

1 BEFORE THE  
2 NEUTRAL PANEL CONVENED PURSUANT TO LETTER #50  
3 Richard Bloch, Robert Harris, Fredric Horowitz,  
4 Neutrals  
5  
6 ----- x  
7 In re: :  
8 Delta Air Lines, Inc. :  
9 and :  
10 Air Line Pilots Association :  
11 International :  
12 ----- x  
13  
14  
15 Washington, DC  
16 Thursday, March 16, 2006  
17  
18  
19 REPORTED BY:  
20 CARMEN SMITH  
21  
22

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21 -- continued --  
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1 Arbitration on Thursday, March 16, 2006, in  
2 Washington, DC, at J.W. Marriott, 1331 Pennsylvania  
3 Avenue Northwest, Washington, DC 20004, at 9:40  
4 a.m., before CARMEN SMITH, a Notary Public within  
5 and for the District of Columbia, when were present  
6 on behalf of the respective parties:  
7  
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## 1 PROCEEDINGS

2 MR. BLOCH: I think we're ready to  
3 proceed.

4 MR. SPAN: I think we are for the  
5 cross-examination of Mr. Kasper.

6 MR. BLOCH: Mr. Simon.

7 MR. SIMON: Good morning. Perhaps just a  
8 preliminary matter. I know earlier we introduced  
9 the panel to Mr. Grinstein and Mr. Moak. I thought  
10 it would be appropriate also to acknowledge the  
11 presence at the hearing of the five members of the  
12 Delta board council, that's the "representative" of  
13 the nonunion employees of Delta, and also the  
14 representative of the official unsecured creditors  
15 committee, simply to acknowledge their presence in  
16 the room.

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

18 Whereupon,

19 DANIEL M. KASPER

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

1 section 1113 proceeding on behalf of management, did  
2 you not?

3 A I did.

4 Q And you testified for United in section  
5 1113 proceeding on behalf of management?

6 A That is correct.

7 Q And you testified for USAir in the second  
8 USAir case on behalf of management in its section  
9 1113 proceeding?

10 A Correct.

11 Q Have I missed any?

12 A No.

13 Q And in each of those cases, that is to say  
14 Northwest, United, USAir, you testified that the  
15 airline involved required substantial pay  
16 concessions from the employees involved; correct?

17 A That they were in economic distress and  
18 required concessions not only from their employees  
19 but also from their creditors.

20 Q Now, you were retained for the first time  
21 by Delta in mid-2004 in contemplation of a possible  
22 bankruptcy filing at that time?

## 1 CROSS-EXAMINATION

2 BY MR. SIMON:

3 Q Mr. Kasper, good morning.

4 A Good morning, Mr. Simon.

5 Q You're not just an expert witness but  
6 you're a professional witness, aren't you?

7 A Well, I think I try to carry myself in a  
8 professional manner, if that's what you mean.

9 Q No, something like 50 percent of your  
10 income is attributable to your service as an expert  
11 witness?

12 A I spend approximately 50 percent of my  
13 time doing expert analysis, and some of that results  
14 in expert testimony.

15 Q Isn't most of that reflected in expert  
16 testimony that you've given over the years? Would  
17 you characterize your earnings as you did in the  
18 Northwest hearing as attributable to approximately  
19 50 percent of your earnings?

20 A I think for the past several years, that  
21 has certainly been the case.

22 Q And you did testify in the Northwest

1 A Correct.

2 Q And you were retained to analyze the  
3 economics and competitive conditions in the airline  
4 industry in general, and Delta's relative position  
5 and prospects in particular?

6 A That is correct.

7 Q And did you perform that analysis?

8 A Well, I was in the process of performing  
9 that analysis, but the company negotiated an  
10 agreement, as you know, with its creditors and its  
11 unions, and so that did not -- you're talking about  
12 2004 now?

13 Q Yes, for the moment.

14 A Yes.

15 Q We'll move on.

16 A Yes --

17 Q You did not complete your analysis?

18 A I did not complete a final analysis  
19 because of the -- the settlement was reached.

20 Q Had you reached a preliminary or tentative  
21 analysis?

22 A I had done tentative analysis, yes.

1 Q And did you prepare a report reflecting  
2 that tentative analysis?  
3 A Well, we were in the process of preparing  
4 a report in the event there was a filing, a Chapter  
5 11 filing.  
6 Q Did you submit the report or any portion  
7 of the report, whether final or preliminary, to  
8 Delta management?  
9 A I submitted it to -- an earlier draft or  
10 drafts to counsel for Delta.  
11 Q Which counsel?  
12 A Counsel at Paul Hastings.  
13 Q Did you discuss with anyone in management  
14 either your analysis, your investigation, your  
15 report, however preliminary?  
16 A Well, there may have been discussions when  
17 I was meeting with Paul Hastings, management people  
18 may have been there when we were discussing my  
19 analysis. I don't recall. But it's possible.  
20 Q Is it fair to say that your primary, if  
21 not your exclusive, contact during that period of  
22 time was with Paul Hastings?

