

DELTA AIR LINES INC /DE/  
Form 10-Q  
July 17, 2008

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**FORM 10-Q**

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
For the quarterly period ended June 30, 2008

Or

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
Commission File Number 1-5424

**DELTA AIR LINES, INC.**

**State of Incorporation: Delaware**

**I.R.S. Employer Identification No.: 58-0218548**

**Post Office Box 20706, Atlanta, Georgia 30320-6001**

**Telephone: (404) 715-2600**

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☐ Accelerated filer ☐ Non-accelerated filer ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes ☐ No ☒

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Section 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court.

Edgar Filing: DELTA AIR LINES INC /DE/ - Form 10-Q

Yes ☐ No ☐

Number of shares outstanding by each class of common stock, as of June 30, 2008:

Common Stock, \$0.0001 par value 303,892,307 shares outstanding

This document is also available through our website at <http://www.delta.com>.

Unless otherwise indicated, the terms Delta, the Company, we, us and our refer to Delta Air Lines, Inc. and its subsidiaries.

#### **FORWARD-LOOKING STATEMENTS**

Statements in this Form 10-Q (or otherwise made by us or on our behalf) that are not historical facts, including statements about our estimates, expectations, beliefs, intentions, projections or strategies for the future, may be forward-looking statements as defined in the Private Securities Litigation Reform Act of 1995. Forward-looking statements involve risks and uncertainties that could cause actual results to differ materially from historical experience or our present expectations. For examples of such risks and uncertainties, please see the cautionary statements contained in Item 1A. Risk Factors of our Annual Report on Form 10-K for the fiscal year ended December 31, 2007 ( Form 10-K ) and Part II, Item 1A. Risk Factors in this Form 10-Q. All forward-looking statements speak only as of the date made, and we undertake no obligation to publicly update or revise any forward-looking statements to reflect events or circumstances that may arise after the date of this report.

**PART I. FINANCIAL INFORMATION****Item 1. Financial Statements****DELTA AIR LINES, INC.****Consolidated Balance Sheets****ASSETS**

| <b>(in millions)</b>                                                                                                                               | <b>June 30,<br/>2008<br/>(Unaudited)</b> | <b>December 31,<br/>2007</b> |
|----------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------|------------------------------|
| <b>CURRENT ASSETS:</b>                                                                                                                             |                                          |                              |
| Cash and cash equivalents                                                                                                                          | \$ 3,239                                 | \$ 2,648                     |
| Short-term investments                                                                                                                             | 103                                      | 138                          |
| Restricted cash                                                                                                                                    | 517                                      | 520                          |
| Accounts receivable, net of allowance for uncollectible accounts of \$28 and \$26 at June 30, 2008 and December 31, 2007, respectively             | 1,418                                    | 1,066                        |
| Expendable parts and supplies inventories, net of allowance for obsolescence of \$19 and \$11 at June 30, 2008 and December 31, 2007, respectively | 225                                      | 262                          |
| Deferred income taxes, net                                                                                                                         | 196                                      | 142                          |
| Fuel hedge derivatives                                                                                                                             | 879                                      | 53                           |
| Prepaid expenses and other                                                                                                                         | 590                                      | 411                          |
| Total current assets                                                                                                                               | 7,167                                    | 5,240                        |
| <b>PROPERTY AND EQUIPMENT:</b>                                                                                                                     |                                          |                              |
| Flight equipment                                                                                                                                   | 10,098                                   | 9,525                        |
| Accumulated depreciation                                                                                                                           | (525)                                    | (299)                        |
| Flight equipment, net                                                                                                                              | 9,573                                    | 9,226                        |
| Ground property and equipment                                                                                                                      | 2,025                                    | 1,943                        |
| Accumulated depreciation                                                                                                                           | (418)                                    | (246)                        |
| Ground property and equipment, net                                                                                                                 | 1,607                                    | 1,697                        |
| Flight and ground equipment under capital leases                                                                                                   | 624                                      | 602                          |
| Accumulated amortization                                                                                                                           | (111)                                    | (63)                         |
| Flight and ground equipment under capital leases, net                                                                                              | 513                                      | 539                          |
| Advance payments for equipment                                                                                                                     | 306                                      | 239                          |
| Total property and equipment, net                                                                                                                  | 11,999                                   | 11,701                       |
| <b>OTHER ASSETS:</b>                                                                                                                               |                                          |                              |
| Goodwill                                                                                                                                           | 5,169                                    | 12,104                       |
| Identifiable intangibles, net of accumulated amortization of \$254 and \$147 at June 30, 2008 and December 31, 2007, respectively                  | 2,342                                    | 2,806                        |
| Fuel hedge derivatives                                                                                                                             | 350                                      |                              |
| Other noncurrent assets                                                                                                                            | 624                                      | 572                          |
| Total other assets                                                                                                                                 | 8,485                                    | 15,482                       |

