termination scenario -- well,

3 I guess pilot 1 wouldn't get the PBGC guarantee

4 here, but the guarantee remains the same?

5 A That is correct.

6 Q Okay. Can you describe pilot 2's

7 situation?

8 A Pilot 2 is a 43-year-old pilot who has 18

9 years of service. His contractual defined benefit

10 plan benefit payable at age 60 is \$70,652. Again,

11 the same PBGC maximum would apply to him.

12 So the PBGC would pay him, if he retired

13 at age 60, \$30,978. His lost benefit would then be

14 \$39,674, which is approximately 56 percent of the

15 number shown at the top.

16 Q And can you describe pilot 3's situation?

17 A Pilot 3 is a 51-year-old pilot, he has 24

18 years of service. His contractual benefit at page

19 60, \$148,131. The PBGC maximum at age 60, still the

20 same, \$30,978.

21 So if the pilot actually retires at age

22 60, that would be the amount guaranteed by PBGC.

1 Lost benefit for this pilot at age 60 would be
2 \$117,153, which is approximately 79 percent of the
3 number at the top.

4 Q So pilot 3 would lose 79 percent of his
5 pension benefits under this -- according to this
6 chart?

7 A That's correct.

8 Q Are pilots 1, 2 and 3 representative of
9 the Delta pilot population?

10 A They're representative of the pilots who
11 would be eligible for priority category 4 benefits.

12 Q Okay. And I think that's a good segue to
13 describe both primary category 4 and primary
14 category 3.

15 MR. GALLAGHER: If you would,
16 Mr. Chairman, may I interject?

17 Before we leave this page, I would have
18 voir dire on it. But my concern is simply we cannot
19 identify any pilots that match these profiles. So
20 if these are actual pilots, I'd like to get the
21 identities as soon as possible so that we can
22 compare with our information.

1 MR. BLOCH: Let me just inquire what you
2 meant by "representative." The question was are
3 these representative and I think your answer was
4 yes. What did you mean?

5 THE WITNESS: Of the pilots -- getting a
6 little bit ahead of myself. Pilots who are eligible
7 for priority category 4 under the PBGC structure
8 would have to be pilots under age 53 when a plan
9 terminates basically. All these pilots are under
10 age 53 and they simply represent -- the primary
11 difference is the amount of years of service that
12 they have.

13 MR. BLOCH: And are you representing that
14 these individuals -- these represent individuals who
15 are actually on the seniority list? Should the
16 company be able to identify folks with these
17 characteristics?

18 THE WITNESS: They are three individual
19 pilots, yes. I don't know their names. I can -- we
20 can track back to see.

21 MS. GISE: What I would suggest is perhaps
22 on a break we can possibly discuss this with

1 Mr. Parrack and Mr. Gallagher and, you know,
2 possibly some other ALPA representatives and
3 identify the --

4 MR. GALLAGHER: Well, Mr. Chairman, this
5 is one of the reasons we had a discussion of
6 premises over the weekend. We need, in order to
7 cross-examine this witness, we need to know if these
8 are accurate or not. And when we looked, I will
9 represent to you, we could not identify one pilot
10 that matched pilot 1, pilot 2 or pilot 3.

11 If there are -- if these are real people,
12 we should be able to identify them. So I would ask
13 that the association be directed to identify them to
14 us, as soon as possible, because obviously --

15 MR. BLOCH: I take it that was Ms. Gise's
16 proffer, and I would prefer to go forward with the
17 understanding at the next convenient time, we would
18 do that.

19 MR. GALLAGHER: I just wanted to make sure
20 we would get the information.

21 MR. BLOCH: Yes. Let's proceed.

22 BY MS. GISE:

1 Q Mr. Parrack, can you describe the
2 difference between primary category 3 and primary
3 category 4?

4 A When a defined benefit plan is terminated
5 and taken over by the Pension Benefit Guaranty
6 Corporation, the assets that are in the trust need
7 to be allocated to various what are called priority
8 categories under ERISA.

9 Priority categories 1 and 2 do not apply
10 to the Delta pilot plan. So the first place that
11 assets would be allocated is priority category 3.

12 Priority category 3 benefits are benefits
13 that either were in pay status three years prior to
14 the plan termination date or benefits that could
15 have been in pay status three years prior to the
16 plan termination date.

17 In doing that three-year look-back, that
18 means you would go back and see what the final
19 average earnings was at that point in time, what the
20 service was, in the pilot's case, the 2.4 percent
21 multiplier, and also what their age was at that
22 point in time, first of all to see if they're even

1 eligible for priority category 3.

2 Delta pilots can retire once they reach
3 age 50. In order to be considered for a priority
4 category 3 benefit, the pilot would, in essence,
5 have to be at least age 53 at the time the plan
6 terminates, so that when you do the three-year
7 look-back, the pilot would have been eligible to
8 retire at that time.

9 MR. BLOCH: Can we just back up for a
10 minute? I want to make sure that I'm following your
11 terminology.

12 THE WITNESS: Yes, sir.

13 MR. BLOCH: When you say category 3
14 benefits are benefits that were in pay status?

15 THE WITNESS: That were actually being
16 paid to pilots, to retired pilots, for example.

17 MR. BLOCH: To identifiable pilots?

18 THE WITNESS: Yes, yes, this calculation
19 is done individual pilot by individual pilot.

20 MR. BLOCH: Okay. So the pilot need not
21 have been -- well, the pilot would not have been on
22 the payroll at that point. The benefits themselves

1 had to be actively being paid?

2 THE WITNESS: That is correct. That's one
3 of the criteria.

4 MR. BLOCH: I understand.

5 THE WITNESS: The other criteria is that
6 they could have been in pay status, so the pilot was
7 eligible three years prior to have retired and
8 started receiving benefits.

9 MR. BLOCH: Okay.

10 THE WITNESS: So for the pilots who were
11 at least age 53, the active pilots who were at least
12 age 53 on the plan termination date, you would do a
13 calculation of what their benefit would have been,
14 had it gone into pay status, had they retired three
15 years prior. Again, including final average
16 earnings three years prior, service three years
17 prior and the early retirement factor that would
18 have applied three years prior as well.

19 Once those benefits have been calculated
20 for all the pilots, both retired and active pilots,
21 liabilities are calculated associated with each one
22 of those benefits, based on the assumptions required

1 to be used by the pension benefit guaranty
2 corporation. They have specific interest rates,
3 mortality tables that are required to be used, in
4 placing a liability on each of those benefits.

5 You sum up the liabilities for all of
6 those benefits, so you have one big pot of
7 liabilities, and then you start allocating assets.

8 In the case of the Delta pilot retirement
9 plan, it's estimated that the assets would cover
10 approximately 84 percent of the liabilities of
11 priority category 3. So the assets would be
12 exhausted in priority category 3.

13 BY MS. GISE:

14 Q Mr. Parrack, would that mean that pilots
15 in, as you say, PC 3, would receive 84 percent of
16 their benefits?

17 A It means they would receive 84 percent of
18 their -- the guaranty from the PBGC would be 84
19 percent of their PC 3 benefit, which again uses that
20 three-year look-back. So it's not 84 percent of
21 their accrued benefit.

22 Q Right. So that benefit would be frozen in

1 time at the time the calculation was done for the
2 purposes of PC 3?

3 A That's correct, that's correct. The
4 dollar amount -- assuming that the plan was 84
5 percent funded, it would take 84 percent of each
6 pilot's PC 3 initially calculated benefit. That
7 would be a frozen number, regardless of when the
8 pilot actually retired.

9 So even a pilot who is 53 years old when
10 the plan terminates, you do the look-back to age 50,
11 even if he waits until age 60 to retire, the
12 guaranty from PC 3 is still that number, the 84
13 percent of what would have been, had he retired when
14 he was age 50.

15 Q And as you -- when you discuss the
16 criterion for calculating benefits earlier, the age
17 50 benefits would obviously be a lot less than age
18 60 benefits?

19 A At page 50 there's a 30 percent reduction
20 to the benefit for early retirement factor, 3
21 percent per year multiplied by 10 years.

22 Q So it's 80 percent of that benefit?

1 A That's correct.

2 Q What's PC 4?

3 A Priority category 4, the PBGC is required
4 to pay benefits under priority category 4 regardless
5 of whether there's assets to cover them or not. In
6 this case there would not be any assets to cover
7 them, at least the assumption would be there would
8 not be. So the PBGC would be required to pay those
9 benefits out of their own funds, essentially, as
10 opposed to out of the plan's funds.

11 The PC 4 benefit is dependent on the age
12 of the pilot at the later of the plan termination
13 date or the date that he retires. So for active
14 pilots, it would be the date that they would retire.

15 ERISA defines the maximum guaranteed
16 benefit as the benefit payable at age 65. Prior to
17 age 65, that benefit is reduced. Beyond age 65,
18 that benefit is increased.

19 Pilots who are required to retire at age
20 60 would get a smaller guarantee than someone who is
21 able to work until age 65.

22 Q And are pilots 1, 2 and 3, primary

1 category 4?

2 A Yes, those are all priority category 4

3 pilots, because they are all under age 53 at the

4 time the plan was assumed to be terminated.

5 Q Do you know what the breakdown is among

6 active pilots between PC 3 and PC 4?

7 A I believe that approximately -- there's

8 approximately 6000 active pilots and about 600 of

9 those that priority category 3 pilots. So the vast

10 majority, approximately 5400 pilots, would be

11 priority category 4 pilots.

12 Q And they would be limited to their --

13 presumably limited to their PBGC guaranteed amount

14 in the event of a plan termination?

15 A That is correct.

16 Q Do you think what the PBGC guaranty is for

17 age 65 for 2006?

18 A I don't remember the exact dollar amount.

19 It's between 47 and \$48,000.

20 Q And earlier you referred to the Akaka

21 amendment. Do you recall that testimony?

22 A Yes, I do.

1 Q Mr. Parrack, I'd like to show you the
2 declaration of Ed Bastian in this proceeding,
3 paragraph 76. And we'll give the panel a moment to
4 get that ready.

5 MR. BLOCH: What volume was that, please?

6 MR. GALLAGHER: Volume 1.

7 MR. BLOCH: Thank you.

8 MS. GISE: Paragraph 76.

9 MR. GALLAGHER: Page 51.

10 MS. GISE: Is the panel ready?

11 MR. BLOCH: Yes.

12 BY MS. GISE:

13 Q Mr. Parrack, could you please read the
14 last sentence of paragraph 76?

15 A "If this amendment is enacted into law, it
16 will substantially mitigate the impact on active
17 pilots of the termination of Delta's defined benefit
18 plan for pilots."

19 Q Okay. And please look again at your slide
20 number 3. Looking at pilot number 3, can you
21 estimate what percentage of benefits that pilot
22 would lose if the age 65 guarantee were provided?

1 A Approximately 70 percent.

2 Q Would you agree, then, that the Akaka
3 amendment would substantially mitigate the impact of
4 the plan termination on active pilots?

5 A Certainly for some pilots it would, but
6 obviously for pilots like pilot number 3 it would
7 not substantially.

8 Q Please turn to your slide number 4. Can
9 you please describe what's presented on slide number
10 4?

11 A Under the company column, this is
12 information that was provided by Mr. Bastian in his
13 testimony last week, with respect to the percentage
14 of accrued benefits that would be retained by the
15 pilots, by the active pilots, on a plan termination.

16 This particular slide is without the Akaka
17 amendment.

18 Q And what is presented in the ALPA column?

19 A The ALPA column makes what we believe is
20 one change to the assumptions that were used by the
21 company. Unfortunately, we asked the company what
22 assumptions were used in their numbers, and to my

1 knowledge, we at least right before we started this
2 hearing today, to my knowledge, we had not received
3 that information.

4 We asked the Segal Company actuaries, who
5 have been engaged to help the Delta pilots, to see
6 if they could replicate the company's numbers last
7 week.

8 Q And was -- what did the Segal Company's
9 analysis produce when trying to figure out what the
10 company's assumptions were?

11 A Basically, the Segal Company was able to
12 come relatively close to the company's numbers by
13 using the assumptions that were used in the last
14 actuarial report, which is the July 1, 2005
15 actuarial report from Towers Perrin, with one
16 exception.

17 The interest rate that's used as a
18 discount in that valuation was 8-1/2 percent, but
19 there was also the assumption that pilots, when they
20 retired, would elect the lump sum, the 50 percent
21 lump sum, and that that 50 percent lump sum would be
22 calculated using a 6-percent interest rate.

1 Q So those are the assumptions that were in
2 the July 1 Towers Perrin actuarial report?

3 A That is correct. The way that Segal was
4 able to come relatively close to the company's
5 numbers was essentially ignoring the 6-percent
6 calculation of the lump sum and just using the
7 8-1/2-percent discount factor, as if we were only
8 assuming that annuity payments were going to be paid
9 in the future.

10 Q So based on the Segal Company's analysis,
11 when the company calculated the present value of
12 accrued benefits, they didn't account for the value
13 of lump sums that would be elected?

14 A That is the way it appeared. As I said,
15 we don't -- we weren't told the exact assumptions
16 that were used, so we're trying to surmise what was
17 being used by the company.

18 Q And do the ALPA numbers make that
19 adjustment?

20 A Yes, they make just that one adjustment,
21 to assume that the pilots would, in fact, elect lump
22 sums, and those lump sums would be calculated using

1 a 6-percent interest rate. So it really impacts the
2 top number on the chart, and then the numbers that
3 flow from it.

4 Q And what is the sort of bottom-line impact
5 with respect to the percentage of accrued benefits
6 retained under both the company's analysis and
7 ALPA's review of the company's analysis?

8 A It would appear that using the actuarial
9 assumptions from the July 1, 2005 actuarial report
10 would reduce the percentage of accrued benefits
11 retained from 78 percent to 68 percent.

12 Q Does ALPA necessarily agree that 68
13 percent is the right number?

14 A No, this is not ALPA's definition of what
15 the lost benefits or the benefits retained is. It
16 was simply an analysis trying to tie to the
17 company's numbers.

18 Q Can you turn to your slide number 5.

19 A Yes.

20 Q What does this slide demonstrate?

21 A It's basically the same as the previous
22 slide, except this includes the impact of the Akaka

1 amendment. So you can see the present value of
2 accrued benefits line is the same as on the prior
3 slide. The difference really is in the present
4 value of terminated plan benefits with respect to
5 the prior slide.