1 A Yes.  
2 Q The ongoing effects of 9/11?  
3 A Yes.  
4 Q Each of those factors were apparent in  
5 mid-2004 to any observer in the industry, were they  
6 not?  
7 A Well, to the extent those effects had  
8 occurred -- the effects that had occurred up to that  
9 point, I would say that's correct.  
10 Q And if you look at your declaration in  
11 this case, if you have it.  
12 A Yes, I do.  
13 Q Turn to page 8.  
14 A Yes.  
15 Q Exhibit 101 indicates that the proportion  
16 of domestic passengers with access to LCC service in  
17 2004 was in the 75 percent range; correct?  
18 A Correct.  
19 Q And on page 9 --  
20 MR. HOROWITZ: Counsel --  
21 MR. SIMON: Sorry. Sorry, sorry.  
22 MR. BLOCH: You're not talking about this,

1 A Certainly primary contact was with Paul  
2 Hastings.  
3 Q And in fact, was your retention through  
4 Paul Hastings?  
5 A I believe it was, yes.  
6 Q Did you ever discuss with either  
7 Mr. Grinstein, Mr. Palumbo, Mr. Bastian or anyone  
8 else in top management your 2004 exercise?  
9 A No, I don't believe I did.  
10 Q And did your 2004 analysis and the report,  
11 however preliminary, deal with the structural  
12 changes in the airline industry that you've  
13 identified in this proceeding and elsewhere?  
14 A To the extent those changes had occurred  
15 up until that point, yes.  
16 Q Things like the proliferation of low-cost  
17 carriers?  
18 A Yes.  
19 Q Decline in high-yield business travel?  
20 A Correct.  
21 Q Increased price transparency, the  
22 Internet, booking through the Internet?

1 you're talking about the declaration?  
2 MR. SIMON: I'm talking about the dec, but  
3 I will also later be making reference to the  
4 exhibits.  
5 MR. BLOCH: Can you tell me which volume  
6 that is?  
7 MR. HARRIS: It's volume 1, Exhibit 4,  
8 page 9.  
9 MR. BLOCH: Great, thank you. I'm with  
10 you.  
11 BY MR. SIMON:  
12 Q I think I was turning to page 9.  
13 MR. BLOCH: Give me just a second. The  
14 question was are any of the exhibits possible to be  
15 project -- can we project any of the exhibits on the  
16 PowerPoint?  
17 MR. SIMON: It's generational. It's  
18 beyond my capacity.  
19 (Laughter.)  
20 MR. HARRIS: They're --  
21 MR. HOROWITZ: Would you find it helpful  
22 or intrusive?

1 MR. SIMON: I certainly don't --  
 2 MR. HOROWITZ: Off the record.  
 3 (Discussion off the record.)  
 4 MR. BLOCH: Let's proceed.  
 5 BY MR. SIMON:  
 6 Q Page 9 of the dec, Exhibit 102 indicates  
 7 that the number of Delta's largest 50 markets with  
 8 LCC competition in 2004 was 42 percent?  
 9 A 42, number 42.  
 10 Q Pardon?  
 11 A It's 42 out of 50, not 42 percent.  
 12 Q I see. 42 out of 50 markets.  
 13 A Right.  
 14 Q Thank you. That if we look at page 15 and  
 15 the chart on page 16, Exhibit 107, that there had  
 16 been a precipitous decline in the proportion of  
 17 Delta's domestic passengers using premium tickets  
 18 from 19 percent in 1998 down to 7.7 percent in 2004;  
 19 correct?  
 20 A Correct.  
 21 Q Then if we look at page 17 of your  
 22 declaration, there is a reference to the impact of

1 A No, I was not surprised by those  
 2 structural items.  
 3 Q And was it your impression when you  
 4 discussed them with representatives of Delta's  
 5 management in 2004 that as experienced -- Delta, as  
 6 experienced airline management folks, they were not  
 7 surprised by these structural issues?  
 8 A Well, you recall, I don't believe that I  
 9 actually discussed in 2004 with management, so I  
 10 can't answer what their reaction would be.  
 11 Q But as a professional and expert in the  
 12 industry, it's certainly your expectation that  
 13 anyone in airline management in 2004 would be aware  
 14 of those structural impacts, would you not?  
 15 A Yes, I agree.  
 16 Q Now, do I understand that you personally  
 17 do not know whether any of those structural impacts  
 18 had any role in the 2004 negotiations between Delta  
 19 and ALPA; is that correct?  
 20 A Yes, I believe when you asked me that  
 21 question in New York, my response was I was not  
 22 involved in any way with the negotiations. I would

1 online booking; correct?  
 2 A Yes.  
 3 Q And how that impact was apparent in 2004?  
 4 A Yes, that impact was certainly visible in  
 5 2004.  
 6 Q And with regard to online booking at page  
 7 19, Exhibit 108, that by 2004, 33 percent of airline  
 8 revenue was booked online?  
 9 A Correct.  
 10 Q And I take it these same structural  
 11 features that you had discussed and discussed in  
 12 your direct were discussed with whoever it was that  
 13 you discussed these matters representing Delta Air  
 14 Lines in 2004?  
 15 A Well, to the -- the analysis that I had  
 16 done in 2004 covered these areas. So to the extent  
 17 the numbers were available for that period, yes,  
 18 that was reviewed by counsel in those discussions.  
 19 Q And your 2004 really confirmed for you  
 20 what you already knew to be the case, did it not,  
 21 with regard to those structural items? You were not  
 22 surprised by it?