Edgar Filing: DELTA AIR LINES INC /DE/ - Form 10-Q

|              |           |           |
|--------------|-----------|-----------|
| Total assets | \$ 27,651 | \$ 32,423 |
|--------------|-----------|-----------|

The accompanying notes are an integral part of these Condensed Consolidated Financial Statements.

**DELTA AIR LINES, INC.****Consolidated Balance Sheets****LIABILITIES AND SHAREOWNERS' EQUITY**

| (in millions, except share data)                                                                                                                                    | June 30,<br>2008<br>(Unaudited) | December 31,<br>2007 |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------|----------------------|
| <b>CURRENT LIABILITIES:</b>                                                                                                                                         |                                 |                      |
| Current maturities of long-term debt and capital leases                                                                                                             | \$ 796                          | \$ 1,014             |
| Air traffic liability                                                                                                                                               | 3,064                           | 1,982                |
| SkyMiles deferred revenue                                                                                                                                           | 1,096                           | 1,055                |
| Fuel hedge margin                                                                                                                                                   | 973                             |                      |
| Accrued salaries and related benefits                                                                                                                               | 547                             | 734                  |
| Taxes payable                                                                                                                                                       | 422                             | 323                  |
| Accounts payable                                                                                                                                                    | 347                             | 363                  |
| Note payable                                                                                                                                                        |                                 | 295                  |
| Other accrued liabilities                                                                                                                                           | 887                             | 839                  |
| Total current liabilities                                                                                                                                           | 8,132                           | 6,605                |
| <b>NONCURRENT LIABILITIES:</b>                                                                                                                                      |                                 |                      |
| Long-term debt and capital leases                                                                                                                                   | 8,338                           | 7,986                |
| Pension and related benefits                                                                                                                                        | 2,995                           | 3,002                |
| SkyMiles deferred revenue                                                                                                                                           | 2,123                           | 2,276                |
| Deferred income taxes, net                                                                                                                                          | 811                             | 855                  |
| Postretirement benefits                                                                                                                                             | 856                             | 865                  |
| Other noncurrent liabilities                                                                                                                                        | 675                             | 721                  |
| Total noncurrent liabilities                                                                                                                                        | 15,798                          | 15,705               |
| <b>COMMITMENTS AND CONTINGENCIES</b>                                                                                                                                |                                 |                      |
| <b>SHAREOWNERS' EQUITY:</b>                                                                                                                                         |                                 |                      |
| Common stock at \$0.0001 par value; 1,500,000,000 shares authorized, 311,321,385 and 299,464,669 shares issued at June 30, 2008 and December 31, 2007, respectively |                                 |                      |
| Additional paid-in capital                                                                                                                                          | 9,541                           | 9,512                |
| (Accumulated deficit) retained earnings                                                                                                                             | (7,120)                         | 314                  |
| Accumulated other comprehensive income                                                                                                                              | 1,451                           | 435                  |
| Stock held in treasury, at cost, 7,429,078 and 7,238,973 shares at June 30, 2008 and December 31, 2007, respectively                                                | (151)                           | (148)                |
| Total shareowners' equity                                                                                                                                           | 3,721                           | 10,113               |
| Total liabilities and shareowners' equity                                                                                                                           | \$ 27,651                       | \$ 32,423            |

The accompanying notes are an integral part of these Condensed Consolidated Financial Statements.