6 Q And what is the bottom line difference
7 between the company and ALPA columns here?

8 A The company said that the percentage of
9 accrued benefits retained would be approximately 95
10 percent. Under the ALPA column, we indicate 82
11 percent.

12 Q And again, does ALPA agree that 82 percent
13 is the right number?

14 A No, that is not ALPA's assertion.

15 MS. GISE: Mr. Ellis, can you please bring
16 me ALPA Exhibit 15, both copies?

17 BY MS. GISE:

18 Q Mr. Parrack, I'm going to direct your
19 attention to ALPA Exhibit 15, and I'll give the
20 panel a minute to get there.

21 MR. HARRIS: Since ALPA did not deliver a
22 copy of these exhibits to me here, I don't have it.

1 So if there's an extra copy around, that's fine. If

2 not, I'll look over -- no, I'll look over on

3 Mr. Bloch's, but I just wanted to explain why.

4 MR. GALLAGHER: The company will make a

5 copy available.

6 MS. GISE: Thank you.

7 MR. HARRIS: Thank you.

8 MR. HOROWITZ: I have it electronically

9 so --

10 MR. HARRIS: Yes. I mean, we got it

11 electronically, but I can't both pull it off this

12 computer and still have the reporter's notes on

13 here, which is the problem.

14 MS. GISE: The title of the binder is the

15 appendix to the prehearing brief.

16 MR. BLOCH: Go ahead.

17 BY MS. GISE:

18 Q Mr. Parrack, can you describe what ALPA

19 Exhibit 15 is?

20 A Yes, ALPA Exhibit 15 is a copy of a press

21 release from the pension benefit guaranty

22 corporation. They put this release out on September

1 15, 2005, right after Delta Air Lines and Northwest
2 Airlines filed for bankruptcy.

3 Q And what does the press release indicate
4 about the Delta Air Lines defined benefit pension
5 plans?

6 A The bottom line to the Delta Air Lines
7 numbers is the PBGC calculations indicated that
8 there would be an employee loss of benefits under
9 all the plans being terminated at Delta of
10 approximately \$2.2 billion.

11 Q And is that the pilot and nonpilot plans
12 combined?

13 A Yes, it is.

14 Q Do you have a view as to how that \$2.2
15 billion would break down between pilots and
16 nonpilots?

17 A The majority of the employee loss would be
18 for the pilots. The nonpilots benefits are
19 generally covered by PBGC's guarantees.

20 Q Can you please turn to your slide number
21 6. And can you read the title of this slide?

22 A "Summary of USAirways Defined Benefit Plan

1 Termination Information, Dollars in Billions."

2 Q What does this slide demonstrate?

3 A This demonstrates that when the USAirways

4 pilot plan was terminated, the pilots there lost

5 benefits of approximately \$1.9 billion. The total

6 combined loss for all employees was about \$2.1

7 billion. So the pilots lost approximately 90

8 percent of the total.

9 Q And how do you think that the -- in Delta

10 Air Lines, if both the nonpilot and pilot plans were

11 terminated, how would the breakdown compare to the

12 one demonstrated in the USAirways slide?

13 A I believe they would be very similar.

14 Q And where did you get the information

15 contained in the -- in slide number 6?

16 A The pilot plan information was from PBGC

17 press release, dated April 1, 2003, and the

18 information on the three nonpilot plans was from a

19 PBGC press release dated February 2, 2005.

20 Q Do the Delta pilots have a defined

21 contribution plan?

22 A Yes, they do.

1 Q And can you describe that plan?

2 A The plan was put in place back in 2004,
3 after the 2004 negotiations, when the pilots agreed
4 to the soft freeze of that plan -- of their defined
5 benefit plan. The defined contribution plan does
6 not pay the same flat percentage to each individual
7 pilot. It was designed in conjunction with frozen
8 plan to provide a level of benefits of approximately
9 49 percent of final average earnings.

10 Basically, in 2004 negotiations, there was
11 a cost constraint on the company's part. They
12 indicated that they could afford to spend
13 approximately 9 percent of pilot payroll on a
14 defined contribution plan. So Towers Perrin did
15 some calculations using certain assumptions to
16 determine what maximum level of final average
17 earnings benefits could be provided using that cost
18 constraint.

19 The result of their calculations was an
20 approximate 49-percent plan, based on 25 years of
21 service, from both the frozen defined benefit plan
22 and the accumulations that were expected in the

1 defined contribution plan.

2 So in essence, the pilots' retirement
3 benefit went from a 60 percent formula down to a
4 49-percent formula.

5 Q So do all pilots receive a 9-percent
6 contribution?

7 A No, and actually, I believe currently the
8 cost of the defined -- I'm sorry, the defined
9 contribution plan is approximately 8-1/2 percent of
10 pilot payroll. Pilots who had already accrued the
11 portion of the formula that gives them the
12 percentage of final average earnings in excess of 49
13 percent, so it's something a little over 20 years of
14 service, those pilots get basically nothing from the
15 current defined contribution plan.

16 Q And everybody else gets an equivalent of
17 49 percent final average earnings?

18 A Correct, between the defined contribution
19 plan and the frozen defined benefit plan.

20 Q Was this defined contribution plan
21 intended to be a replacement for the DB -- defined
22 benefit plan if it were to be terminated?

1 A No, not in the case of a plan termination.

2 Q Do the pilots have an additional 401(k)

3 plan?

4 A The pilots do participate in a 401(k)

5 plan, and the company makes a 2-percent contribution

6 currently on the pilots' behalf to the 401(k) plan,

7 regardless of whether the pilots contribute or not.

8 So it is not a matching contribution. It is a

9 mandatory contribution.

10 Q And is that contribution separate from the

11 defined contribution plan you've described earlier?

12 A Yes, it is.

13 MS. GISE: Mr. Chairman, could I have one

14 minute, 30 seconds?

15 MR. BLOCH: Of course, sure.

16 (Discussion off the record.)

17 MR. BLOCH: Ms. Gise, I think we're ready

18 to proceed.

19 MS. GISE: Thank you.

20 At this time I have no further questions

21 for Mr. Parrack, and I would move for admission of

22 ALPA Exhibit 49.

1 MR. GALLAGHER: We would reserve an
2 objection to page 3 until we have the identities of
3 the three individuals. But beyond that, no
4 objection.

5 MR. BLOCH: All right. For technical
6 purposes, I'll simply note that it's marked for
7 identification and we'll see how that turns out.

8 Ms. Gise, thank you very much.

9 Do you have questions, Mr. Gallagher?

10 MR. GALLAGHER: Oh, I do, Mr. Chairman,
11 but probably it would be prudent to take a lunch
12 break. That way I could get organized.

13 MS. GISE: We will seek to provide that
14 information.

15 MR. BLOCH: Thanks, Ms. Gise.

16 MR. GALLAGHER: If we could have until
17 1:30, that would be much more organized and
18 hopefully efficient.

19 MR. BLOCH: All right.

20 Let's recess for lunch, please, until
21 1:30. And we'll see you then.

22 (Whereupon, at 12:00 p.m., the hearing was

1 recessed, to be reconvened at 1:30 p.m. this same

2 day.)

3

4

5

6

7

8

9

10

11

12

13

14

15

16

17

18

19

20

21

22

1 AFTERNOON SESSION (1:38 p.m.)

2 MR. BLOCH: We are connected again and
3 ready to proceed. Mr. Gallagher?

4 MR. GALLAGHER: Thank you, Mr. Chairman.

5 Whereupon,

6 JACK PARRACK

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

10 CROSS-EXAMINATION

11 BY MR. GALLAGHER:

12 Q Mr. Parrack, do you have ALPA Exhibit 49
13 in front of you --

14 A Yes, sir, I do.

15 Q All right. On page 1, I believe that on
16 voir dire you told me that the numbers in the far
17 right-hand column, total expense savings, were
18 company numbers?

19 A Yes, sir, that is correct.

20 Q All right. Now, is that true for 2007, '7
21 and '9?

22 A Yes, sir, I believe it is.

1 Q Are you as sure of that as you are of all
2 of the rest of the testimony you've given here
3 today?

4 A Yes, sir, I am.

5 Q All right. Do you have the company's
6 2/23/06 presentation?

7 A I do not, sir.

8 Q Was that the source of these numbers?

9 A It was the source provided through someone
10 else to me, yes.

11 Q All right. Who provided it to you?

12 A Kye Johanning.

13 Q Did he prepare this chart or did you?

14 A I prepared this chart with the numbers he
15 provided to me.

16 Q Now, you've said earlier on voir dire that
17 you assumed the \$80 million per year expense savings
18 under the nonqualified; is that right?

19 A Yes, sir, that is correct.

20 Q And if you -- you wouldn't have had to
21 assume it if the qualified was 121 -- if the company
22 had told you the qualified was 121 and the total was

1 201, would you?

2 A No, sir.

3 Q That would be simple math?

4 A Yes, sir, it would.

5 Q Well, did you assume it or did you deduct

6 it?

7 A The numbers that I was given were the
8 numbers from the total column, with the exception of
9 2006, where I took one quarter of the amount that I
10 was given.

11 Q All right. So you don't really know where
12 the numbers in the total column came from?

13 A They came --

14 Q They -- go ahead.

15 A They came from Kye Johanning from the
16 company presentation.

17 Q Right. But you don't -- you can't swear
18 to this board that they came from the company
19 presentation?

20 A I physically did not take them out of the
21 backup material that was provided, no. I was not
22 provided the backup material personally.

1 Q Mr. Johanning is next, so perhaps we'll
2 get to the bottom of that.

3 Now, looking at the cash column under
4 "nonqualified," that \$84 million a year.

5 A Yes, sir.

6 Q I believe you testified that that is money
7 that the company directly pays to the pilots; is
8 that right?

9 A That's correct.

10 Q And when you say "to the pilots," you mean
11 to the retired pilots, don't you?

12 A Yes, sir. Yes, sir, that is correct.

13 Q None of that money is attributable to
14 pilots currently in active service?

15 A No, sir, it is not.

16 Q All right. Now, so in any of the columns,
17 does this page break out the obligations or the
18 division of benefits or savings between actives and
19 retirees?

20 A No, it does not.

21 Q Does ALPA represent retired pilots for
22 collective bargaining purposes?

1 A I'm not a lawyer, sir.

2 Q All right. That's fine. So you're not
3 suggesting in this page that these are savings
4 attributable to the active pilot work force at Delta
5 today?

6 A No, sir, as the title says, this is just
7 cost savings.

8 Q All right. Well, let me ask a question
9 about that. You see the \$1.2 billion in 2007 under
10 the qualified plan?

11 A Yes, sir, I do.

12 Q Do you know if Delta has \$1.2 billion to
13 contribute to the plan in 2007?

14 MS. GISE: Objection. Mr. Parrack
15 doesn't -- was not put on the stand to testify about
16 what Delta has or doesn't have.

17 MR. GALLAGHER: I've asked him if he
18 knows, Mr. Chairman.

19 MR. BLOCH: I'll allow the answer.

20 THE WITNESS: I do not know.

21 BY MR. GALLAGHER:

22 Q All right. It wouldn't surprise you if

1 the company took the position that they didn't have
2 that money, would it?

3 A I do not know whether they have the money
4 or not, sir.

5 Q And it wouldn't surprise you if the
6 company said that they didn't have the money?

7 A I don't know how to answer that question,
8 sir.

9 Q Would it surprise you --

10 MR. SIMON: ALPA will stipulate that the
11 company believes that it does not have that money.

12 MR. BLOCH: I'll accept that.

13 BY MR. GALLAGHER:

14 Q Would you turn to page 2 of Exhibit 49.

15 A Yes, sir.

16 Q This page assumes that the nonpilot
17 defined benefit plan continues in existence;
18 correct?

19 A Yes, sir, that is correct.

20 Q That is, that that plan is not terminated?

21 A That is correct, sir.

22 Q Now, is it your understanding that under

1 current law, the nonpilot plan is not likely to
2 continue?

3 A I believe I heard Mr. Bastian testify to
4 that.

5 Q And is that consistent with your own
6 understanding?

7 A That would not -- it would not surprise
8 me, sir.

9 Q All right. Good. Now, if the legislation
10 passes Congress and is enacted by the president in
11 the form of the Senate bill that has passed, do you
12 have a view on whether Delta would be able to
13 satisfy the ERISA standards for distressed
14 termination of the nonpilot plan?

15 A I do not know whether they would be able
16 to satisfy their standards or not.

17 Q Have you looked at that at all?

18 A No, sir, I have not.

19 Q Okay. But ERISA does not make it easy for
20 an employer to do a distressed termination of a
21 defined benefit plan, does it?

22 A No, it does not.

1 Q All right. The standard is effectively,
2 in layman's terms, that if liquidation must be the
3 only alternative, isn't it?

4 A That is my understanding, yes.

5 Q Now, page 3 of Exhibit 49, who selected
6 the pilot examples that are here?

7 A The pilot examples that are here were
8 actually part of analysis that was done for the MEC
9 back in the middle of 2005.

10 Q By who?

11 A By the retirement insurance committee.

12 Q Were you involved in that analysis?

13 A I was not involved in preparing the actual
14 numbers themselves.

15 Q All right. Well, did you prepare this
16 page, or is this simply a report of what work
17 somebody else did?

18 A I prepared the slide based on the
19 information that was used back in 2005, essentially.

20 Q All right. Well, are you here to attest
21 to this board the accuracy of the information
22 reflected on this page?

1 MR. SIMON: Excuse me. We've already made
2 clear to Mr. Gallagher that before the afternoon is
3 out, we will get back to him on this slide. There
4 are obviously some technical difficulties with it.
5 We're in the process of examining those. We will
6 get him that information. And I guess I'm rather
7 surprised that given that understanding, he's
8 pursuing this line of questioning.

9 MR. GALLAGHER: Well, quite frankly,
10 Mr. Chairman, there was no misunderstanding, or no
11 understanding. There may have been a
12 misunderstanding.

13 I was told that I would get the identities
14 as soon as they could get them and that they were
15 looking to figure out what issues, if any, there
16 were. That's all I've been told, and I offered
17 nothing in response that could be construed as an
18 understanding on my part.

19 MR. SIMON: I must say, my
20 understanding --

21 MR. GALLAGHER: If that was a
22 misunderstanding, we can certainly resolve it

1 between counsel.

2 MR. SIMON: That would be a good idea.

3 BY MR. GALLAGHER:

4 Q All right. What is the money purchase

5 plan?

6 A Money purchase plan is a defined

7 contribution plan.