1 be surprised if they weren't considered, but I don't  
 2 know.  
 3 Q You recall your testimony quite  
 4 accurately.  
 5 Were you aware in 2004 of the  
 6 deliberations within Delta management as to whether  
 7 or not to file Chapter 11 in 2004?  
 8 A Well, I was aware those deliberations were  
 9 going on, but I was not privy to any of those  
 10 discussions.  
 11 Q And you didn't participate in them?  
 12 A That is correct, I did not.  
 13 Q Did you express a view to Delta management  
 14 or anyone representing Delta management as to your  
 15 view as to whether the company should enter Chapter  
 16 11 in 2004?  
 17 A I did not.  
 18 Q Were you asked your view?  
 19 A I was not.  
 20 Q When did your role in 2004 conclude?  
 21 A I believe it concluded about the time --  
 22 at or about the time the settlement agreement was

1 reached with the pilots and the outside  
2 restructuring -- or out-of-court restructuring with  
3 the other creditor groups.

4 Q Now, even though your retention in 2004  
5 had included within it an examination and analysis  
6 of the costs of the airline, you were not consulted  
7 by Delta in connection with its '04 negotiations  
8 with regard to pilot labor costs; is that correct?

9 A That is correct. They had my materials,  
10 if they got them from counsel, but they did not  
11 discuss them with me.

12 Q And you don't know whether they got them  
13 from counsel or not?

14 A I do not.

15 Q Did you, in fact, as an expert in the  
16 business and an observer, form a conclusion in 2004  
17 as to whether or not Delta should file Chapter 11?

18 A Well, as I indicated, I was not consulted  
19 with Delta about that.

20 Q I understand.

21 A And my -- I did not have a formal opinion  
22 on that subject.

1 possibility of your testifying as a witness in a  
2 section 1113 proceeding come up? And don't tell me  
3 about the discussion; I just want to know whether it  
4 came up.

5 A I was --

6 MR. GALLAGHER: Well, we'll object to any  
7 discussions with counsel.

8 MR. SIMON: I said I wasn't asking about  
9 what the discussion was; I was asking if there was a  
10 discussion. I'm very --

11 MR. GALLAGHER: Even asking about the  
12 subject matter of discussions, I'd ask the witness  
13 to be instructed to exclude from that any  
14 discussions with counsel.

15 MR. BLOCH: I agree with that. I think  
16 the witness can answer the question.

17 THE WITNESS: When I was retained, I  
18 was -- in my view, there was the possibility that I  
19 would need to testify, but that was not part of  
20 necessarily the understanding of the other side --  
21 counsel.

22 BY MR. SIMON:

1 Q I didn't ask if you had a formal opinion.  
2 I asked whether, as an expert, you had a conclusion.  
3 Did you have a belief, did you have a view as to  
4 whether or not Delta should file Chapter 11 in 2004?

5 A No, I didn't. My view was that Delta  
6 needed to obtain significant cost reductions and  
7 that however it got those cost reductions would be  
8 the key factor. Whether it got them through  
9 bankruptcy or through voluntary agreement, I didn't  
10 have an opinion on.

11 Q Did you know in 2004 that Delta had  
12 established as a goal in its pilot labor cost  
13 reductions \$1 billion a year?

14 A I did not know in advance of any -- I knew  
15 that was the number that came out of those  
16 discussions. I was not aware in advance that that  
17 was a goal.

18 Q Nor did you play any part in internal  
19 discussions with the company that produced such a  
20 goal?

21 A That is correct, I did not.

22 Q And during your 2004 retention, did the

1 Q But as you've indicated, you knew that  
2 your retention at that time was "in contemplation of  
3 a possible bankruptcy filing" at that time?

4 A Correct.

5 Q And as a pro in the business and as  
6 someone who has done this before, you very well  
7 understood that if there was a filing, your  
8 retention was going to be in connection with  
9 testifying on 1113?

10 A That was a possibility.

11 Q During your 2004 retention, were you aware  
12 of Mr. Grinstein's determination to do it once and  
13 do it right?

14 A Well, I've heard that several times. I  
15 don't remember hearing that contemporaneously, but I  
16 may have. I know I certainly heard it a number of  
17 times since.

18 Q Did you hear it -- you don't know whether  
19 you heard it contemporaneously or not?

20 A I don't recall.

21 Q In any event, would you agree that that  
22 was a worthy objective?

1 A I think that sounds to me like a very  
 2 worthy objective.  
 3 Q During your 2004 retention, did you  
 4 discuss with anyone in or representing Delta the  
 5 components, other than labor, of their  
 6 transformation plan?  
 7 A Well, I was -- I was aware through  
 8 discussions with counsel that there were other  
 9 concessions being sought from creditors, but I  
 10 don't --  
 11 Q Other than that, you didn't engage in a  
 12 question as to how much one should seek from a  
 13 restructuring of debt or from aircraft lease  
 14 negotiations or renegotiation of vendor contracts?  
 15 A Right, I was not consulted with regard to  
 16 those items.  
 17 Q Did you, as a professional and expert in  
 18 the business, have a view as to what reductions  
 19 should be sought or achieved by Delta with regard to  
 20 those nonlabor cost components?  
 21 A Well, I didn't form any judgment as to --  
 22 because I wasn't asked to analyze it, any specific