## DELTA AIR LINES, INC.

## Consolidated Statements of Operations

(Unaudited)

|                                                                                                                               | Successor                |                        | Predecessor           | Successor              |                        | Predecessor             |
|-------------------------------------------------------------------------------------------------------------------------------|--------------------------|------------------------|-----------------------|------------------------|------------------------|-------------------------|
|                                                                                                                               | Three<br>Months<br>Ended | Two<br>Months<br>Ended | One<br>Month<br>Ended | Six<br>Months<br>Ended | Two<br>Months<br>Ended | Four<br>Months<br>Ended |
|                                                                                                                               | June 30,<br>2008         | June 30,<br>2007       | April 30,<br>2007     | June 30,<br>2008       | June 30,<br>2007       | April 30,<br>2007       |
| (in millions, except per share data)                                                                                          |                          |                        |                       |                        |                        |                         |
| <b>OPERATING REVENUE:</b>                                                                                                     |                          |                        |                       |                        |                        |                         |
| Passenger:                                                                                                                    |                          |                        |                       |                        |                        |                         |
| Mainline                                                                                                                      | \$ 3,627                 | \$ 2,338               | \$ 1,046              | \$ 6,688               | \$ 2,338               | \$ 3,829                |
| Regional affiliates                                                                                                           | 1,143                    | 760                    | 349                   | 2,182                  | 760                    | 1,296                   |
| Cargo                                                                                                                         | 160                      | 82                     | 36                    | 294                    | 82                     | 148                     |
| Other, net                                                                                                                    | 569                      | 268                    | 124                   | 1,101                  | 268                    | 523                     |
| Total operating revenue                                                                                                       | 5,499                    | 3,448                  | 1,555                 | 10,265                 | 3,448                  | 5,796                   |
| <b>OPERATING EXPENSE:</b>                                                                                                     |                          |                        |                       |                        |                        |                         |
| Aircraft fuel and related taxes                                                                                               | 1,678                    | 790                    | 322                   | 3,100                  | 790                    | 1,270                   |
| Salaries and related costs                                                                                                    | 1,092                    | 708                    | 331                   | 2,183                  | 708                    | 1,302                   |
| Contract carrier arrangements                                                                                                 | 931                      | 530                    | 239                   | 1,827                  | 530                    | 956                     |
| Depreciation and amortization                                                                                                 | 302                      | 193                    | 95                    | 599                    | 193                    | 386                     |
| Aircraft maintenance materials and outside repairs                                                                            | 295                      | 165                    | 82                    | 563                    | 165                    | 320                     |
| Contracted services                                                                                                           | 257                      | 160                    | 83                    | 511                    | 160                    | 326                     |
| Passenger commissions and other selling expenses                                                                              | 248                      | 175                    | 78                    | 473                    | 175                    | 298                     |
| Landing fees and other rents                                                                                                  | 185                      | 122                    | 60                    | 364                    | 122                    | 250                     |
| Passenger service                                                                                                             | 105                      | 61                     | 24                    | 189                    | 61                     | 95                      |
| Aircraft rent                                                                                                                 | 67                       | 36                     | 20                    | 131                    | 36                     | 90                      |
| Impairment of goodwill                                                                                                        | 839                      |                        |                       | 6,939                  |                        |                         |
| Impairment of intangible assets                                                                                               | 357                      |                        |                       | 357                    |                        |                         |
| Restructuring and related items                                                                                               | 104                      |                        |                       | 120                    |                        |                         |
| Profit sharing                                                                                                                |                          | 65                     | 14                    |                        | 65                     | 14                      |
| Other                                                                                                                         | 126                      | 98                     | 62                    | 257                    | 98                     | 189                     |
| Total operating expense                                                                                                       | 6,586                    | 3,103                  | 1,410                 | 17,613                 | 3,103                  | 5,496                   |
| <b>OPERATING (LOSS) INCOME</b>                                                                                                | <b>(1,087)</b>           | <b>345</b>             | <b>145</b>            | <b>(7,348)</b>         | <b>345</b>             | <b>300</b>              |
| <b>OTHER (EXPENSE) INCOME:</b>                                                                                                |                          |                        |                       |                        |                        |                         |
| Interest expense (contractual interest expense totaled \$88 and \$366 for the one month and four months ended April 30, 2007) | (141)                    | (120)                  | (62)                  | (288)                  | (120)                  | (262)                   |
| Interest income                                                                                                               | 25                       | 33                     | 4                     | 52                     | 33                     | 14                      |
| Miscellaneous, net                                                                                                            | 40                       | 9                      | (2)                   | 31                     | 9                      | 27                      |
| Total other expense, net                                                                                                      | (76)                     | (78)                   | (60)                  | (205)                  | (78)                   | (221)                   |
| <b>(LOSS) INCOME BEFORE REORGANIZATION ITEMS, NET</b>                                                                         | <b>(1,163)</b>           | <b>267</b>             | <b>85</b>             | <b>(7,553)</b>         | <b>267</b>             | <b>79</b>               |
| <b>REORGANIZATION ITEMS, NET</b>                                                                                              |                          |                        | 1,339                 |                        |                        | 1,215                   |
| <b>(LOSS) INCOME BEFORE INCOME TAXES</b>                                                                                      | <b>(1,163)</b>           | <b>267</b>             | <b>1,424</b>          | <b>(7,553)</b>         | <b>267</b>             | <b>1,294</b>            |
| <b>INCOME TAX BENEFIT (PROVISION)</b>                                                                                         | <b>119</b>               | <b>(103)</b>           | <b>4</b>              | <b>119</b>             | <b>(103)</b>           | <b>4</b>                |
| <b>NET (LOSS) INCOME</b>                                                                                                      | <b>\$ (1,044)</b>        | <b>\$ 164</b>          | <b>\$ 1,428</b>       | <b>\$ (7,434)</b>      | <b>\$ 164</b>          | <b>\$ 1,298</b>         |