8 Q And it's a plan that was in place for the

9 benefit of the Delta pilots; correct?

10 A That is correct.

11 Q And does it interact with the defined

12 benefit plan?

13 A Yes, sir, it does.

14 Q Can you explain how it interacts?

15 A The money purchase plan, again, this is

16 defined contribution plan, when a pilot retires, the

17 account balance in the money purchase plan is

18 annuitized using actuarial factors, and that

19 theoretical annuity is used as an offset to the

20 defined benefit plan benefits.

21 Q All right. Let me see if I understand

22 that correctly. The money purchase plan is a

1 defined contribution plan; correct?

2 A Yes, sir.

3 Q And each pilot has an individual account

4 into which money is put each year; correct?

5 A It was, up through 2004, yes.

6 Q Up until the soft freeze of the whole DB

7 plan?

8 A Correct.

9 Q And that's a defined contribution, so

10 that's never underfunded; it just is what it is in

11 that pilot's account; correct?

12 A That's correct.

13 Q All right. And then when the pilot

14 retires, whatever is in that account is, in effect,

15 becomes an offset to the 60 percent final average

16 earnings defined benefit formula?

17 A That is correct.

18 Q Okay. Now, on page 3, in the first box

19 under "contractual defined benefit plan benefit" is

20 the MPP, the value of the MPP, reflected in that

21 line?

22 A The MPP offset has already been taken

1 prior to that, so that line is just what is payable

2 from the defined benefit plan.

3 Q All right. So if you included the MPP

4 portion, then the benefit would be higher; correct?

5 A The contractual benefit would be higher,

6 but it wouldn't all be payable from the defined

7 benefit plan.

8 Q It would be the MPP portion of the defined

9 benefit plan, would it not?

10 A It would be the amount that is offset due

11 to the MPP.

12 Q Right. It would be money that the company

13 has contributed to an account in the pilot's name

14 over time that was intended to be a contractual

15 offset to the defined benefit formula; correct?

16 A That's correct.

17 Q And that's not included in the first box

18 going across the page, under the heading

19 "Contractual Defined Benefit Plan Benefit At Age

20 60"?

21 A If by "not included" you mean if we

22 calculated the gross contractual benefit, those

1 numbers would have been higher.

2 Q All right. And then if you added that MPP

3 benefit in, then the percentage of benefit lost

4 would be lower, would it not, because the MPP

5 benefit is retained?

6 A But the number at the top would have been

7 higher as well.

8 Q Right. But the percentage lost would be

9 lower, would it not?

10 A I would have to do those calculations,

11 sir. I don't know.

12 Q Now, this page, I take it, does not

13 purport to represent any defined contribution plan

14 benefits?

15 A No, sir, it does not.

16 Q All right. So when it says on pilot

17 benefits payable at age 60, this is only on pilot

18 defined benefit plan benefits payable at age 60?

19 A That is correct.

20 Q And likewise, it doesn't include any of

21 the 401(k) benefits?

22 A That is correct.

1 Q All right. Now, my understanding is that
2 the parties have reached agreement on a flat
3 9-percent DC contribution going forward. Is that
4 your understanding?

5 MR. SIMON: Objection. Whatever
6 agreements have been reached in terms of collective
7 bargaining are all obviously contingent upon
8 agreement on all other terms. That question has no
9 foundation and is improper.

10 MR. GALLAGHER: Well, I can ask -- phrase
11 the question another way, Mr. Chairman.

12 BY MR. GALLAGHER:

13 Q In your examples on pilot 3, what is the
14 defined benefit -- excuse me, defined contribution
15 for that pilot on the grid today?

16 A For pilot number 3?

17 Q Yes.

18 A His contribution in the defined
19 contribution plan should be zero.

20 Q Zero. So today he's getting no defined
21 contribution in his name; correct?

22 A Correct.

1 Q Now, if, hypothetically, there were a
2 9-percent defined contribution plan in place for
3 that pilot and a 2-percent 401(k) -- well, the 2
4 percent is not hypothetical. Let me stick with the
5 9 percent.

6 If there were a 9-percent defined
7 contribution plan in place for that pilot, he would
8 get 9 percent of his salary set aside in a defined
9 contribution account for the next nine years;
10 correct?

11 A Yes, sir, that's correct.

12 Q And that would be an enhanced benefit, not
13 a decreased benefit; correct? Because today he's
14 getting nothing in his DC plan.

15 A Yes, sir, that's correct.

16 Q And the reason he's getting nothing in his
17 DC plan today is because when the replacement DC
18 plan was negotiated, a grid of -- a sliding scale of
19 contributions was negotiated; correct?

20 A It was negotiated in conjunction with the
21 soft freeze of the plan, not plan termination.

22 Q Excuse me if I misspoke, yes.

1 So now, pilot 2 -- I think you have said
2 on direct that pilot 3 has a significant diminution
3 of benefits under Akaka, but you didn't address
4 pilot 2. Could you tell us what would happen to
5 pilot 2 under -- if the Akaka amendment were to
6 pass?

7 A If I may be allowed to use my calculator.

8 Q By all means.

9 A I don't remember the exact age 65
10 guarantee, but it is 47,600-something, I believe.
11 So that in place of the 30,978. So it would be an
12 additional 16,622. So I believe his lost benefit
13 itself would be approximately \$23,052. As a
14 percentage of the top number, it would be
15 approximately 33 percent.

16 Q So that is a substantial mitigation, is it
17 not, if Akaka were to pass?

18 A Yes, sir, it could be considered
19 substantial.

20 Q All right. And if the top line included
21 that very pilot's money purchase plan benefit, the
22 percentage of lost benefit would be even lower,

1 would it not?

2 A If the top number were higher, then the
3 bottom number would be lower.

4 Q And what I do understand from counsel,
5 Mr. Chairman, is that they are investigating the
6 identities of pilots 1, 2 and 3 and will be
7 providing us with some information on that, so I
8 would reserve any further questions for this witness
9 until we have that information.

10 MR. BLOCH: Thank you, Mr. Gallagher.

11 Ms. Gise, any additional questions for
12 this witness?

13 MS. GISE: Yes, I do. Could we take a few
14 minutes?

15 MR. BLOCH: You bet.

16 MS. GISE: Thank you.

17 (Recess taken from 1:55 to 1:57.)

18 MS. GISE: Mr. Chairman, we have no
19 further questions for this witness. However, it
20 will take us at least a half hour to get the
21 information that Mr. Gallagher requested. So we
22 could, if appropriate, recall Mr. Parrack on that

1 information.

2 MR. BLOCH: Well, let me ask you,

3 Mr. Gallagher, do you want to do that now?

4 MR. GALLAGHER: No, no, that's fine,

5 Mr. Chairman. We can proceed with the next witness,

6 and we'll see if we need this witness back after we

7 look at the information.

8 MR. BLOCH: Yes, that's do that.

9 MR. SIMON: And just -- we can excuse the

10 witness and I have a comment to make.

11 MR. BLOCH: Mr. Parrack, thank you very

12 much, sir.

13 THE WITNESS: Thank you.

14 MR. BLOCH: Appreciate your help.

15 (Witness excused.)

16 MR. SIMON: Just to assist Mr. Gallagher,

17 having in mind a question he posed to Mr. Parrack

18 regarding ALPA's representation or nonrepresentation

19 of retired pilots, ALPA does not, has not

20 represented persons who are in a retired status for

21 purposes of collective bargaining. ALPA does

22 represent those pilots who are now employed and will

1 be in a retired status at some point, represents
2 them in their capacity as now-current employees with
3 regard to matters attributable to their future
4 retirement.

5 For example, for purposes of section 1114
6 of the act dealing with retired medical benefits,
7 ALPA has chosen not to be the representative of
8 retired pilots for purposes of that section, but
9 that is merely an additional manifestation of a
10 broader, nonrepresentational status with regard to
11 already-retired pilots.

12 MR. GALLAGHER: Thank you, Counsel.

13 MR. BLOCH: Thank you, Mr. Simon.

14 MR. DECHIARA: The Air Line Pilots
15 Association calls as its next witness Kye Johanning.

16 Whereupon,

17 KYE JOHANNING

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

20 DIRECT EXAMINATION

21 BY MR. DECHIARA:

22 Q Good afternoon.

1 A Good afternoon.

2 Q Mr. Johanning, by whom are you employed?

3 A By the Air Line Pilots Association.

4 Q And what position do you hold with the Air

5 Line Pilots Association?

6 A I'm lead economic analyst.

7 Q And in what department do you work?

8 A The economic and financial analysis

9 department.

10 Q And can you tell us what your job duties

11 are?

12 A Yeah. They're twofold. One is during

13 contract negotiations, to provide financial analysis

14 of contractual changes, proposed either by the

15 company or by ALPA, as well as just general economic

16 and financial analysis, both on a specific airline

17 as well as the airline industry.

18 Q What is your educational background?

19 A I have a BA in economics and an MBA.

20 Q When did you start working for ALPA?

21 A I first joined ALPA in 1995 and I worked

22 at ALPA until 2000, at which point I left to go to

1 work for an airline, Atlas Air, where I was manager
2 of financial analysis. And then I rejoined ALPA in
3 August of '05.

4 Q Okay. And since rejoining ALPA in August
5 of '05, has your work concerned any particular
6 airline?

7 A Yes, it has. It's been basically 100
8 percent of my time spent on Delta.

9 Q Okay. And have you been involved in any
10 capacity in the section 1113 negotiations?

11 A Yes, I have.

12 Q And in what role?

13 A Primary role has been to costing of the
14 various proposals from both sides.

15 Q Okay. If you could briefly tell the panel
16 what costing is and how it works?

17 A Sure. What costing is, is basically
18 you're taking a look at the various proposals that
19 either ALPA or the company makes, and then using a
20 variety of data sources to come up with a way to put
21 a financial value on those. And these data sources
22 can be publicly available data, such as form 41 or

1 OAG, and it can also be data that we receive from
2 the company that we then analyze.

3 Q To what extent are you familiar with the
4 pilot working agreement?

5 A I am generally familiar with the
6 provisions that are -- that are proposed by both
7 sides.

8 Q And to what extent are you familiar with
9 the company's business plan and projections?

10 A Again, I am generally familiar with their
11 plan's projections.

12 Q And to what extent are you familiar with
13 the parties' various proposals in the section 1113
14 negotiations?

15 A On the various proposals, I'm fairly
16 familiar with those. Haven't spent a lot of time,
17 just trying to cost them out and putting values to
18 them.

19 Q Did you prepare a set of slides for your
20 testimony here today?

21 A Yes, I did.

22 MR. DECHIARA: Before we proceed with the

1 examination of Mr. Johanning on the slides, I would
2 just like to bring to the panel's attention that
3 there are some slides that contain confidential
4 information from the company's five-year
5 projections. And I have discussed this with
6 Mr. Gallagher, and we have agreed that when there is
7 testimony on those slides, we would ask that the
8 room be cleared of any individuals who are not party
9 to the confidentiality agreement.

10 MR. BLOCH: Can you group them altogether?

11 MR. DECHIARA: Unfortunately, they --
12 there are not that many in this set of slides. But
13 unfortunately, it would put the testimony out of
14 order to group them altogether. It wouldn't follow
15 logically.

16 MR. BLOCH: So is it your thought that we
17 bring people in and out?

18 MR. DECHIARA: I think we would have to do
19 that, yes.

20 MR. BLOCH: All right.

21 MR. DECHIARA: I would ask to have marked
22 as ALPA Exhibit 50 the set of slides that have been

1 distributed to the witness and to the panel.

2 (ALPA Exhibit 50 identified.)

3 BY MR. DECHIARA:

4 Q Mr. Johanning, have you done a costing of
5 the company's latest proposal?

6 A Yes, I have.

7 Q Okay. And is that set forth on the first
8 page of your slides?

9 A Yes, it is.

10 Q What is the duration, in terms of number
11 of years, of the company's latest proposal?

12 A Four years.

13 Q Okay. Describe slide 1. Why don't you
14 describe what each of the various columns show.

15 A Okay. Sure. The first column basically
16 is a summary of the items that the company has
17 proposed to change in the contract, and these are
18 items to which the company has placed a value on.
19 So then the next column is from the company's data
20 that they provided us, what their costing is of
21 those various proposals.

22 Q That's the amount the company says would

1 be the savings from those items?

2 A Correct. And this again would be the
3 average over four years is what these numbers are.

4 Then the column after that is our costing of those
5 exact same proposals. And then we have a column to
6 show us what the difference is in dollar values.

7 And then any explanation of differences.

8 Q Okay.

9 A And I don't want to say -- there should be
10 a small correction.

11 Q Yes, thank you for reminding me. Maybe we
12 could all mark this correction. Why don't you tell
13 us what the correction is.

14 A It should be the third line, for the
15 premium paid for international pay, the ALPA costing
16 number should be 6.9 and therefore the difference
17 then makes it 0.3. It only affects this one slide.

18 The other slides have reference to these numbers,
19 the difference is washed out by rounding basically.
20 So it only affects this one slide.

21 Q The difference is small enough that as
22 these numbers are carried through in your

1 examination, it makes no difference? Is that what
2 you're saying?

3 A Correct. Because, after this, I round
4 everything off to the nearest million.

5 Q I'm not going to ask you about -- to
6 explain the difference in each of these various
7 items. Why don't we take the biggest item, which is
8 the last. If you could explain to us what the
9 proposed change is in the company's proposal and --

10 MR. HARRIS: Let me interrupt you. It's
11 probably easier if you ask him each one than if I
12 ask him each one. I am going to ask him each one.
13 So if you don't do it, Mr. Gallagher is going to
14 have to come back after I have done it, if he
15 doesn't do it. So I think it would be much better
16 if there's a difference, if you had him explain why
17 there is a difference.

18 MR. DECHIARA: If you'd like, I could go
19 through each item. As I said, I thought it would be
20 time-consuming, and I don't know that it would make
21 a material difference in our case or in the
22 presentation, but if you would like me to do that,

1 I'll be happy to do that.

2 MR. HARRIS: I would clearly like to have
3 you do it on the items that are a million or over.

4 MR. DECHIARA: Okay. Why don't we do
5 that.

6 BY MR. DECHIARA:

7 Q So for each item, going down this chart
8 where the difference is over a million dollars, why
9 don't you first explain what your understanding of
10 the company's proposal is and then the basis for the
11 difference.