1 retained in contemplation of a possible bankruptcy  
 2 filing?  
 3 A That was my understanding.  
 4 Q And this time, as well, were you retained  
 5 through Paul Janofsky?  
 6 A Yes.  
 7 Q Were there discussions with anyone else --  
 8 anyone in management regarding your retention?  
 9 A Well, there may have been, but not that I  
 10 was party to.  
 11 Q And did you participate in management  
 12 discussions with regard to planning for Delta's  
 13 negotiations with ALPA in 2005?  
 14 A I did not.  
 15 Q Did you participate with ALPA's  
 16 management, as opposed to ALPA's -- I'm sorry, with  
 17 Delta's management as opposed to Delta's counsel in  
 18 connection with a planning for section 1113  
 19 proceeding?  
 20 A I think I lost the thread of that  
 21 question.  
 22 Q Okay. Did you have discussions with

1 numerical amount. I was certainly aware that Delta  
 2 was in a position to obtain some relief in its  
 3 aircraft obligations and quite possibly in other  
 4 obligations in negotiations with its creditors.  
 5 Q But none of that was quantified in any  
 6 significant way?  
 7 A That's correct, not by me.  
 8 Q I understand. When were you next retained  
 9 by Delta?  
 10 A I was next retained by Delta sometime, I'm  
 11 thinking, probably in the mid-2005, mid -- I can't  
 12 remember now whether it was summer or fall of 2005.  
 13 Q And this time you were retained to  
 14 evaluate the current state of the U.S. airline  
 15 industry generally, as well as Delta's current and  
 16 prospective competitive position in the industry?  
 17 A That is correct.  
 18 Q Basically, a couple of words different,  
 19 the same charter as you had in connection with your  
 20 2004 retention?  
 21 A I think basically that's correct.  
 22 Q And this time also, as in '04, you were

1 anyone in Delta's management, as opposed to their  
 2 counsel, with regard to participation in an 1113  
 3 proceeding?  
 4 A I believe I was in one meeting with  
 5 counsel that included some Delta management in the  
 6 run-up to what turned out to be an 1113 bankruptcy  
 7 filing.  
 8 Q Do you recall approximately when that  
 9 would have been?  
 10 A It was sometime in the fall to late fall,  
 11 to the best of my recollection.  
 12 Q Did you review any Delta business plan in  
 13 connection with your '05 evaluation process?  
 14 A I did see some documents that were  
 15 described, I believe they were called a business  
 16 plan.  
 17 Q And do you recall what version of the  
 18 business plan you saw?  
 19 A No, I don't.  
 20 Q And do you recall, again, roughly  
 21 speaking, approximately when it was that you would  
 22 have seen a business plan?

1 A Well, it probably would have been about  
 2 the same time as I indicated before, sometime  
 3 probably in mid to late fall.  
 4 Q But again, you don't recall which version?  
 5 A I don't recall specifically.  
 6 Q I understand. Were you aware that in the  
 7 summer of 2005, Delta was in the midst of developing  
 8 a new business strategy, as opposed to a new  
 9 business plan? Were you aware that there was a  
 10 strategic process that was underway?  
 11 A I don't believe I was aware of that in  
 12 mid-2005, but when I was approached by Paul Hastings  
 13 shortly thereafter, it came to my attention that  
 14 that was the case.  
 15 Q When you were informed by them that that  
 16 was the case, was it an ongoing process, or had it  
 17 been concluded, if you know?  
 18 A I don't know.  
 19 Q Did you in any event participate in any  
 20 manner in the strategic process?  
 21 A I did not.  
 22 Q Were you aware that during the middle part

1 A I don't know -- to the best of my  
 2 understanding -- I wasn't involved in that, but the  
 3 decision to file was made when the company concluded  
 4 that it had no other recourse than to do that. So I  
 5 suspect that happened much closer to the time of  
 6 actual filing, but again, I wasn't involved so I --  
 7 Q So you didn't participate in the  
 8 discussions leading to the decision whether or not  
 9 to file?  
 10 A That's correct, I did not.  
 11 Q Did you have a view as to whether or not  
 12 the company should file?  
 13 A Well, I wasn't asked for my view. I  
 14 didn't offer it. If you're asking me, my view was  
 15 the company needed to get itself viable, and whether  
 16 it required a Chapter 11 or negotiations directly  
 17 with the unions and creditor groups, either way  
 18 would work. Obviously, the company concluded that  
 19 they --  
 20 Q But in any event, you were neither asked  
 21 nor offered an opinion?  
 22 A That is correct.