Edgar Filing: DELTA AIR LINES INC /DE/ - Form 10-Q

|                                          |           |         |         |            |         |         |
|------------------------------------------|-----------|---------|---------|------------|---------|---------|
| <b>BASIC (LOSS) EARNINGS PER SHARE</b>   | \$ (2.64) | \$ 0.42 | \$ 7.24 | \$ (18.79) | \$ 0.42 | \$ 6.58 |
| <b>DILUTED (LOSS) EARNINGS PER SHARE</b> | \$ (2.64) | \$ 0.42 | \$ 5.19 | \$ (18.79) | \$ 0.42 | \$ 4.63 |

The accompanying notes are an integral part of these Condensed Consolidated Financial Statements.



## DELTA AIR LINES, INC.

## Condensed Consolidated Statements of Cash Flow

(Unaudited)

|                                                                          | Successor |          | Predecessor |
|--------------------------------------------------------------------------|-----------|----------|-------------|
|                                                                          | Six       | Two      | Four        |
|                                                                          | Months    | Months   | Months      |
|                                                                          | Ended     | Ended    | Ended       |
|                                                                          | June 30,  | June 30, | April 30,   |
|                                                                          | 2008      | 2007     | 2007        |
| (in millions)                                                            |           |          |             |
| <b>Net cash provided by (used in) operating activities</b>               | \$ 1,272  | \$ (210) | \$ 1,025    |
| <b>Cash Flows From Investing Activities:</b>                             |           |          |             |
| Property and equipment additions:                                        |           |          |             |
| Flight equipment, including advance payments                             | (793)     | (89)     | (167)       |
| Ground property and equipment, including technology                      | (113)     | (31)     | (41)        |
| Decrease in restricted cash                                              | 6         | 58       | 56          |
| Proceeds from sales of flight equipment                                  | 83        | 6        | 21          |
| Proceeds from sales of investments                                       |           |          | 34          |
| Other, net                                                               | 8         |          |             |
| Net cash used in investing activities                                    | (809)     | (56)     | (97)        |
| <b>Cash Flows From Financing Activities:</b>                             |           |          |             |
| Payments on long-term debt and capital lease obligations                 | (712)     | (74)     | (166)       |
| Proceeds from Exit Facilities                                            |           |          | 1,500       |
| Proceeds from long-term obligations                                      | 848       |          |             |
| Payments on DIP Facility                                                 |           |          | (2,076)     |
| Other, net                                                               | (8)       |          | (50)        |
| Net cash provided by (used in) financing activities                      | 128       | (74)     | (792)       |
| <b>Net Increase (Decrease) in Cash and Cash Equivalents</b>              | 591       | (340)    | 136         |
| Cash and cash equivalents at beginning of period                         | 2,648     | 2,170    | 2,034       |
| Cash and cash equivalents at end of period                               | \$ 3,239  | \$ 1,830 | \$ 2,170    |
| <b>Supplemental disclosure of cash paid (refunded) for:</b>              |           |          |             |
| Interest                                                                 | \$ 310    | \$ 77    | \$ 243      |
| Interest received from the preservation of cash due to Chapter 11 filing |           |          | (50)        |
| <b>Non-cash transactions:</b>                                            |           |          |             |
| Flight equipment                                                         | \$        | \$       | \$ 135      |
| Flight equipment incentive                                               | 54        |          |             |
| Flight equipment under capital leases                                    | 21        | 4        | 13          |
| Ground equipment                                                         | 4         |          |             |

The accompanying notes are an integral part of these Condensed Consolidated Financial Statements.