12 A Sure. The first item that qualifies under
13 that would be the reduction of the hourly pay rates
14 to 8 -- rising the pay rates by 18 percent with
15 1-1/2 percent raise in '09. And the difference of
16 \$6 million on the costing is really driven by two
17 factors. One is there is still a small disagreement
18 between ALPA and the company as to what the current
19 average pay rate is for pilots, and that's about a
20 \$2-an-hour difference, 145 and change versus 143 and
21 change.

22 And then the other difference is, and this

1 is sort of a difference -- when it says on there
2 401(k) contribution, it's really my best estimate as
3 to what the difference comes to, mathematically
4 comes up to be that difference. The company's
5 number, they gave to us is hard coded, so it's hard
6 to track back exactly where -- how they calculated
7 their savings of the base pay rates.

8 But if I add in the 2 percent, 401(k)
9 contribution, that seems to make up the difference
10 in the costing.

11 Q Okay. The next item down that is over a
12 million dollars is the one that begins "change sick
13 pay to 30 hours," et cetera. Why don't you explain
14 that.

15 A Yeah. Well, this is, again, the company's
16 proposal is to change sick pay so that the first 30
17 hours of sick pay that a pilot uses would pay at 100
18 percent, basically at full pay, and that any hours
19 used after that would pay at 75 percent of pay. And
20 the reason for the difference in the costing really
21 boils down to a philosophical dispute as to what
22 would happen to pilots if this were to come into

1 effect. Really what the company is saying is after
2 the pilots take an 18 percent pay cut, they are
3 going to take another 25 percent pay cut for all of
4 the sick leave usage.

5 What we've said is and what we've come up
6 with internally after discussion as to what the
7 proper value of this is, is that if such a proposal
8 were in place, that the pilots would change some of
9 their behavior as far as sick leave usage goes.

10 For example, when I talk about a change in
11 behavior, it would be if a pilot has some elective
12 surgery, what that pilot would then do is rather
13 than face the additional deckment of a 25 percent
14 pay cut for calling in sick, that he would try to
15 schedule that kind of surgery, for example, during
16 his vacation.

17 MR. HARRIS: That's not an economic
18 determination. You're making a philosophical
19 determination.

20 THE WITNESS: It was our best estimate,
21 talking to the various pilots that I had talked to,
22 when I cost this stuff out is, that the pilots --

1 MR. HARRIS: In other words, you're assume
2 being a change in behavior.

3 THE WITNESS: Correct.

4 MR. HARRIS: Okay. Thank you.

5 BY MR. DECHIARA:

6 Q And what's the basis for that assumed
7 change in behavior?

8 A Well, like I said, it's discussion with,
9 when I'm in a room costing this stuff, I'm
10 surrounded by pilots, and we talk amongst ourselves
11 and try to figure out what would a pilot do, what
12 would you do. And this seemed to be the consensus
13 as to what pilots would do.

14 Q Okay. And the last item on this page that
15 has at least a \$1 million difference is the bottom
16 one. Can you explain that one?

17 A Yeah. What these are, this is sort of a
18 summing together the various benefits changes that
19 the company has proposed. This includes hard
20 freezing the DB plan, it includes eliminating
21 retiree medical for future retirees and also various
22 changes to the D&S, or disability and survivorship

1 plan.

2 In this one the difference of 4.2, it's
3 really not a savings difference, it's more one of
4 the differences due to accounting. Up until just
5 fairly recently, the company had always attributed
6 savings in '06 to changes to these various items.

7 And then suddenly on March 7, the company
8 changed its accounting policy somehow and now it's
9 no longer crediting ALPA for the savings in '06,
10 even though the company would recognize savings
11 in '06. It's purely an accounting matter.

12 Q Let me just see if I understand what you
13 said. To what extent is there a difference in
14 opinion between the company and ALPA as to whether,
15 in fact, there would be actual savings in the year
16 2006 from the proposed changes that are set forth on
17 the bottom line?

18 A I don't think there's any difference.

19 Q Okay. So the difference is attributable
20 to what?

21 A Attributable to -- it's purely accounting.

22 It's basically not recognizing the savings, due to

1 accounting rules.

2 Q Okay. And from the time the company made
3 its initial section 1113 proposal in September
4 of '05 until March 7, 2006, a couple weeks ago, what
5 was the company's position on this?

6 A They had always shown savings in '06.

7 Q And what happened after -- on or about
8 March 7?

9 A March 7, that's the first time we saw
10 costing from the company that didn't have savings
11 for -- in '06 for these changes.

12 MR. BLOCH: And up until that time, did
13 you agree that it would be a \$70.9-million saving,
14 were it properly, in your view, accounted for
15 in '06?

16 THE WITNESS: Yeah, I think those savings,
17 primarily benefits costing, but yeah, I believe
18 there's general agreement as to what the value of
19 those changes were.

20 MR. HARRIS: Are you saying that the
21 accounting problem is the problem?

22 THE WITNESS: As far as I can tell, that's

1 the issue. That seems to be, they came to us and
2 said --

3 MR. HARRIS: Did they tell you what the
4 accounting problem was, whether it was under the
5 accounting rules?

6 THE WITNESS: Again, I'm not a benefits
7 accountant. They mentioned this having to do with
8 plan recognition as to when they would recognize
9 these expenses.

10 BY MR. DECHIARA:

11 Q Did ALPA after receiving this new
12 accounting position by the company make an effort,
13 as far as you know, to verify whether or not this
14 accounting position was legitimate?

15 A Yeah, there was some discussion with the
16 company and their accountant regarding -- just to
17 get an understanding as to what -- as to why the
18 company changed its position.

19 Q And were you privy to those discussions?

20 A Yes, I was.

21 Q And what is ALPA's current view?

22 A I think on the accounting issue, we're

1 still examining that. I don't think we've come up
2 with a definite ruling on that. But I think, again,
3 there's no -- I don't think there's any dispute in
4 the fact that there are savings in '06. It's just a
5 matter of do you recognize them for accounting
6 purposes or not.

7 Q Okay. So from your view as an economic
8 analyst and not as an accountant, what do you
9 believe should be the number that should appear for
10 the cost savings there?

11 A Obviously, I believe ALPA should get
12 credit for those savings in '06.

13 Q Let's now turn to the second page, and
14 I'll ask you what this page shows.

15 A Sure. The second page now is additional
16 items that are a part of Delta's proposal to --
17 again, these are -- areas the company has placed
18 zero dollar value on. It's a combination of some of
19 these are cost savings and others are what I
20 consider financial benefits to the company or
21 potential benefits to the company.

22 Q Are these four-year averages?

1 A Yes, everything on here is four-year
2 averages.

3 Q And there's a column under the company's
4 costing, it's all zeros, and then under ALPA's
5 costing, there are numbers.

6 MR. HARRIS: Do you have the numbers year
7 by year?

8 THE WITNESS: We can provide that, yes.

9 MR. HARRIS: I suggest you provide us with
10 that, the numbers year by year.

11 MR. DECHIARA: We'd be happy to do that.

12 MR. HARRIS: I have no objection to your
13 continuing, don't misunderstand me.

14 MR. DECHIARA: I was just making a note.

15 MR. HARRIS: That's fine. I just didn't
16 want you to think that I was uninterested in these
17 things. I just would like it year by year.

18 MR. DECHIARA: No, I understood. I just
19 paused to make sure I jotted down your request and
20 just to make sure that we respond to it
21 appropriately.

22 BY MR. DECHIARA:

1 Q Looking at page 2, is it ALPA's position
2 that all of these items are cost savings, or could
3 they be -- fall into some other category?

4 A Like I said, some of these are cost
5 savings, for example elimination of rotation
6 guarantee and paying the sick out of the D&S trust,
7 versus other items are -- give the company
8 flexibility to achieve additional revenues or
9 provide potential savings in case furloughs happen
10 going forward.

11 Q Okay. Again, let's take a couple
12 examples, and obviously, if the panel to like to
13 hear more, we'll be happy to supply any and all
14 other examples.

15 But let's turn to the second one, the
16 eliminate rotation guarantee. If you could address
17 that. First of all, we heard some testimony last
18 week about what a rotation is. And just to remind
19 us, what is a rotation and a rotation guarantee?

20 A Again, rotation is just a series of
21 trips -- series of trips that a pilot flies from the
22 time he checks in to the time he's done. It could

1 be one day, it could be four days, could be six
2 days.

3 Q And what is the rotation guarantee?

4 A Rotation guarantee basically says what the
5 pilot gets paid in case the rotation -- in case
6 there's change to the rotation, where, for example,
7 a company cancels some of its flights, ensures the
8 pilot still gets paid what he originally bid on.

9 Q Okay. Why -- and the company is proposing
10 eliminating the rotation guarantee?

11 A Correct.

12 Q Do you believe that would be a cost
13 savings to the company?

14 A Yes, I do.

15 Q Why do you say that?

16 A Well, it's based on actually data that was
17 received from the company. The company has provided
18 us with data called the pilot data summary, which is
19 a listing of all the various pay hours that pilots
20 get paid. And part of that is the -- is when they
21 apply the rotation guarantee.

22 So I took a look at what they applied

1 in '05 for the guarantee and then adjusted that
2 going forward to reflect the company's planned block
3 hours going forward. And obviously also the pay
4 rate changes as well.

5 Q So the company's pay data from 2005
6 indicated that there were certain hours paid for
7 rotation guarantee?

8 A Correct.

9 Q Okay. And how does this \$6 million
10 compare to what the company paid in '05 for rotation
11 guarantee?

12 A In '05, I believe the number was about \$7
13 million was what the company paid out from January
14 through December.

15 Q Why did you only put 6 million here?

16 A Again, because some of it is reflected due
17 to the change in block hours going forward, as well
18 as obviously the pay rate changes.

19 Q Okay. Let's now look at the last item,
20 which is obviously a large item. Can you explain --
21 it says "pay sick leave out of D&S trust (VEBA)."

22 What is the D&S trust?

1 A D&S trust stands for disability and
2 survivorship trust. It's also referred to as the
3 VEBA. The terms are kind of used interchangeably.
4 It's a separate trust set up to pay disability and
5 survivorship benefits to pilots.

6 Q Do you know where the money in that --
7 that is in that trust originally came from?

8 A Yeah, I believe the trust started, in I
9 believe it was '72, when the company made changes to
10 the pilots' retirement plan at that point, and as
11 part of the changes, the D&S trust was created.

12 Q Where does that trust get its money now?

13 A Right now the trust is self-funding,
14 meaning it's got enough assets in it and it
15 generates enough returns to pay for the expenses.

16 Q Do you know when the last time any
17 contribution was made to the D&S trust?

18 A I believe the last contributions were made
19 in 1994.

20 Q Okay. So now that we understand the D&S
21 trust, explain the company's proposal and why you
22 believe it would save the company money?

1 A Yeah, what the company is proposing is
2 that its sick leave, again the pay pilots get when
3 calling in sick, would be paid out of the D&S trust
4 and would not be paid from the company. In essence,
5 what the company would say is sick leave is no
6 longer an obligation to the company and that
7 obligation would transfer over to the D&S trust.

8 And since now this expense is no longer an
9 obligation of the company, it's my understanding the
10 company would no longer be able to recognize that
11 expense on its books, because now it's an expense of
12 the D&S trust.

13 Q Okay. Let's turn to the third slide. Are
14 you familiar with the company's proposal to change
15 the scope clause of the PWA to allow an increased
16 amount of flying of small jets by DCI carriers?

17 A Yes, I am.

18 Q First, at the outset of the analysis, I
19 believe the companies in its papers submitted to the
20 panel indicated that the current limit on the number
21 of small jets that can be flown by the DCI carriers
22 is 150. Is that correct, that it is 150?

1 A No, it's not. The current limit is 125.
2 There's a provision in the contract that says the
3 company can increase it to 150, provided they meet
4 certain block hour targets. The company has never
5 met those block hour targets, and the five-year plan
6 never assumes that they meet those block hour
7 targets that would allow them to increase from 125
8 to up to 150.

9 Q Has the company ever met those block hour
10 triggers?

11 A As far as I know, they have not met it --
12 once -- since they have been in place, the company
13 has not met those triggers.

14 Q Okay. If you could walk us through your
15 analysis.

16 A Sure. Again --

17 Q And let me ask you, in ALPA's view, is
18 this proposed change to the scope clause a cost
19 savings item, a revenue generation item or something
20 else entirely?

21 A We're basically just -- we're viewing it
22 as a revenue generation item to the company.

1 Q How would it generate revenue for the
2 company?

3 A Again, because it would allow the company
4 to fly additional small jets at regional carriers.

5 Q Okay. If you could walk us through the
6 analysis here. I would note that footnote 2
7 contains numbers out of the company's five-year
8 projections. I would ask you not to disclose those
9 in your testimony.

10 A Sure. What it starts out with, first of
11 all, the current limit again is 125, and the company
12 is seeking to raise it up to a limit of 200. Under
13 their proposal, of those 200, they would like the
14 ability to have up to 117 of those small jets be
15 79-seaters. Again, the current limit is 70-seaters
16 for the 125 that the company is currently allowed.

17 And then what we've done is taken a look
18 at for each additional 79-seater, what would be the
19 net revenue gain that the company would realize.

20 And it's about \$1.08 million from our calculations,
21 again, based on data we've received from the
22 company, and as it says in footnote 1, and then

1 assuming a reasonable return on those revenues.

2 Q Do you know whether the company during the
3 bankruptcy court hearing provided the court an
4 estimate of the amount of revenue it would generate
5 from each additional small jet?

6 A Yeah, I believe the company had one of the
7 documents that said it was a million dollars per
8 jet. So this is very close to that.

9 Q Okay.

10 A And then -- oh, sorry.

11 Q Go ahead.

12 A Then the next item after the average value
13 for each 79-seater is then what the net revenue gain
14 would be over the four years, meaning the life of
15 the contract. And again, this is based on the fleet
16 plan projections of the company as provided to ALPA.

17 Then the final line is once the company
18 has ramped up to all 117 of those, which they are
19 projected to do by the end of 2010, that the annual
20 net revenue gain going forward then would be a
21 little over \$126 million.

22 Q Okay. Let's turn to the next slide, which

1 concerns the rather complicated subject of savings
2 from the termination of the DB plan. If you could
3 walk us through the various bullet points on this
4 slide.

5 A Sure. If the DB plan were to terminate,
6 the company would recognize expense savings from
7 both the qualified and nonqualified plan
8 terminating. Now, under the company's proposal,
9 they would offset some of those savings by issuing
10 notes to the pilots upon emerging from bankruptcy.
11 So that's -- so that's sort of the expense savings,
12 the net expense savings that the company would
13 realize from the DB plan termination.