1 of 2005, there was also a management process looking  
 2 to the development of a new business plan?  
 3 A I am aware of that now, yes.  
 4 Q You were not aware of it then?  
 5 A I don't -- because I wasn't -- before my  
 6 retention in this matter, I wasn't aware of that,  
 7 with what management was doing specifically.  
 8 Q And you didn't participate in the  
 9 formulation of that business plan?  
 10 A That's correct, I did not.  
 11 Q And were you aware of the fact that,  
 12 again, in mid 2005, management was engaged in an  
 13 internal review of the question as to whether or not  
 14 to file a Chapter 11?  
 15 A Well, I did become aware of that, but, you  
 16 know, again, I think as I said before, since I  
 17 wasn't retained and involved, I didn't really become  
 18 aware of that fact until I was contacted by Paul  
 19 Hastings.  
 20 Q And how soon -- I'm sorry. But you became  
 21 aware of it before, in fact, the decision was made  
 22 to file, or no?

1 Q Now, you know now that that 2005 plan  
 2 contemplates a \$3 billion per year program of cost  
 3 reductions and revenue enhancements, on top of the  
 4 \$5 billion from the 2004 plan; correct?  
 5 A Correct.  
 6 Q Were you consulted at all about the  
 7 components of the 2005 plan?  
 8 A You mean in how they went into that plan?  
 9 Q Yes.  
 10 A No, I was not.  
 11 Q And again, you were neither asked nor  
 12 offered your views?  
 13 A Correct.  
 14 Q Did you then have a view regarding whether  
 15 the components that were identified in the 2005 plan  
 16 were the correct components for Delta to be looking  
 17 at?  
 18 A Are you asking me did I have a personal  
 19 view?  
 20 Q Yeah.  
 21 A I do. My personal view is that those are  
 22 appropriate components to look at and include.

1 Q Now, one of those components calls for 1.1  
2 billion for revenue and network improvements;  
3 correct?

4 A It does.

5 Q And that component involves things like  
6 fleet simplification?

7 A It does.

8 Q The increase of international flying?

9 A Yes.

10 Q Reduction of capacity?

11 A In domestic markets in particular, yes.

12 Q Right-sizing of hubs?

13 A Yes.

14 Q Any of those rocket science?

15 A Well, it's easy to identify them.

16 Sometimes it's a lot harder to make them happen.

17 Q But none of them were revolutionary  
18 concepts, in terms of seeking to improve revenue in  
19 the airline industry, are they?

20 A Well --

21 Q For a company like Delta.

22 A I don't think that's the first time that

1 different world that Delta had to compete in in 2005  
2 going forward than, in fact, turned out to be the  
3 case.

4 So once USAir was able to emerge  
5 successfully, that ratcheted up the problems for --  
6 particularly for Delta but also for other carriers  
7 that had to compete with USAirways. So I think  
8 that's an important difference between those two  
9 periods.

10 Q And would the impact of the departure of  
11 the new USAirways from the competitive scene today,  
12 tomorrow, 1907, 1908, present again a different  
13 world for Delta?

14 A It would.

15 MR. SPAN: I assume you meant 2000 --

16 MR. SIMON: Yes, 2006, 2007, 2008. Thank  
17 you. I said it was generational.

18 MR. SPAN: The Wright brothers were around  
19 in 1907.

20 MR. SIMON: I said it was generational. I  
21 plead guilty.

22 (Laughter.)

1 those would have been identified or tried, no.

2 Q Is it fair to say, again, putting to one  
3 side ability to implement, that those factors were  
4 as apparent in summer of '04 as they were in summer  
5 of '05?

6 A I'm not -- I think that would be a  
7 stretch.

8 Q In what regard?

9 A Well, I think one of the most significant  
10 differences, in my view, between the situation  
11 in '04 and '05 was that you will recall, right at  
12 the end of '04, there was substantial doubt, widely  
13 shared doubt, as to whether USAirways would actually  
14 be able to emerge successfully from bankruptcy. And  
15 indeed, there was widespread speculation that it  
16 would not.

17 That had potentially very important  
18 implications, not only for the airline industry as a  
19 whole, but for Delta in particular, because of the  
20 substantial overlap.

21 Had USAirways not been able to emerge  
22 successfully, it would have been some considerably

1 BY MR. SIMON:

2 Q The desirability for a company like Delta  
3 of restructuring its debt, renegotiating its  
4 above-market aircraft leases, its above-market  
5 vendor contracts, was as apparent in '05 as it was  
6 in '04; is that correct?

7 A Well, it may have been more apparent  
8 in '05 than '04.

9 Q Is it your understanding that aircraft  
10 leases, for example, were not as significantly above  
11 market in '04 as they were in '05?

12 A No, I think that, you know, one could  
13 argue that they perhaps were above market in both  
14 cases, but that in the case of '05 there were --  
15 fuel prices had continued to go up, the competitive  
16 conditions had continued to be -- had not gotten  
17 better, despite the expectation they would. So that  
18 the financial pinch was greater, adding some  
19 significant urgency to that.

20 Q You heard testimony from Mr. Bastian about  
21 the new five-year forecast, which he said updates  
22 and extends the two-year business plan from '05?