---

**DELTA AIR LINES, INC.**

**Notes to the Condensed Consolidated Financial Statements**

**June 30, 2008**

**(Unaudited)**

**1. BACKGROUND**

***General Information***

Delta Air Lines, Inc., a Delaware corporation, is a major air carrier that provides scheduled air transportation for passengers and cargo throughout the United States ( U.S. ) and around the world. Our Condensed Consolidated Financial Statements include the accounts of Delta Air Lines, Inc. and our wholly owned subsidiaries, including Comair, Inc. ( Comair ), which are collectively referred to as Delta.

On April 30, 2007 (the Effective Date ), we and substantially all of our subsidiaries (collectively, the Debtors ) emerged from bankruptcy as a competitive airline with a global network. Upon emergence from Chapter 11, we adopted fresh start reporting in accordance with American Institute of Certified Public Accountants Statement of Position 90-7, Financial Reporting by Entities in Reorganization under the Bankruptcy Code ( SOP 90-7 ). The adoption of fresh start reporting resulted in our becoming a new entity for financial reporting purposes. Accordingly, the Condensed Consolidated Financial Statements on or after May 1, 2007 are not comparable to the Condensed Consolidated Financial Statements prior to that date.

References in this Form 10-Q to Successor refer to Delta on or after May 1, 2007, after giving effect to (1) the cancellation of Delta common stock issued prior to the Effective Date; (2) the issuance of new Delta common stock and certain debt securities in accordance with the Debtors Joint Plan of Reorganization (the Plan of Reorganization ); and (3) the application of fresh start reporting. References to Predecessor refer to Delta prior to May 1, 2007.

*Effectiveness of Plan of Reorganization.* Under the Plan of Reorganization, most holders of allowed general, unsecured claims against the Debtors received or will receive new common stock in satisfaction of their claims. Holders of de minimis allowed general, unsecured claims received cash in satisfaction of their claims.

The Plan of Reorganization contemplates the distribution of 400 million shares of common stock, consisting of (1) 386 million shares to holders of allowed general, unsecured claims (including our pilots) and (2) up to 14 million shares to our approximately 39,000 eligible non-contract, non-management employees. As of June 30, 2008, we have made the following distributions of common stock in accordance with the Plan of Reorganization:

288 million shares of common stock to holders of \$13 billion of allowed general, unsecured claims. We have reserved 98 million shares of common stock for future distributions to holders of allowed general, unsecured claims when disputed claims are resolved.

Approximately 14 million shares of common stock to eligible non-contract, non-management employees.

The U.S. Bankruptcy Court for the Southern District of New York (the Bankruptcy Court ) also authorized the distribution of equity awards to our approximately 1,200 officers, director level employees and other management personnel. For additional information about these awards, see Note 12 of the Notes to the Consolidated Financial Statements in our Form 10-K.

As permitted under the bankruptcy process, many of the Debtors creditors filed proofs of claim with the Bankruptcy Court. Through the claims resolution process, many claims were disallowed by the Bankruptcy Court because they were duplicative, amended or superseded by later filed claims, were without merit, or were otherwise overstated. Throughout the Chapter 11 proceedings, the Debtors also resolved many claims through settlements or by Bankruptcy Court orders following the filing of an objection. The Debtors will continue to settle claims and file additional objections with the Bankruptcy Court.

We believe there will be no further material impact to the Consolidated Statements of Operations of the Successor from the settlement of unresolved allowed general, unsecured claims against the Debtors because the holders of such claims will receive under the Plan of Reorganization only their pro rata share of the new common stock of the Successor.

## Edgar Filing: DELTA AIR LINES INC /DE/ - Form 10-Q

The Plan of Reorganization provides that administrative and priority claims will be satisfied with cash. Certain administrative and priority claims remain unpaid, and we will continue to settle claims and file objections with the Bankruptcy Court with respect to such claims as appropriate. All of these claims have been accrued by the Successor based upon the best available estimates of amounts to be paid.

In light of the substantial number and amount of claims filed, we expect the claims resolution process will take considerable time to complete. Accordingly, we do not presently know either the ultimate number and amount of, or the exact recovery with respect to, allowed claims.