14 However, there's additional savings that
15 the company would realize if the plan terminates. I
16 believe as the company said, if the plan does not
17 terminate, that the lump sums will projected to be
18 turned on again, I believe in October, and the
19 company is projecting that up to 800 pilots could
20 take early retirement.

21 This is actually out of a pool of about
22 1700 or so pilots that are eligible that could

1 theoretically take the lump sum, but it's projected
2 that only about 800 or so would, because those are
3 the pilots that would receive a large enough lump
4 sum to make it worthwhile taking the lump sum.

5 Again, obviously, there's nothing in the
6 contract, nothing in the retirement plan, that then
7 would prevent all of these pilots from leaving all
8 at the same time. They could all take early
9 retirement in October of '06.

10 Q You said obviously. It may not be obvious
11 to those of us who don't know. Is that, in fact,
12 the case?

13 A Yeah, I mean, they all can. There's
14 nothing that, as far as I know, stop all 1700 pilots
15 that are eligible from taking the lump sum.

16 Q What is the company's assumption about
17 whether they would all retire at the same time?

18 A In the company's projections, they were
19 assuming that these 800 pilots sort of leave in an
20 orderly fashion, between -- all the way through
21 October of '07. So now, if you have these 800
22 pilots taking early retirement, that act by itself

1 would in essence wreak havoc on the company's
2 operations.

3 Having done analysis and looking at really
4 that these are the most senior pilots, so you
5 would -- the company would really have to kind of
6 shut down its international operation, because these
7 are your most senior pilots. So the company would
8 lose all the revenue from its international
9 operations. Obviously offset by the available
10 expenses of operating those flights, such as fuel,
11 et cetera.

12 Q This notion that if there were a large
13 number of early retirements, that would impact
14 adversely the company's operations, is this just
15 something hypothetical or is this something that the
16 company in the recent past has faced?

17 A No, that's something the company has faced
18 in the past, and they have even previously provided
19 an analysis to ALPA that would show the impact of I
20 believe it was at that point they were looking at
21 600 pilots leaving early. And they had given
22 analysis to ALPA showing what would happen if 600

1 pilots leave.

2 So obviously having 800 pilots leave would
3 be even a bigger impact to the company.

4 Q Do you know how, if at all, that issue was
5 resolved when the company brought it up during the
6 instance you just testified to?

7 A Again, that was resolved in September
8 of '04 through the PRP letter that allowed the
9 company to hire back pilots that had retired.

10 Q Who allowed the company to hire back?

11 A ALPA allowed.

12 Q Continue.

13 A And then in addition to having -- in
14 addition to having all these pilots retire,
15 obviously, to fill those seats, the company would
16 again have to have -- would face a huge training
17 bubble that would require the company to train up
18 everybody to move up to fill the seats that are
19 vacated by these 800 early retirees.

20 Obviously, that would have a ripple
21 effect. If you move one guy up, you have to move
22 guys down below up as well. It creates kind of a

1 huge wave effect of training.

2 Some of the training would be offset now

3 by savings in salary because you have junior pilots

4 kind of filling the slots that senior pilots had,

5 junior pilots making a little bit less money, so

6 there would be some savings to the company actually

7 because of that.

8 Q All right. This page 4 sets out a fairly

9 elaborate analysis. To what extent is this analysis

10 something that ALPA or you came up with and to what

11 extent is this something that is derived from the

12 company?

13 A No, this is all information -- this is all

14 analysis based on company information and prior

15 company analysis.

16 Q Okay. Now that we understand the factors

17 that would go into the savings from the plan

18 termination, let's look at page 5, and I'll ask you

19 what slide 5 does.

20 A Yes. Slide 5 now puts sort of -- slide 5

21 is putting now numbers to the previous analysis that

22 quantifies what the savings are to the company and

1 what the effects would be to the company of not
2 having plan terminate. And I've done this both
3 for '07 and then this is a four-year average.

4 MR. DECHIARA: At this point I will ask
5 the witness to testify about these numbers. I have
6 consulted with company counsel, who has indicated
7 that these would be confidential. So I would ask
8 that the room be cleared at this point.

9 MR. GALLAGHER: And I would ask the
10 board's indulgence for a two-minute break, if I
11 might, just to run down the hall.

12 MR. BLOCH: That will be fine.

13 (Recess taken from 2:28 to 2:47.)

14 (Confidential session follows.)

15

16

17

18

19

20

21

22

Pages 1290 - 1299 have been removed from this version of the transcript because they cover the CONFIDENTIAL SESSION that was invoked during testimony.

1 OPEN SESSION CONTINUED

2 BY MR. DECHIARA:

3 Q Have you performed a costing of ALPA's
4 latest proposal?

5 A Yes, I have.

6 Q When did ALPA make its latest proposal?

7 A March 1.

8 Q What does slide 8 show?

9 A Slide 8 is a summary of ALPA's proposal,
10 which is again summarized in the column labeled
11 items. And then the right-hand column is ALPA's
12 costing of that proposal.

13 Q Okay. And this slide 8, are those items
14 in ALPA's view actual cost savings?

15 A Yes, they are.

16 Q And is this a four-year average for those
17 items?

18 A These are all four-year numbers, yes,
19 four-year average numbers.

20 Q Okay. And can you tell us what slide 9
21 shows?

22 A Then slide 9 shows additional items that

1 are financial benefits to the company under ALPA's
2 proposal.

3 Q Okay. And are these necessarily cost
4 savings items?

5 A No, some of them are the increased
6 flexibility of the company for eliminating or
7 reducing some scope restrictions, and others are
8 potential savings based on company's ability --
9 based on company's furloughing pilots.

10 Q Why would you include potential savings in
11 what -- in your costing?

12 A Well, again, these are items that the
13 company has continually asked for in their proposal.
14 So I wouldn't be doing my job if I didn't say if
15 this is something the company wants it has to have a
16 value to it, and this is a way to put a value on
17 those items.

18 Q Is it your view that ALPA should be
19 credited for changes to the contract that it gives
20 the company more flexibility?

21 A Yes.

22 Q Let's turn to now page 10. Page 10 looks

1 similar to your slide 3, which was the analysis of
2 the revenue gain under the company's proposal from
3 the change in the scope clause that would allow it
4 to increase small jets. Instead of walking us
5 through slide 10 in its entirety, why don't you tell
6 us how slide 10 differs from slide 3?

7 A The main difference obviously is in ALPA's
8 proposal to the change in scope clause and ALPA's
9 proposal is to also increase the limit up to 200,
10 but all 200 would be limited to 70-seaters or less.

11 Q And how does that change the -- or under
12 ALPA's proposal, what would be the revenue that the
13 company would be able to generate from that change
14 in the scope clause?

15 A From that change, the average over four
16 years, annual average over four years, would be a
17 little over \$8 million. And then once the company
18 is fully ramped up and at the 200 limit, it would be
19 \$75 million a year.

20 Q And by the way -- and this is not strictly
21 a costing question -- but do you have an
22 understanding of why ALPA has not agreed to allow

1 the company the 79-seaters that it seeks and has
2 proposed 70-seaters?

3 A Yeah, it's -- it basically boils down to
4 it's a jobs issue, that these are jobs that could be
5 done by the Delta mainline pilots.

6 Q To what extent, if you know, in the past
7 when ALPA has given the company scope changes that
8 allowed increased flying by DCI carriers has markets
9 that were previously flown by mainline aircraft now
10 flown by DCI carriers -- DCI aircraft?

11 A Yeah, that's happened to a significant
12 extent over the last several years, where flying
13 that at one point was done by the mainline is now
14 done purely by the regional carriers, the DCIs.

15 Q What does page 11 show?

16 A Page 11 is a listing of mainline markets
17 that were, again, at one time flown with Delta
18 mainline pilots but since 2000 have now transferred
19 over to be 100 percent DCI markets.

20 Q Okay. Now let's look at the savings the
21 company would realize from pension plan termination
22 under ALPA's proposal. Can you explain the analysis

1 on page 12?

2 A Sure. Under ALPA's proposal, the net
3 expense savings that the company would have from
4 terminating the plan, basically, ALPA would receive
5 half of those savings from terminating the plan.
6 And ALPA would receive those savings in two ways.

7 First, the pilots would receive an
8 additional 6 percent company contribution to the
9 defined contribution plan, and then the balance of
10 the savings would be payable in notes to be issued
11 upon emerging from bankruptcy.

12 Q And have you done an analysis of the
13 actual savings that ALPA believes the company would
14 realize from termination of the pilot pension plan
15 under ALPA's proposal?

16 A Yes, I have.

17 Q And why don't you explain to us what's set
18 forth on page 13.

19 A Again, on page 13 it shows -- similar to
20 previously for the company's proposal, it shows
21 the '07 numbers and the four-year average, where
22 really the only difference in this analysis is in

1 the net expense savings, where the savings from
2 terminating the qualified and nonqualified plans are
3 offset by a DC contribution, initial DC
4 contribution, of 6 percent, as well as interest on
5 the note. And again under ALPA's scenario, the note
6 would be issued 90 days after emerging from
7 bankruptcy, so you do have some interest expense
8 showing up in '07 under ALPA's proposal.

9 Q So the savings under slide 13, which is a
10 pension plan savings under ALPA proposal, how does
11 that differ from your analysis on page 5, the
12 savings under the company's proposal? Which items
13 are different?

14 A Like I said, the only difference is in the
15 net expense savings area, where we've basically
16 added an additional item called additional 6 percent
17 defined contribution. Everything else is the same,
18 obviously, other than the terms of the notes would
19 be different.

20 MR. DECHIARA: I'd like to show the
21 witness what was submitted to the panel as Company
22 Exhibit 6.

1 BY MR. DECHIARA:

2 Q Mr. Johanning, have you seen Company
3 Exhibit 6 before?

4 A Yes, I have.

5 Q What's your understanding of what Company
6 Exhibit 6 is?

7 A It is Delta's valuation of the ALPA
8 proposal.

9 Q I'd like to refer you to one particular
10 line on this costing. It's the line that says
11 "additional DC contribution." It's about two-thirds
12 of the way down on the left under -- it's the item
13 under "hard freeze DB plan." Do you see that?

14 A Yes, I do.

15 Q If you run your fingers across to the
16 numbers on that additional DC contribution item,
17 there are figures that, unlike all the other figures
18 on this chart, don't appear in parentheses. What
19 does that mean?

20 A It means basically they're positive
21 numbers, or in this case they're expense increases
22 rather than expense savings.

1 Q Okay. To what extent do you think it's
2 appropriate for the company in this costing of
3 ALPA's proposal to have included those positive
4 numbers from additional DC contributions?

5 A Well, actually, I don't think it's
6 appropriate. I actually think it's misleading.

7 Q Why do you say that?

8 A Well, the DC contribution under ALPA's
9 proposal is an offset to the savings from the DB
10 plan termination, and nowhere in this document do
11 you see the savings from terminating the DB plan.

12 Q So the company included the offset but not
13 the savings?

14 A Correct.

15 Q Let's now turn to page 14 of your slides.

16 A This is again similar to what we did for
17 the company's proposal. It's the 2007 numbers that
18 the benefits that Delta will receive under ALPA's
19 proposal. And again starting at the left-hand side,
20 you have benefits from pay benefit work rule
21 reductions of \$132 million in '07, then you have
22 some of the additional benefit items in '07, which

1 is just about \$3 million, which gets you up to \$145
2 million.

3 Next item would be the increase in
4 additional small jet revenue, which in '07 is
5 actually zero. This is again based on the company's
6 projections. They wouldn't exceed their current
7 limit, so there is no additional revenue to be
8 credited to ALPA for that.

9 Q I would just ask you, when you go through
10 these slides, the panel and counsel have these
11 numbers. I would just not mention that particular
12 item.

13 A Okay.

14 Q So preserve confidentiality.

15 A Then the next item would be the net DB
16 termination expense savings. Again, this would be
17 the savings from terminating the qualified and
18 nonqualified plan, offset by the DC contributions
19 interest on the note.

20 Then the final one on top of the green is
21 then adding in all the other savings that the
22 company would recognize if the plan were not -- if

1 the plan were to terminate, meaning that the
2 avoiding of the lost revenue from having to cancel
3 flights because of early retirements.

4 Q And these numbers are for 2007?

5 A Correct.

6 Q Did you do an analysis of a four-year
7 average?

8 A Yes, I did. That would be the next slide,
9 again the exact same bars but now using the
10 four-year average numbers for each of the various
11 components.

12 Q What is ALPA's analysis of the annual
13 savings that the company would realize under ALPA's
14 proposal?

15 A The grand total is \$379 million.

16 Q What's your understanding of what the
17 company says it needs in terms of annual savings
18 from the pilots?

19 A 305 million.

20 MR. DECHIARA: I have no further questions
21 on direct.

22 MR. GALLAGHER: May I have some time,

1 Mr. Chairman?

2 MR. BLOCH: Sure. How much time do you
3 need?

4 MR. GALLAGHER: Half hour.

5 MR. DECHIARA: I'm sorry. Once again, I
6 would move the admission of Mr. Johanning's slides.

7 MR. GALLAGHER: No objection.

8 MR. BLOCH: All right. They will be
9 admitted. Thank you.

10 (ALPA Exhibit 50 received.)

11 MR. BLOCH: And you say 30 minutes?

12 MR. GALLAGHER: Yes, Mr. Chairman.

13 MR. BLOCH: Let's take a break and
14 reconvene at about 3:35, 3:40.

15 (Recess from 3:09 to 3:47 p.m.)

16 MR. BLOCH: Mr. Gallagher.

17 MR. GALLAGHER: Thank you, Mr. Chairman.

18 CROSS-EXAMINATION

19 BY MR. GALLAGHER:

20 Q Mr. Johanning, are you a CPA?

21 A No, I'm not.

22 Q All right. Are you familiar with

1 generally accepted accounting principles?

2 A Generally familiar, yes.

3 Q All right. Your MBA included some

4 accounting courses, I presume?

5 A Yes, it did.

6 Q Page -- the first full page of your

7 slides, the cost savings from Delta's February

8 27, '06 proposal do you have that in front of you?

9 A Yes, I do.

10 Q Your -- this page assumes the termination

11 of the defined benefit plan, does it not?

12 A Yes, it does.

13 Q Okay. Now, I'm going to show you a

14 document marked for identification as Company

15 Exhibit 95.

16 (Company Exhibit 95 identified.)