1 You did hear that testimony?  
 2 A Well, I wasn't here for that, but I read  
 3 his declaration.  
 4 Q Were you aware of the development of that  
 5 plan during its development period?  
 6 A You're referring now to --  
 7 Q To the new five-year forecast.  
 8 A The update. Well, I was told at some  
 9 point that there would be one, but I was not  
 10 involved with it.  
 11 Q And, again, you were not consulted in  
 12 connection with the development of that new  
 13 forecast?  
 14 A That's correct.  
 15 Q When you prepared your declaration in this  
 16 matter, were you aware of the new five-year  
 17 forecast?  
 18 A I was aware that there would be a new  
 19 five-year forecast. I don't believe -- I'd have to  
 20 check. I don't believe that the document, that I  
 21 had seen it at that point.  
 22 Q So that your declaration and your

1 Q Well, there's a big, thick five-year  
 2 forecast. Why don't we -- do we have a copy? It  
 3 will not be disclosed to breach confidentiality, but  
 4 maybe just for purposes of refreshing the witness's  
 5 recollection.  
 6 It is Exhibit 14, Union Exhibit 14, just  
 7 for purposes of attempting to refresh your  
 8 recollection.  
 9 (Witness reviewed the document.)  
 10 A Yes. I believe that this -- the document  
 11 here is dated February 23, which was while -- which  
 12 was prepared, it appears, at a time my report was  
 13 substantially complete. However, we did look at the  
 14 forecast and use some updated data from that that is  
 15 cited in footnote counsel did cite ^ ck sense. I'm  
 16 sorry for the confusion.  
 17 Q No problem.  
 18 A I was hearing the plan, and I was thinking  
 19 of that document. I believe Delta refers to it as a  
 20 forecast. So I did that after the report was  
 21 substantially completed.  
 22 Q I tried to clean up my language and refer

1 testimony with regard to it did not include any of  
 2 the new data in the five-year -- new five-year  
 3 forecast?  
 4 A I don't know. I'd have to check. As I  
 5 sit here, I'm not sure.  
 6 Q Could we ask that you check, and you can  
 7 do this through counsel, simply report back through  
 8 counsel as to whether or not in your declaration you  
 9 took into account the new five-year forecast?  
 10 A Certainly.  
 11 MR. SIMON: And would someone make note.  
 12 BY MR. SIMON:  
 13 Q Someone better alert Tim's orthopedist to  
 14 the fact he may have a new patient.  
 15 MR. SPAN: I think, if I can just clarify  
 16 that point, I think the clarification does cite some  
 17 operating margin numbers from the forecast.  
 18 THE WITNESS: If that is the same  
 19 document.  
 20 You were referring to what I thought was a  
 21 plan.  
 22 BY MR. SIMON:

1 to it as a forecast as well. If I did not, let the  
 2 record be so corrected.  
 3 Can we turn to fuel for just a moment?  
 4 A Certainly.  
 5 Q Is it a fact that low-cost carriers tend  
 6 to fly shorter routes than network carriers?  
 7 A I think as a general proposition, that is  
 8 correct.  
 9 Q And is it correct, as a general  
 10 proposition, that shorter flights burn  
 11 proportionately more fuel than longer flights?  
 12 A That is also correct.  
 13 Q And that fuel makes up a greater  
 14 proportion of low-cost carrier costs than network  
 15 carriers?  
 16 A It has in the past, I think maybe less so  
 17 today.  
 18 Q And is it your view that high fuel costs  
 19 create competitive advantage for network carriers  
 20 over low-cost carriers with respect to the fuel  
 21 aspect?  
 22 A I think other things being equal, that

1 would be the case. I think, as Mr. Bastian probably  
 2 pointed out, that has been mitigated over the last  
 3 several years because of the fact that the low-cost  
 4 carriers have been able to upgrade their fleets to  
 5 more fuel-efficient aircraft, whereas the legacy  
 6 carriers have been stuck with older -- older fleets,  
 7 which tend to be less fuel efficient.  
 8 Q But you did testify in Northwest that  
 9 because fuel is a bigger component of low-cost  
 10 carrier costs than network carriers, an increase in  
 11 fuel prices, assuming no hedges, would have a  
 12 proportionately somewhat greater impact on low-cost  
 13 carriers on the operating side; correct?  
 14 A Correct.  
 15 Q And you also testified that when fuel  
 16 prices get above \$55 a barrel, I think it's fair to  
 17 say that low-cost carriers become much less  
 18 aggressive about price cutting, or less aggressive  
 19 in any event, and then you even said markedly less;  
 20 is that correct?  
 21 A That has certainly been the case.  
 22 Q And you're also aware that United Airlines

1 and it also makes it very clear who has got the  
 2 ability to set prices in the market, which is the  
 3 low-cost carriers.  
 4 Q Speaking of that for a moment, would you  
 5 consider Southwest managements to be in the top tier  
 6 of airline managements?  
 7 A Well, if you look at their results, you  
 8 know, they have been a consistently profitable  
 9 airline for 30 years. You've got to think  
 10 management has something to do with that, yes.  
 11 Q And do you think they are probably in the  
 12 top tier of business plans in the industry?  
 13 A Well, they certainly had a very successful  
 14 strategy and a very successful ability to carry it  
 15 out for a long period of time. So that would -- and  
 16 I think they're very highly regarded in the  
 17 industry.  
 18 Q And they have been among the most  
 19 profitable in the industry?  
 20 A That is correct.  
 21 Q And it's also the fact that they have the  
 22 highest pilot pay rate in the industry?