**Reorganization Items, net**

The following table summarizes the components of reorganization items, net on our Consolidated Statements of Operations for the one month and four months ended April 30, 2007:

|                                                                 | Predecessor                                |                                           |
|-----------------------------------------------------------------|--------------------------------------------|-------------------------------------------|
|                                                                 | One Month<br>Ended<br>April<br>30,<br>2007 | Four Months<br>Ended<br>April 30,<br>2007 |
| <b>(in millions)</b>                                            |                                            |                                           |
| Discharge of claims and liabilities <sup>(1)</sup>              | \$ 4,424                                   | \$ 4,424                                  |
| Revaluation of frequent flyer obligation <sup>(2)</sup>         | (2,586)                                    | (2,586)                                   |
| Revaluation of other assets and liabilities <sup>(3)</sup>      | 238                                        | 238                                       |
| Aircraft financing renegotiations and rejections <sup>(4)</sup> | (438)                                      | (440)                                     |
| Contract carrier agreements <sup>(5)</sup>                      |                                            | (163)                                     |
| Emergence compensation <sup>(6)</sup>                           | (162)                                      | (162)                                     |
| Professional fees                                               | (51)                                       | (88)                                      |
| Pilot collective bargaining agreement <sup>(7)</sup>            |                                            | (83)                                      |
| Interest income <sup>(8)</sup>                                  | 12                                         | 50                                        |
| Facility leases <sup>(9)</sup>                                  | (81)                                       | 43                                        |
| Vendor waived pre-petition debt                                 | 5                                          | 29                                        |
| Retiree healthcare claims <sup>(10)</sup>                       |                                            | (26)                                      |
| Other                                                           | (22)                                       | (21)                                      |
| Total reorganization items, net                                 | \$ 1,339                                   | \$ 1,215                                  |

- (1) The discharge of claims and liabilities primarily relates to allowed general, unsecured claims in our Chapter 11 proceedings, such as (a) the Air Line Pilots Association's (ALPA) claim under our comprehensive agreement reducing pilot labor costs; (b) the Pension Benefit Guaranty Corporation's claim relating to the termination of our qualified defined benefit pension plan for pilots; (c) claims relating to changes in postretirement healthcare benefits and the rejection of our non-qualified retirement plans; (d) claims associated with debt and certain municipal bond obligations based upon their rejection; (e) claims relating to the restructuring of financing arrangements or the rejection of leases for aircraft; and (f) other claims due to the rejection or modification of certain executory contracts, unexpired leases and contract carrier agreements.

In accordance with the Plan of Reorganization, we discharged our obligations to holders of allowed general, unsecured claims in exchange for the distribution of 386 million newly issued shares of common stock and the issuance of certain debt securities and obligations. Accordingly, in discharging our liabilities subject to compromise, we recognized a reorganization gain of \$4.4 billion as follows:

|                                                                           |           |
|---------------------------------------------------------------------------|-----------|
| <b>(in millions)</b>                                                      |           |
| Liabilities subject to compromise                                         | \$ 19,345 |
| Reorganization equity value                                               | (9,400)   |
| Liabilities reinstated                                                    | (4,429)   |
| Issuance of new debt securities and obligations, net of discounts of \$22 | (938)     |
| Other                                                                     | (154)     |
| Discharge of claims and liabilities                                       | \$ 4,424  |

- (2) We revalued our SkyMiles frequent flyer obligation at fair value as a result of fresh start reporting, which resulted in a \$2.6 billion reorganization charge. For information about a change in our accounting policy for the SkyMiles program, see Note 2 of the Notes to the Consolidated Financial Statements in our Form 10-K.