17 BY MR. GALLAGHER:

18 Q If you can just let me know when you've

19 finished, when you've had a chance to review it.

20 (Witness reviewed the document.)

21 A Okay.

22 Q Have you seen this document before?

1 A Yes, I have.

2 Q What is it?

3 A It's a summary that the company provided
4 to ALPA that showed the savings from the company's
5 proposal to changes to various benefit.

6 Q Is that the same category of benefits that
7 you show on the bottom line just above the total
8 line on page 1 of your slides?

9 A Yes, it is.

10 Q Okay. And was this given to you on or
11 about the 29th of September '05?

12 A That sounds about right, yes.

13 Q Okay. And in this document, the company
14 costed each year over five years of the various
15 benefits items listed there; correct?

16 A Correct.

17 Q And the company totalled, in round
18 numbers, \$70 million; correct?

19 A Yeah, on average, yes.

20 Q Now, included in that 70 million, the
21 middle item, third one from the top, do you see the
22 \$18 million item per year?

1 A Yes.

2 Q What is that?

3 A That's savings associated due to the
4 elimination of the 401(k) match.

5 Q And that was a company proposal, to
6 eliminate the 2 percent 401(k) match for pilots;
7 correct?

8 A Correct.

9 Q And the company was crediting \$18 million
10 of savings?

11 A Yes.

12 Q All right. For that item. Now,
13 subsequently, I believe you said after the company
14 gave ALPA an alternative proposal contemplating
15 defined benefit plan termination, there was no
16 change in the company's proposal to ALPA -- no other
17 change; is that right?

18 A I believe I said that, yes.

19 Q Is that still correct?

20 A I'm trying to remember. I don't know
21 exactly when the elimination of the 401(k) sort of
22 became contingent on the DB plan.

1 Q Okay. But you do agree with me that as of
2 now, you understand that the company's proposal is
3 that if the DB plan terminates, the company would
4 retract its proposal to eliminate the 401(k) match?

5 A I believe that's correct, yes.

6 Q All right. So if we retract that savings
7 from Exhibit 95, the approximately \$70 million
8 savings valuation for benefits would go down to
9 approximately \$52 million, would it not, on average
10 over either four or five years?

11 A Yeah. That would be the math, yes.

12 Q All right. And do you know what the
13 company's accounting year is for its benefit plans?

14 A Well, I don't know the company's -- I know
15 the company's general accounting is on a calendar
16 year. As far as benefits, I believe they have a
17 measurement that's end of September.

18 Q End of September. And how much lead time
19 does it take to implement a benefits plan change?

20 A I couldn't answer.

21 Q All right. Does termination of a plan --
22 an ERISA-covered plan, require at least 45 days

1 advance notice to the participants?

2 A You're asking me questions beyond my
3 expertise.

4 Q Okay. All right. If the benefits plan
5 year for GAAP accounting purposes is measured ending
6 9/30, how much savings would there have to be within
7 the measurement year in order for that to be
8 material in order to be recognized on the financial
9 statements?

10 A Again, I couldn't answer.

11 Q Now, when the company had earlier
12 included '06 savings for benefit plan changes, they
13 started including those savings when they made their
14 proposals in 2005; correct?

15 A Correct. It was included from their
16 September 12 proposal onward.

17 Q All right. So in September 5 they -- in
18 September they contemplated that the proposals would
19 be implemented at some point before '06 and that the
20 savings would therefore be realized in '06; correct?

21 A Yeah. I'm not sure exactly when the
22 company thought these things would be implemented,

1 but yeah, they were recognizing the savings in '06.

2 Q But time has passed; correct?

3 A Yes.

4 Q And the savings in '06 will not be as

5 much; correct?

6 A Yeah, because as savings -- as changes get

7 implemented later, yes.

8 Q Okay. Now, if you would turn to page 2 of

9 your slides. You talked about eliminating the

10 rotation guarantee. Do you recall that testimony on

11 direct?

12 A Yes.

13 Q Is it your understanding that the company

14 has proposed to completely eliminate rotation

15 guarantee?

16 A I believe that's our understanding, yes.

17 Q All right. So if a pilot has a trip that

18 is canceled, the entire trip is canceled, you

19 understand the company's position to be he gets no

20 pay protection?

21 A That's my understanding, yes.

22 Q All right. And if that understanding were

1 incorrect, these numbers would change; is that
2 right?

3 A Potentially, yeah. I mean, I'd have to do
4 the analysis at that point. But potentially, yes.

5 Q Have you discussed with anyone from the
6 company the difference in costing, your costing
7 versus the company's, on the rotation guarantee?

8 A Yeah, we've asked the company, and their
9 response has been that there is no savings
10 associated to that.

11 Q Do you know what is included in the item
12 on page 1 under "change work rules, duty rigs and
13 credit application"?

14 A I believe those changes are from what the
15 company has listed, from the exhibits the company
16 has previously provided to us, I believe they were
17 due to changes in duty periods, trip rigs, I think
18 minutes under and I think duty period average.

19 Q And you don't think there's anything in
20 there from a rotation guarantee?

21 A No, because the company has never
22 indicated that it included that in there.

1 Q Okay. And that's been specifically
2 discussed?

3 A Yeah, I believe the company -- we've asked
4 them, and they have -- they have never said it's
5 part of the duty -- duty and trip rig changes, the
6 work rule changes. It's just that there is no value
7 to it.

8 Q The PBS -- on page 2, the PBS staffing
9 furlough protection, do any other carriers have that
10 furlough protection?

11 A I don't know.

12 Q But as I understand it, there is a
13 requirement under section 1 j-2 that before any
14 pilot can be furloughed, the cap of monthly hours
15 flown must be reduced -- monthly credit hours must
16 be reduced to 75 hours for three consecutive months.
17 Is that consistent with your understanding?

18 MR. SIMON: Objection. If there's a
19 referral to a technical provision of the agreement,
20 as technical as that, I suggest the witness be shown
21 the agreement, rather than play some mousetrap game.

22 MR. GALLAGHER: There is no mousetrap

1 here.

2 MR. SIMON: Good. Then give him a copy of
3 the agreement.

4 MR. GALLAGHER: It's a predicate.

5 BY MR. GALLAGHER:

6 Q Do you have an understanding?

7 A I have a general understanding. Now, if
8 you're going to ask me for a specific detail like
9 that, I'd have to look back at the contract.

10 MR. BLOCH: Let's do that.

11 MR. GALLAGHER: Let's get the contract.

12 BY MR. GALLAGHER:

13 Q While we're waiting for that, I'll ask the
14 next question.

15 The 90-day furlough notice provision, do
16 you see that?

17 A Yes.

18 Q That one is a little less opaque; correct?

19 A I think so, yes.

20 Q All right. And you suggest a credit of
21 \$2.5 million for that; is that right?

22 A Correct.

1 Q And the -- now, if there are no furloughs
2 at all, then there is no savings; correct?

3 A If you're assuming that there are no
4 furloughs, and that's a guarantee, then yeah, there
5 are no -- then the company would not save anything
6 from this provision.

7 Q And you know that the company's business
8 plan projects no furloughs of pilots, indeed they
9 project after two years recalling furloughees and
10 then moving on to hire in the future; correct?

11 A If you're asking me to base my costing on
12 company projections and guarantee that that would
13 happen, I would have a difficult time -- if the
14 company is willing to guarantee that they will have
15 no furloughs, then I believe we can probably have
16 zero dollars there. But this is an item the company
17 has continually asked for so there must be a reason
18 that the company wants this item as part of their
19 proposal.

20 Q There is. There is. Because if those
21 provisions were in place --

22 MR. DECHIARA: Objection. Counsel is

1 testifying.

2 MR. GALLAGHER: I think I can ask leading
3 questions on cross-examination, Mr. Chairman.

4 MR. BLOCH: Yes, you certainly may. I do
5 wonder why you're carrying on a Q&A with the
6 witness, but go ahead. I meant when he's asking the
7 questions.

8 (Laughter.)

9 BY MR. GALLAGHER:

10 Q Now, after 9/11, Mr. Johanning, do you
11 have -- do you understand that Delta and most other
12 airlines conducted rapid furloughs of pilots and
13 many other groups of employees?

14 A I believe that to be true, yes.

15 Q All right. And if they had to give 90
16 days' notice or meet a 75-hour cap for three months
17 in a row, would they be able to do that?

18 A Well, they would be able to do it. They
19 would just have to pay for that.

20 Q Okay. And there is a force majeure
21 clause, but it doesn't cover the price of fuel. So
22 if the price of fuel spikes dramatically, would

1 Delta be able -- with these provisions in place,
2 would Delta be able to furlough pilots immediately?

3 A No, not immediately. But again, the
4 five-year plan doesn't assume a spike in fuel.

5 Q Right. But in ALPA's testimony and
6 exhibits, there is a suggestion that if fuel prices
7 spike, the company could immediately reduce capacity
8 by 8.8 percent.

9 MR. DECHIARA: Objection. There's no
10 testimony or exhibits in the record on that point.

11 BY MR. GALLAGHER:

12 Q Assume for the moment, Mr. Johanning, that
13 in the event of a dramatic fuel price spike, the
14 company wanted to theoretically reduce its capacity
15 promptly by 8.8 percent. Could it do so with these
16 furlough protections in place?

17 A I guess it would be -- I guess it would be
18 what do you mean by promptly.

19 Q It couldn't do it for 90 days; correct?

20 A Under the current contract, no.

21 Q Now, I want to talk about the VEBA trust
22 for a minute. As I understand it, there is more

1 than a billion dollars in the VEBA trust; correct?

2 A Yeah, I believe the trust assets are 1.6

3 billion, give or take.

4 Q All right. And all of that money was

5 contributed to the trust by the company; correct?

6 A I don't know who made all the

7 contributions. I know it started out from the

8 pilots' pension plan changes back in the early '70s.

9 What the money was -- again, I don't know where all

10 the funding came from.

11 Q All right. And the purpose of that fund

12 is to pay disability and survivor benefits for

13 pilots; correct?

14 A That's my understanding, yes.

15 Q And right now it's substantially

16 overfunded; correct?

17 A I don't know if it's overfunded. I know

18 it's fully funded on an actuarial basis, assuming no

19 changes to disability rates, et cetera, that it's

20 self-sustaining on an ongoing basis. Whether it's

21 overfunded or not, I'd leave that to an actuary to

22 determine.

1 Q All right. Now, if the VEBA, for any
2 reason, ran out of cash tomorrow, the company would
3 be obligated to pay the disability and survivor
4 benefits; correct?

5 A I believe that's correct.

6 MR. SIMON: Is that a commitment under
7 Chapter 11 as well, Jack, given the fact that the
8 company stopped funding pension payment and paying
9 unqualified payments, is the company stating that if
10 it ran out of money during Chapter 11, the company
11 would make contributions?

12 MR. BLOCH: Sustained.

13 (Laughter.)

14 BY MR. GALLAGHER:

15 Q So I want to make sure I understand the
16 difference between cash and expense on this issue,
17 Mr. Johanning.

18 A Okay.

19 Q My understanding is that the company
20 proposal is to have this trust pick up the cost of
21 sick leave, and that that would be a cash
22 expenditure from the trust. Is that your

1 understanding?

2 A Yes, they want to pay the sick expense out
3 of the VEBA or the D&S trust, yes.

4 Q But the company would retain the
5 obligation to pay the disability and survivor
6 benefits, would it not?

7 A I don't know if I've seen a proposal one
8 way or the other on that. So I don't know.

9 Q You haven't seen any proposal to eliminate
10 the disability and survivor benefits, have you?

11 A Not that I'm aware of, no.

12 Q But you would agree with me that what the
13 company is proposing to do is to use cash from the
14 VEBA trust to pay the sick leave benefit that is
15 preexisting under the contract?

16 A Yeah, but again, you have to remember that
17 along with that cash savings is also an expense
18 savings for the company as well.

19 Q But the company still has the expense,
20 does it not?

21 A My understanding is it would not have the
22 sick expense, because it literally has to state that

1 sick expense is no longer an obligation to the
2 company.

3 Q We'll revisit that. Now I'd like to turn
4 to page 3. Is it my understanding that the thrust
5 of page 3 is that we should credit ALPA with the net
6 revenue gain of 126 million?

7 A The net revenue gain that's attributable
8 to changes in the pilot's current scope clause, yes.

9 Q All right. And you know that the
10 company's business plan has \$1.1 billion of revenue
11 enhancements already factored in, do you not?

12 A Yes.

13 Q And you understand that the company has
14 counted in that 1.1 billion the revenue enhancement
15 that would come from larger jets for commuter
16 carriers?

17 MR. DECHIARA: Objection. I believe that
18 misstates the testimony of the company witnesses. I
19 think the testimony was they did not know where they
20 would find all of that 1.1 billion and they did not
21 give a definitive answer as to whether or not that
22 would include this additional small-jet revenue.

1 BY MR. GALLAGHER:

2 Q Mr. Johanning, is it your understanding
3 that the company included in the 1.1 billion the
4 revenue enhancements that would come from increased
5 size of commuter jets with the regional carriers?

6 A Well, I know that the five-year projection
7 has a fleet plan in it that has 79-seaters in it and
8 has revenue buildup. Whether that was part of the
9 1.1 billion additionally or not part of the -- it's
10 hard to track that back, whether that's part of the
11 1.1 or not.

12 Q Okay. And if we gave ALPA dollar for
13 dollar credit for the revenue, then there wouldn't
14 be any net savings to the company, would there?

15 A Net savings? Well, we're asking for the
16 revenue.

17 Q Right.

18 A My understanding is without the
19 contractual change, the company couldn't get that
20 revenue, unless it was to fly -- unless it was to
21 fly the jets on the mainline, which the company is
22 free to do.

1 Q It's free to do that. Now, we agree this
2 is not a cost reduction, right; this is a revenue
3 enhancement?

4 A Correct.

5 Q Now, if we give the pilots credit for all
6 of the revenue, what do we give to the flight
7 attendants and the mechanics and the agents in terms
8 of their credit on the tally sheet of cost
9 reductions?

10 A I'm not aware they have any scope
11 restrictions that limit you one way or the other as
12 to what you do to them.

13 (Laughter.)

14 Q Okay. But the suggestion here is that we
15 give the pilots all of the credit?

16 A Because the pilots have negotiated this as
17 part of their contract.

18 Q Okay. Just wanted to make sure we
19 understand.

20 Now I want to turn to page 5. I've got a
21 lot of questions on page 5, because I want to make
22 sure I understand it correctly.