1 stated in its January 9, 2006 SEC filing, that with  
 2 oil above \$50 a barrel, fare increases will capture  
 3 50 to 60 percent of the impact?  
 4 A I'm aware they made that statement, yes.  
 5 Q And, in fact, you cited that in your  
 6 Northwest testimony, did you not?  
 7 A I did.  
 8 Q And it's also your view that above \$55,  
 9 low-cost carriers become much less aggressive about  
 10 price cutting; is that correct?  
 11 A I think that's just what we covered, yes.  
 12 I think that's certainly been the case thus far.  
 13 Q And you noted in your Northwest testimony  
 14 that fare increases to offset higher fuel prices  
 15 have finally begun to stick; correct?  
 16 A Correct. I think I said some have, yes.  
 17 Q I believe I said some.  
 18 A Thank you.  
 19 Q And the Southwest fare increase of \$10 of  
 20 just a couple days ago is certainly consistent with  
 21 that view?  
 22 A Well, I think it's consistent with that,

1 A They do. Over the last several years,  
 2 they have moved into that just and distinguished  
 3 position, yes.  
 4 Q If I may have a moment.  
 5 I'm going to show you again, for the  
 6 purpose of trying not to clutter up the record, for  
 7 purposes of your having access to it for the next  
 8 couple of questions, your rebuttal declaration in  
 9 Northwest. And I'll give you a copy.  
 10 I don't intend to offer it. I don't want  
 11 to pollute your access for purposes of recollection.  
 12 I'm glad to let you have it, but I don't want to  
 13 muck it up --  
 14 MR. HARRIS: You don't want to prejudice  
 15 us.  
 16 MR. SIMON: Not openly and on the record.  
 17 (Laughter.)  
 18 BY MR. SIMON:  
 19 Q At page 12, you went through an exercise  
 20 listing the vulnerability of various carriers to LCC  
 21 expansion; correct?  
 22 A Actually, this is in rebuttal to a witness

1 on the other side attempting to do that.  
 2 Q Yeah, but that's what you've done here.  
 3 And on the right-hand column is your corrected  
 4 version of material that you thought was incorrect.  
 5 In any event, it is the right-hand column that  
 6 represents your work in this Exhibit 4?  
 7 A The right-hand column represents my  
 8 correction of error in interpreting the exhibit that  
 9 Mr. Akins ^ ck, the witness on the other side, was  
 10 relying on here.  
 11 Q Do you adopt, as an accurate description  
 12 of the share of carrier revenue likely to have LCC  
 13 expansion, your correction in the right-hand column?  
 14 A That is not my testimony. That's simply a  
 15 correction, a technical correction, because  
 16 Mr. Akins simply misinterpreted the data that was in  
 17 that exhibit. This is not my testimony, except in  
 18 rebuttal to this point.  
 19 Q Do you understand that Delta has a  
 20 significantly lesser exposure to LCC expansion than  
 21 American, Continental, Northwest and USAir?  
 22 A No, that's not my testimony or my

1 push comes to shove, the real difference and the  
 2 major analytical tool is the difference between RASM  
 3 and CASM; correct?  
 4 A Well, in terms of ultimate measure of  
 5 profitability, that is correct. In terms of being  
 6 able to manage costs, that's not necessarily as  
 7 useful.  
 8 Q But in any event, in your testimony before  
 9 Judge Beatty and your declaration before Judge  
 10 Beatty, you did not rely upon the pilot block hour  
 11 analysis?  
 12 A I don't believe I included any block hour  
 13 analysis.  
 14 MR. SIMON: No further questions.  
 15 MR. SPAN: May I have a few minutes?  
 16 MR. BLOCH: Of course. Let's take 10  
 17 minutes, please.  
 18 (Recess from 10:26 to 10:52 a.m.)  
 19 MR. BLOCH: Okay. I think we're ready to  
 20 proceed. Any other questions, Mr. Span?  
 21 MR. SPAN: I have a brief redirect,  
 22 Mr. Chairman. And that's not a lawyer's brief. I

1 understanding.  
 2 Q That's not your understanding; you do not  
 3 accept that?  
 4 A That is correct.  
 5 Q In the section 1113 hearing before Judge  
 6 Beatty, did you present an analysis of pilot costs  
 7 per block hour?  
 8 A I don't believe so.  
 9 Q Isn't it the fact that typically financial  
 10 analysts and others familiar with the airline  
 11 industry typically use pilot CASM as the measure of  
 12 pilot cost?  
 13 A Well, I think pilot CASM is one measure of  
 14 pilot cost, but pilot block hour -- pilot cost per  
 15 pilot block hour is another measure that is widely  
 16 used among airlines.  
 17 Q I asked you specifically about financial  
 18 analysts.  
 19 A Well, I think financial analysts tend to  
 20 focus more on the overall CASM, that is for the  
 21 airline as a whole.  
 22 Q As you do, because you believe that when

1 hope it's a real brief.  
 2 MR. BLOCH: We'll find out.  
 3 MR. SIMON: Keep track and see if you can  
 4 extract the number of minutes from them.  
 5 REDIRECT EXAMINATION  
 6 BY MR. SPAN:  
 7 Q Mr. Kasper, you were asked on cross  
 8 whether the low-cost carriers generally have a  
 9 shorter stage length than Delta, and I think you  
 10 answered that that was correct.  
 11 A As a general proposition, yes.  
 12 Q Yes. Do you know whether JetBlue's  
 13 average stage length is longer than Delta's?  
 14 A It is.  
 15 Q And as the low-cost carriers like Air Tran  
 16 are moving into other markets, is the average stage  
 17 length of the low-cost carriers increasing?  
 18 A Actually, it is, both Air Tran and  
 19 Southwest have added significantly to their average  
 20 stage length as they have added longer-range  
 21 aircraft or chosen to fly longer-leg markets.  
 22 Q Now, you were asked by Mr. Simon whether

1 in your testimony in New York on the court hearing  
2 you presented any statistics on pilot costs per  
3 pilot block hour, and you said you had not. By the  
4 same token, did you present any statistics using  
5 pilot costs per ASM, or PCASM?

6 A No, I don't believe I did.

7 Q And you testified on direct that you  
8 believe that pilot cost per block hour was a better  
9 comparative measure of pilot cost than pilot CASM.  
10 Do you recall that testimony?

11 A I do.

12 Q Do you still believe that to be the case?

13 A I do.

14 Q For the reasons you stated on direct?

15 A Yes.

16 Q And in looking at CASM, not specifically  
17 PCASM, but overall CASM, is CASM something you can  
18 look at in isolation, or must you look at it in  
19 connection with the RASM and see what the difference  
20 is for a particular carrier?

21 A Well, I think as my colloquy with  
22 Mr. Simon made clear, it is probably most useful as

1 Q And did you show that the average earnings  
2 per pilot at Delta were the highest in the industry?

3 A That's correct.

4 Q Now, with respect to south --

5 MR. SIMON: Objection, two things. A, it  
6 goes beyond the scope of direct, which dealt with  
7 pay rates, and B, this is simply repeating what the  
8 witness testified to on direct, so that while I can  
9 understand the desire to repeat the testimony, and I  
10 could even understand it if it was in response to  
11 cross-examination, it's entirely inappropriate  
12 redirect.

13 MR. BLOCH: Mr. Span?

14 MR. SPAN: Was not clear, I thought, from  
15 Mr. Simon's question whether he was referring to pay  
16 rates or pay. If his question on cross was  
17 specifically related to pay rates, then I don't need  
18 to pursue this line.

19 MR. SIMON: I am quite confident it was,  
20 but presumably, someone with the technical capacity  
21 will be able to find it.

22 BY MR. SPAN:

1 the difference between the two. It's certainly used  
2 for other things, but I think it's most useful for  
3 the former.

4 Q Now, you responded to one of Mr. Simon's  
5 questions that Southwest -- I believe the question  
6 was whether Southwest pilots are the highest paid,  
7 something like that, in the industry. I'd like you  
8 to look at your Exhibit 114.

9 A Yes.

10 Q And this is an exhibit you presented on  
11 direct. By the way, I've noticed in this package,  
12 there seem to be two pages numbered Exhibit 114. So  
13 I'm directing your attention to the one near the end  
14 of the package that is labeled "pilot CASM does not  
15 measure pilot compensation." Do you have that slide  
16 in front of you?

17 A I do.

18 Q And did you on that slide depict the  
19 average earnings per pilot for the airline industry  
20 as of --

21 A Based on third quarter 2005 data,  
22 annualized.

1 Q And the pay rate at Southwest, Mr. Kasper,  
2 what kind of equipment does Southwest fly?

3 A Southwest flies all 737 equipment, several  
4 different types within that, but all 737s.

5 Q So the pay rate at Southwest would be  
6 based on 737 equipment?

7 A Correct.

8 Q Now, is it true that at Southwest the  
9 pilots are far more productive in terms of block  
10 hours per month than the pilots at Delta?

11 A Pilots at Southwest fly more block hours  
12 per month than Delta, that is correct.

13 MR. SPAN: I have no further questions.

14 MR. SIMON: No questions.

15 MR. BLOCH: Mr. Kasper, thank you very  
16 much for your continued patience. Appreciate it.

17 THE WITNESS: Thank you.

18 (Witness excused.)

19 PRESIDING JUDGE: My understanding is we  
20 have completed the agenda for today, and we will  
21 reconvene tomorrow morning at 9:30. Do we have any  
22 additional input on Mr. Coleman's testimony?

1 MR. SPAN: We believe that he will be able  
2 to be here in person, and I thought that we might be  
3 able to start at 9:00. But that would be at the  
4 pleasure of the panel, of course.

5 MR. BLOCH: 9:00 is all right with us.

6 MR. HARRIS: Off the record.

7 (Discussion off the record.)

8 MR. BLOCH: 9:00. See you then.

9 (Whereupon, at 11:00 a.m., the hearing was  
10 adjourned, to be reconvened at 9:00 a.m., on Friday,  
11 March 17, 2006.)

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1 C O N T E N T S

2

3 WITNESS DIRECT CROSS REDIRECT RECROSS

4 DANIEL M. KASPER

5 by Mr. Simon 831

6 by Mr. Span 869

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8 E X H I B I T S

9 NUMBER IDENTIFIED RECEIVED

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