1 A Sure.

2 Q In footnote 2 it states that "this assumes
3 that all international captains take early
4 retirement at the end of 2006 and that, as a result,
5 the company would have to cancel all international
6 flights in the first quarter of '07 and 50 percent
7 of all international flights in the second quarter
8 of '07 due to a pilot shortage." Did I get that
9 right?

10 A Yeah.

11 Q Now, if that were to happen, Delta would
12 be out of business; correct?

13 A Delta would have a serious problem.
14 Whether it would lead to them filing chapter 7,
15 that's up to the company to decide. But it would
16 have serious repercussions on the whole company,
17 yes.

18 Q As you understand the company's current
19 financial condition, the company would go out of
20 business if that happened, would it not?

21 A Actually, the company has not said that.

22 The company has shown us --

1 Q I didn't ask you what the company said. I
2 asked you what your understanding is.

3 A I don't know if my understanding on this
4 is any better than the company's.

5 Q And what is your understanding?

6 A Well, that's what I was going to say, even
7 the company in their own scenario, they said it
8 would have severe impact, would affect '07 and '08,
9 but I don't believe their presentation to us ever
10 said that the company would go out of business.

11 Q Their presentation on what?

12 A This would be the 2/27 five-year
13 projection presentation they gave to us.

14 Q Because they said, as Mr. Parrack said,
15 that plan termination is likely on or about
16 September 30 of '06; correct?

17 A Yes.

18 Q Okay. And that is because that rush of
19 early retirements would create an unsurmountable
20 financial burden in terms of plan funding; correct?

21 A I don't know -- a large, I guess,
22 liquidity shortfall of roughly 1.12 billion in '07

1 that the company would have to fund.

2 Q And there is no foreseeable way that the
3 company could fund that, to the best of your
4 knowledge, is there?

5 A Not that I'm aware of.

6 Q All right. So you agree with me that it's
7 entirely unlikely, then, that we'll have that 800 --
8 rush of 800 early retirements?

9 A Well, if the plan terminates, you wouldn't
10 have that, correct.

11 Q And then we won't have the increased
12 training costs either, will we?

13 A Correct.

14 Q Okay. But nonetheless, on this page
15 you're suggesting that ALPA receive credit for the
16 lost operating income avoided and for the increased
17 training costs; is that right?

18 A Yes, as the slide says, this is all
19 benefits the company receives from having the plan
20 terminate.

21 Q And the benefit is that 800 pilots don't
22 get to retire early?

1 A That's one of the benefits.

2 Q And therefore, there's more assets left in

3 the plan, and therefore, there's no crisis, no

4 staffing crisis for international flying?

5 A Well, I don't know about the assets of the

6 plan. But yeah, if the pilots don't retire early,

7 then I'm assuming that the operation would go forth

8 as the company has projected in their plan.

9 Q Okay. Let's go down to the last item, the

10 return on avoided cash contributions. That's the

11 \$1.2 billion, correct, the 1.29?

12 A Yeah, it's 1.2 in '07 and then there's

13 additional cash contributions going forward.

14 Q So you're assuming interest income on that

15 cash; correct?

16 A Yes.

17 Q All right. Now, if the company doesn't

18 have the cash, will it get the interest income?

19 A They don't have the cash -- I guess no, if

20 they don't have anything to invest, then they would

21 not receive -- get that.

22 Q Indeed, under your scenario, to have -- to

1 do the funding, they would have to borrow the money,
2 and it would be a cost rather than an interest
3 benefit; correct?

4 A Where the company -- like I said, so this
5 is to show that the company wouldn't have to borrow
6 that money, and therefore, that's the benefit to the
7 company of not having to find \$1.2 billion.

8 Q If they had it.

9 A If -- well, like I said, this would be for
10 them not having to do it.

11 Q In footnote 1, in the second sentence it
12 says, "does not consider the effect of any reversals
13 of previously accrued expenses nor the impact of
14 additional expenses due to plan termination."

15 Let me break that in two parts. "Does not
16 consider the effect of any reversals of previously
17 accrued expenses." What does that mean?

18 A Well, throughout all of '06, as up through
19 now, the company is accruing expenses for the
20 pilots' pension plan, both qualified and
21 nonqualified. And to the extent that the plan
22 terminates, the company may be able to reverse some

1 of those previous accounting entries.

2 Q Okay. So even today, even though it's not
3 contributing cash to the pilot plan, it is accruing
4 accounting entries for expense attributable to the
5 pilot defined benefit plan; correct?

6 A That's my understanding, yes.

7 Q And that's consistent with generally
8 accepted accounting principles, is it not?

9 A I believe it is, yes.

10 Q All right. And if the plan is terminated,
11 your understanding is that there would be some
12 reversal of those expenses?

13 A There may be some. Basically, because the
14 company has been accruing expenses but they haven't
15 put any cash in. So it may be the fact that if the
16 company never has to put any more cash in if the
17 plan terminates, they may be able to reverse some of
18 the previous accruals, not just for '06 but
19 potentially for other years as well.

20 Q The other part of that sentence is "the
21 impact of any additional expenses due to plan
22 termination." What does that reference?

1 A Again, that references, these are more
2 sort of general, not necessarily would they apply to
3 Delta, but more general in the fact that, again, if
4 a plan terminates, there may be an additional
5 expense or the company might have to recognize due
6 to plan termination.

7 Q All right. What about the additional 6
8 percent defined contribution that ALPA has proposed?
9 Would that being part of that?

10 A That would be -- well, under our -- you
11 see that's broken out separately, so that would not
12 be part of the reversals or additional expenses,
13 that are -- purely the accounting was due to the
14 plan termination, regardless of what happens
15 subsequently with notes or DC plans.

16 Q Okay. But ALPA's proposal does include an
17 additional 6 percent on top of the 9 percent defined
18 contribution plan; correct?

19 A Yes.

20 Q And I believe you value that elsewhere in
21 this package at \$49 million a year; is that right?

22 A Yeah, that sounds about right on average.

1 Q All right. And the company has proposed a
2 note to be issued to the benefit of the pilots for
3 \$330 million at market rate interest. Is that your
4 understanding?

5 A Yes.

6 Q And where is the cost of that note
7 reflected on this page?

8 A It's under the four-year average.

9 Q And what interest rate did you assume for
10 that?

11 A I assumed 8 percent.

12 Q All right. And are you aware that the
13 company has suggested that 10 percent would be
14 closer to the current market rate?

15 A I have. I based my number based on what
16 we projected United's to be when they exited
17 bankruptcy, and which I don't know if they have
18 already had that -- if the note has been issued or
19 not. But around the time we're thinking about 7 and
20 three-quarters percent or so, so rounded up to 8.

21 Q Would you agree with me that today Delta's
22 cost of borrowing is at least 10 percent or more?

1 A I don't know.

2 Q Okay. And would you agree with me that 10
3 percent is a fair proxy for market rate today?

4 A Again, I'm -- I'm not a banker, so I'm not
5 sure.

6 Q All right. Would you agree with me that
7 if the interest rate were 10 percent rather than the
8 8 percent you have assumed, the interest on the note
9 would be more expensive than you have reflected
10 here?

11 A Yes.

12 Q And, indeed, at 10 percent, it's an easy
13 mathematical proposition that the interest would be
14 \$33 million per year; correct?

15 A Per year but not for the four-year
16 average.

17 Q Because it wouldn't kick in until sometime
18 in '07?

19 A More likely '08.

20 Q Okay. And then for '08 and '09, for
21 purposes of this agreement, it would be \$33 million
22 per year, correct?

1 A Correct.

2 Q Now, under the four-year average column
3 for the nonqualified plan expense, I believe you
4 were in the room when Mr. Parrack testified, were
5 you not?

6 A Yes, I was.

7 Q You have a \$65 million four-year average
8 number.

9 A Uh-huh.

10 Q What's the source of that number?

11 A I believe the original source of the
12 number was actually from the company, where they
13 provided us the number for '06 for the qualified
14 plan of \$80 million. And then based on our
15 understanding of how non -- how nonqualified plan
16 expense recognition works, is that that number is
17 fairly -- is fairly flat, it doesn't really
18 fluctuate.

19 So we just carried that number forward.

20 We have asked the company on several
21 occasions to provide us with their projected
22 numbers. To date we have not received that

1 information.

2 Q All right. Well, footnote 1 says after
3 the first clause, says "nonqualified savings from
4 ALPA projections." Did I read that correctly?

5 A Yes, you did.

6 Q So that's that nonqualified savings is the
7 \$65 million number; correct?

8 A Yeah, the four-year average, yes.

9 Q So the footnote says it's an ALPA
10 projection of 65 million, does it not?

11 A Yes.

12 Q All right. And what you -- I think -- I
13 want to make sure what you just told us is that the
14 company gave you an '06 number and you assumed that
15 that '06 number would continue in the out-years; is
16 that right?

17 A That's correct, because we've never
18 received anything contrary from the company.

19 Q All right. And the expense savings that
20 you reflect for all of the defined benefit plan
21 termination, that's savings that are attributable
22 both to the currently active pilots and to the

1 currently retired pilots; correct?

2 A It says what it says. It says qualified

3 and nonqualified plan expenses.

4 Q But it's -- that expense is attributable

5 both to people who are already retired and to people

6 who are currently working; correct?

7 A What portion applies to whom, I don't

8 know.

9 Q But both are included, are they not?

10 A I can't -- I can't answer.

11 Q Is this the expense, the entire expense,

12 for the plan?

13 A It's for which, for the qualified piece or

14 the nonqualified?

15 Q For the pilot defined benefit plan. Each

16 piece is listed separately here.

17 A Yeah, some of those is based on -- like I

18 said, the qualified plan is straight from the number

19 we got from the company, and the nonqualified was

20 our projection. So that would be the total expense.

21 Q The total expense for all plan

22 participants -- is it your understanding that

1 includes both active pilots and retired pilots?

2 A Like I said, I'm not 100 percent certain

3 on that.

4 Q Okay. On page 9 of your slides on ALPA's
5 proposal, you have indicated that ALPA has proposed
6 to remove the 90-day furlough notice provision and
7 allow furloughing without need to meet specified
8 staffing requirements.

9 A I believe both of those provisions are
10 contingent on agreement on the 79-seat jets to be
11 flown at the mainline.

12 Q So neither both of those are contingent
13 proposals; is that right?

14 A Correct.

15 Q Now, turning to page 11, when you looked
16 at these various markets that are now flown by DCI
17 carriers, did you happen to look at the load factors
18 on mainline service in any of those markets?

19 A No, this is done purely by looking at the
20 OAG, the schedule filed.

21 Q So did you happen to look at
22 profitability? Do you know if any of these markets

1 was profitable in mainline service?

2 A I've never seen any route-by-route

3 profitability that the company has provided us so --

4 Q Okay. And have you looked at any of the

5 DOT data on yields and fair levels in these markets?

6 A No, I have not.

7 Q Okay. So you don't know whether any of

8 them were profitable in mainline service or were a

9 big drain on profitability?

10 A No, I do not.

11 Q All right. Do you know if -- what Delta

12 did with the mainline aircraft when it substituted

13 DCI service on these routes?

14 A No.

15 Q Okay. Would it surprise you to learn they

16 were moved elsewhere and expanded longer haul

17 domestic flying?

18 A No, I'm sure they moved some and now under

19 the current restructuring, I believe they're parking

20 some of those as well.

21 Q Would it surprise you to learn that

22 Cincinnati to Little Rock had a 27-percent load

1 factor?

2 A If that's what you're saying, then -- I

3 can't -- I can neither confirm nor deny that fact.

4 MR. DECHIARA: I would just object to --

5 late, but I'll object to that question, as assuming

6 facts not in evidence.

7 MR. BLOCH: Well, I agree. If it becomes

8 an issue, it should be supported by direct evidence.

9 The question is whether the witness was surprised.

10 (Laughter.)

11 BY MR. GALLAGHER:

12 Q If you'd go to slide 12, Mr. Johanning,

13 ALPA's proposal, as I understand it, is that the

14 pilots would receive half of the savings from DB

15 plan termination; is that right?

16 A Yes.

17 Q And part of that would be used to fund the

18 6 percent DC contribution, additional 6 percent, and

19 that would be \$49 million per year; correct?

20 A That's correct.

21 Q What would be the value of the note under

22 ALPA's proposal?

1 A Well, it would depend on what the interest
2 rate is at the time when the notes are issued.

3 Q Well, the company has proposed or
4 suggested if we use the company's 10 percent rate,
5 what would be the value of the ALPA note?

6 A Again, it would also depend, I think, on
7 what -- I think ALPA's proposal is for a convertible
8 note as well. So I believe there's different
9 interest -- lower interest rates on convertible
10 notes than there are on just regular notes, if you
11 will.

12 Q All right. Well, what is the value --
13 what is the face value or the range of face value
14 for the ALPA note?

15 A Well, like I said, it would depend on what
16 the note is, whether it's convertible or not and
17 what the features of the convertibility are, as well
18 as then what the market price would be in '07.

19 Q All right. Well, we know the interest
20 rate will float with the market. For discussion
21 we're going to assume that's 10 percent. And assume
22 for the moment that it's not a convertible note,

1 it's just a straight note. What is the value of
2 ALPA's proposed note?

3 A Again, if you're going to assume it's 10
4 percent and you're assuming an average interest on
5 the note of 47, it would be \$470 million would be
6 the math. Again, I'm doing this off the top of my
7 head without a calculator.

8 Q And how do you get to 470 million, can you
9 tell us?

10 A Well, if the interest on the note per year
11 is \$47 million or so on average.

12 Q And where do you get that?

13 A I'm looking at the four-year average. And
14 again, so the interest may be a little bit higher,
15 because that's a four-year average, in '07.

16 Like I said, it's hard for me -- I don't
17 have the number before me that gives me the run rate
18 of the interest rate that we're assuming here, so I
19 would have to go back and actually look that up to
20 make sure I'm using not the average interest rate,
21 which is obviously skewed by the fact that there is
22 no interest expense in '06 and only partially

1 in '07. So I'd have to go back and see what the
2 average would be.

3 Q All right. So are you taking that 47
4 million number from page 13?

5 A Yes.

6 Q That is the return on avoided cash
7 contributions?

8 A No, I'm using the four-year average under
9 net expense savings, interest on note. I'm using
10 that 47.2.

11 Q Right. That's the interest.

12 A And so I'm assuming, if my math is right,
13 if that represents a 10 percent interest, then the
14 face value would be \$470 million.

15 Q All right.

16 A At least I think that's the right math.

17 Q So ALPA's proposal is the 6 percent
18 defined contribution plan for \$49 million and \$47
19 million a year of interest on a \$470 million note;
20 is that right?

21 MR. DECHIARA: Objection, objection. The
22 testimony was -- the witness was using counsel's

1 hypothetical as the interest rate.

2 THE WITNESS: And assuming various things.

3 ALPA has never --

4 MR. HARRIS: Just don't say anything.

5 THE WITNESS: Okay.

6 MR. HARRIS: For the moment.

7 MR. BLOCH: Do you want to rephrase your

8 question, Mr. Gallagher?

9 MR. GALLAGHER: Yes.

10 BY MR. GALLAGHER:

11 Q With the assumptions that we've been
12 talking about, Mr. Johanning, assuming the market
13 rate interest is in the area of 10 percent, ALPA's
14 proposal would yield a face value of the note of
15 \$470 million; correct?

16 A Under your assumptions, yes.

17 Q And both the additional \$49 million in
18 defined contribution, that would be cash payable
19 each year, would it not?

20 A I'm not sure, I believe our latest
21 proposal -- I believe one of our proposals has it
22 accruing but not necessarily payable until exit of

1 bankruptcy. I'd have to go check my notes on that.

2 Q The additional 6 percent?

3 A The additional 6 percent would be accrued

4 but not necessarily payable until upon exit of

5 bankruptcy but I'd have to go check my notes on the

6 specifics.

7 Q And the interest on the note would be

8 cash, would it not?

9 A Again, I'd have to look at our final

10 proposal, because I can't remember whether we have

11 an in-kind or cash, stock option to pay those.

12 Q But would you agree with me that the

13 expense savings that you show on page 13 under "net

14 expense savings" are accounting entries, they are

15 expenses, they are not cash?

16 A The ones under the net expense savings,

17 yes.

18 Q And on page 13, what assumptions did you

19 use in arriving at the \$47.2 million in annual

20 interest expense?

21 A Again, it was based on the first piece

22 being the 6 percent defined contribution, and I knew

1 what the value of that was, and then I was looking
2 at the savings from plan termination, which is the
3 qualified plan expense, the nonqualified plan
4 expense and the interest due to avoidance of not
5 having to put in the \$1.2 billion in cash.

6 Q I'm sorry, I don't understand that. Can
7 you walk me through it?

8 A Yeah. Well, I guess to -- what happens is
9 if the company had -- if the company were putting in
10 the \$1.2 billion in cash, the plan would assume a
11 9-percent return on those assets. Those returns on
12 those plan assets are actually used to reduce the
13 qualified plan expense.

14 So for the number here, the 40 hours or
15 52.9 is really a reduction because of the \$1.2
16 billion that's returning interest to the company.
17 So this is a way to get the 1.2 billion sort of onto
18 the P&L.

19 Q Let me try it again. The \$49 million, I
20 understand that's a 6-percent defined contribution
21 to plan; correct?

22 A Correct.

1 Q And the interest on the note I now
2 understand, depending on interest rate assumptions,
3 but what other assumptions did you use to arrive at
4 what -- those are two things that ALPA gets under
5 its proposal; correct?

6 A Yes.

7 Q And what is -- how do you derive that ALPA
8 should get a total of 49 plus 47, \$96.2 million, of
9 benefit each year from -- what's the predicate for
10 that?

11 A Again, it's from -- it's a savings to the
12 company really just from plan termination.

13 Q And where is that number shown, that --

14 A Again, it's a qualified plan expense, it's
15 the nonqualified plan expense, as well as the
16 interest income on the \$1.2 billion.

17 Q All right. If I add the 49.0 and 47.2, I
18 get 96.2; correct?

19 A Yes.

20 Q And you're suggesting that that is somehow
21 related to 52.9, 65.0 and 74.4; correct?

22 A Correct, yes.

1 Q All right. So what do I do? I add those

2 up?

3 A Uh-huh.

4 Q And if I take -- I'm sure some whiz in the

5 audience will beat me to this, since math is not my

6 strong suit. 192.3.

7 A Yeah, that sounds -- yeah, that looks

8 about right.

9 Q And -- all right. So you're totaling

10 those three items, including the interest income on

11 \$1.2 billion.

12 A Uh-huh.

13 Q You're saying that's what the company

14 saves. Therefore, the pilots are entitled to half

15 of that. How did you decide on half?

16 A Are you asking me negotiating strategy?

17 Q No, I'm asking you quantitatively, why

18 half?

19 A It seemed like a reasonable number.

20 Q Okay. But it could just as well been a

21 third or three-quarters?

22 A I suppose so.

1 Q It wasn't predicated on half of the
2 savings being attributable to actives versus
3 retirees?

4 MR. DECHIARA: Let me just raise an
5 objection. It's not clear from counsel's question
6 whether he's inquiring as to how did ALPA's
7 negotiating committee decide on requesting half or
8 whether he's asking something else.

9 If he's asking the former -- or if he's
10 asking how the negotiating committee arrived at
11 asking for half the return on the termination
12 savings, then that would go to negotiating strategy,
13 and we would object to an inquiry on those lines.

14 MR. GALLAGHER: I am certainly not
15 inquiring about ALPA's negotiating strategies,
16 Mr. Chairman.

17 MR. BLOCH: I think the question was
18 clear. It was just whether the witness knows how
19 they arrived at half.

20 BY MR. GALLAGHER:

21 Q Is there a factual predicate or an
22 accounting predicate that you're aware of,

1 Mr. Johanning, for arriving at one half?

2 MR. DECHIARA: Let me pursue this

3 objection. I think there's a misunderstanding here.

4 ALPA's proposal asks for half.

5 THE WITNESS: Yes.

6 MR. GALLAGHER: All right.

7 BY MR. GALLAGHER:

8 Q But is that in any way related to the

9 share of savings or benefits attributable to active

10 pilots versus retired pilots?

11 A To the extent that was considered, I don't

12 know.

13 MR. GALLAGHER: If I may have a moment of

14 the chair's indulgence, Mr. Chairman.

15 MR. BLOCH: Surely.

16 BY MR. GALLAGHER:

17 Q Now, I think, Mr. Johanning, that on your

18 direct testimony you said that in all of your

19 numbers in this analysis, you were trying to be

20 fairly conservative. Is that still true?

21 A In the lost operating income avoided, I

22 believe I made that statement.

1 Q And according to my notes, but I may have
2 misunderstood, you stated that there was no change
3 to the company proposal when the company agreed to
4 discuss termination of the defined benefit plan. Is
5 that still your testimony?

6 MR. DECHIARA: I would object. I think
7 that misconstrues his testimony but --

8 MR. GALLAGHER: That's what I'm asking,
9 Mr. Chairman. I'm asking the witness to clarify.

10 MR. BLOCH: Please clarify it if you need
11 to do so.

12 THE WITNESS: I'd have to take a look at
13 exactly what I said, but prior --

14 MR. SIMON: Traditionally, if a witness is
15 asked about prior testimony, counsel points to the
16 point in the transcript that is being tested. And
17 since we have this remarkable new device available
18 to us, may I respectfully suggest that we follow
19 traditional --

20 MR. GALLAGHER: My traditions are
21 different from Mr. Simon's, Mr. Chairman, but I can
22 rephrase the question, to avoid the problem.

1 BY MR. GALLAGHER:

2 Q Mr. Johanning, would you agree with me
3 that you now understand that when the company agreed
4 to present a proposal that contemplated termination
5 of the pilot defined benefit plan, the company also
6 agreed to keep the 401(k) match at 2 percent and
7 added a note payable to the pilots?

8 A Not initially, no.

9 Q Is it your understanding that that is now
10 what the company's proposal is?

11 A Well, as far as the note, I believe that
12 proposal happened quite a time before any discussion
13 of the 401(k). I believe the note was discussed
14 even prior to any five-year plan being announced.

15 MR. BLOCH: But I think the question was
16 your understanding of how it now stands.

17 THE WITNESS: How it now -- again, as it
18 now stands, the company has said that if the DB plan
19 terminates, then the 401(k) would -- they would
20 withdraw their offer to have the 401(k) terminated.

21 BY MR. GALLAGHER:

22 Q And the company would extend a \$330

1 million note at market interest rates; correct?

2 A That's the current proposal, yes.

3 Q All right. Now, going back to page 13, do

4 you have that in front of you?

5 A Yes, I do.

6 Q All right. Now, to get to a four-year

7 average of \$47.2 million interest on the note, I

8 believe you said the note would not be issued

9 in '06, so there would be no interest in '06;

10 correct?

11 A Correct.

12 Q And in '07, you say here \$11.8 million of

13 interest; correct?

14 A Correct.

15 Q So in order to have the four-year average,

16 then, work out to be 47.2, in 2008 and 2009, the

17 amount of interest would be \$88.5 million, would it

18 not?

19 A If that's the math, I guess that's

20 correct.

21 Q All right. And if the interest was \$88.5

22 million and the interest rate was 10 percent, the

1 face amount of the note would be \$885 million, would
2 it not?

3 A If the interest -- under your assumption,
4 yes.

5 Q Okay. And if the interest rate were 8
6 percent instead of 10 percent, the face amount of
7 the note would go up, would it not?

8 A Yes.

9 Q It would be over a billion dollars, would
10 it not?

11 A Yeah, without a calculator, I couldn't
12 tell you the exact number. But I know it would go
13 up.

14 Q That would be safe, would it not, over a
15 billion?

16 A I believe that's --

17 Q Ballpark?

18 A Yeah.

19 MR. GALLAGHER: Thank you. I have no
20 further questions, Mr. Chairman.

21 MR. DECHIARA: No questions on redirect.

22 MR. BLOCH: Thank you. Thank you very

1 much, appreciate your help, sir.

2 THE WITNESS: Thank you.

3 (Witness excused.)

4 MR. BLOCH: Off the record for a moment.

5 (Discussion off the record.)

6 (Recess from 4:40 to 5:01.)

7 MR. BLOCH: Back on the record. Ms. Gise,
8 welcome again.

9 MS. GISE: Thank you. I have spoken with
10 Mr. Gallagher about Exhibit 49, which was used in
11 Jack Parrack's testimony, specifically requested
12 information backing up slide 3 of Exhibit 49.

13 In reviewing slide 3, the information that
14 was requested, we did find an error in our slide,
15 and specifically, the breakdown for pilots 1, 2 and
16 3 was actually calculated on a defined benefit plan
17 termination date of July 1, 2005, rather than
18 September 30, 2006. So it would then not be
19 accurate for a termination date of September 30,
20 2006.

21 So what I have done is created a new slide
22 which I would like to mark as ALPA Exhibit 49-A.

1 And I will -- I've already provided it to
2 Mr. Gallagher, but I will now provide it to the
3 panel.

4 MR. BLOCH: I take it this would be
5 substituted as page 3 of that exhibit; is that
6 right?

7 MS. GISE: No, actually, we're going to
8 keep Exhibit 49 with the old Exhibit 3 and my
9 explanation will serve to clarify the record.

10 MR. BLOCH: Fair enough.

11 MS. GISE: So this is ALPA Exhibit 49-A.

12 (ALPA Exhibit 49-A identified.)

13 MR. GALLAGHER: Is this one page?

14 MS. GISE: It's a one-page document. And
15 then I'm going to get to 49-B.

16 In addition, we have created a new slide,
17 which I would like to have marked as ALPA Exhibit
18 49-B.

19 (ALPA Exhibit 49-B identified.)

20 MS. GISE: We have found a new pilot 1, 2
21 and 3 whose demographics with respect to age and
22 years of service and contractual defined benefit at

1 age 60 are roughly equivalent to the original pilots
2 1, 2 and 3, but with this group of pilots, we have
3 calculated it based on the impact of a September 30,
4 2006 defined benefit plan termination. So all the
5 data in this slide is also accurate. And I have in
6 addition provided the identities of all six pilots
7 to Mr. Gallagher.

8 So I'm now going to give the panel ALPA
9 Exhibit 49-B.

10 With that, I would move for the admission
11 of ALPA Exhibits 49, 49-A and 49-B.

12 MR. GALLAGHER: Well, we have agreed with
13 counsel, Mr. Chairman, that we need not bring
14 Mr. Parrack back at this time to simply explain the
15 change, but we still have to reserve until we have a
16 chance to look at these pilots and their underlying
17 data, which we will do, I hope, overnight. Perhaps
18 we need Mr. Parrack back and perhaps we don't.

19 But we'll advise counsel as soon as we
20 know the answer to that, with the understanding that
21 it's conditional on our right to review it further
22 with Mr. Parrack, I have no objection to them being

1 conditionally admitted.

2 MS. GISE: That's fine. Thank you.

3 MR. BLOCH: Very well. Thank you,

4 Ms. Gise.

5 My understanding is that will complete our
6 business for today, is that right, gentlemen? And I
7 think, then, let's go -- let's close the record for
8 today, and we will reconvene tomorrow morning at
9 9:30.

10 (Whereupon, at 5:06 p.m., the hearing was
11 adjourned, to be reconvened at 9:30 a.m., on
12 Tuesday, March 21, 2006.)

13

14

15

16

17

18

19

20

21

22

1	C O N T E N T S		
2	V O I R		
3	WITNESS	DIRECT CROSS REDIRECT RECROSS DIRE	
4	DONALD WYKOFF		
5	by Mr. Winston	1156	
6	by Mr. Gallagher	1162	
7	DONALD HUDSON		
8	by Mr. Dechiara	1167	
9	JACK PARRACK		
10	by Ms. Gise	1174	
11		1213	
12	by Mr. Gallagher	1241	1209
13	KYE JOHANNING		
14	by Mr. Dechiara	1259 1310	
15			
16	E X H I B I T S		
17			
18	NUMBER	IDENTIFIED RECEIVED	
19			
20	ALPA Exhibit 46	1155	1155
21	ALPA Exhibit 47	1156	1162
22	--continued--		

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22

E X H I B I T S (CONT'D)

NUMBER	IDENTIFIED RECEIVED	
--------	---------------------	--

ALPA Exhibit 48	1171	1173
ALPA Exhibit 49	1200	
Company Exhibit 94	1164	1166
ALPA Exhibit 50	1264	1310
Company Exhibit 95	1311	
ALPA Exhibit 49-A	1359	
ALPA Exhibit 49-B	1359	