## Edgar Filing: DELTA AIR LINES INC /DE/ - Form 10-Q

- (3) We revalued our assets and liabilities at estimated fair value as a result of fresh start reporting. This resulted in a \$238 million gain, primarily reflecting the fair value of newly recognized intangible assets, which was partially offset by reductions in the fair value of tangible property and equipment.
- (4) Estimated claims for the one month ended April 30, 2007 relate to the restructuring of the financing arrangements for 127 aircraft, the rejection of two aircraft leases and adjustments to prior claims estimates. Estimated claims for the four months ended April 30, 2007 relate to the restructuring of the financing arrangements for 143 aircraft, the rejection of two aircraft leases and adjustments to prior claims estimates.
- (5) In connection with amendments to our contract carrier agreements with Chautauqua Airlines, Inc. ( Chautauqua ) and Shuttle America Corporation ( Shuttle America ), both subsidiaries of Republic Airways Holdings, Inc. ( Republic Holdings ), which, among other things, reduced the rates we pay those carriers, we recorded (a) a \$91 million allowed general, unsecured claim and (b) a \$37 million net charge related to our surrender of warrants to purchase up to 3.5 million shares of Republic Holdings common stock. Additionally, in connection with an amendment to our contract carrier agreement with Freedom Airlines, Inc. ( Freedom ), a subsidiary of Mesa Air Group, Inc., which, among other things, reduced the rates we pay that carrier, we recorded a \$35 million allowed general, unsecured claim.
- (6) In accordance with the Plan of Reorganization, we made \$130 million in lump-sum cash payments to approximately 39,000 eligible non-contract, non-management employees. We also recorded an additional charge of \$32 million related to our portion of payroll related taxes associated with the issuance, as contemplated by the Plan of Reorganization, of approximately 14 million shares of common stock to these employees. For additional information regarding the stock grants, see Note 12 of the Notes to the Consolidated Financial Statements in our Form 10-K.
- (7) Allowed general, unsecured claims of \$83 million for the four months ended April 30, 2007 in connection with Comair's comprehensive agreement with ALPA reducing pilot labor costs.

- (8) Reflects interest earned due to the preservation of cash during our Chapter 11 proceedings.
- (9) For the one month ended April 30, 2007, this item primarily reflects a net \$80 million charge from an allowed general, unsecured claim under our settlement agreement relating to the restructuring of certain of our lease and other obligations at the Cincinnati-Northern Kentucky International Airport (the Cincinnati Airport Settlement Agreement). For the four months ended April 30, 2007, we recorded a net \$43 million gain, primarily reflecting a \$126 million net gain in connection with our settlement agreement with the Massachusetts Port Authority (Massport), which was partially offset by the aforementioned \$80 million charge. For additional information regarding the Cincinnati Airport Settlement Agreement and our settlement agreement with Massport, see Notes 6 and 8 of the Notes to the Consolidated Financial Statements in our Form 10-K.
- (10) Allowed general, unsecured claims in connection with agreements reached with committees representing pilot and non-pilot retired employees reducing their postretirement healthcare benefits.

## 2. ACCOUNTING AND REPORTING POLICIES

### *Basis of Presentation*

The accompanying unaudited Condensed Consolidated Financial Statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) for interim financial information. Consistent with these requirements, this Form 10-Q does not include all the information required by GAAP for complete financial statements. As a result, this Form 10-Q should be read in conjunction with the Consolidated Financial Statements and accompanying Notes in our Form 10-K.

In preparing the Condensed Consolidated Financial Statements for the Predecessor, we applied SOP 90-7, which requires that the financial statements for periods subsequent to the Chapter 11 filing distinguish transactions and events that were directly associated with the reorganization from the ongoing operations of the business. Accordingly, certain revenues, expenses, realized gains and losses and provisions for losses that were realized or incurred in the bankruptcy proceedings were recorded in reorganization items, net on the accompanying Consolidated Statements of Operations.

Management believes that the accompanying unaudited Condensed Consolidated Financial Statements reflect all adjustments, including adjustments required by fresh start reporting, normal recurring items, restructuring and related items and reorganization items, considered necessary for a fair statement of results for the interim periods presented.

Due to seasonal variations in the demand for air travel, the volatility of aircraft fuel prices and other factors, operating results for the three and six months ended June 30, 2008 are not necessarily indicative of operating results for the entire year.

### *Short-Term Investments*

At June 30, 2008 and December 31, 2007, our short-term investments were primarily comprised of auction rate securities. In accordance with Statement of Financial Accounting Standards (SFAS) No. 115, Accounting for Certain Investments in Debt and Equity Securities, we record these investments as trading securities at fair value on our Consolidated Balance Sheets.

At June 30, 2008 and December 31, 2007, the fair value of our insured auction rate securities was \$103 million and \$107 million, respectively. The cost of these investments was \$110 million. Fair value was determined using a discounted cash flow model as recent auctions of these securities were not successful, resulting in our continuing to hold these securities and issuers paying interest at the maximum contractual rate. This valuation technique considers the creditworthiness of the underlying debt issuer and insurance provider. Depending on future market conditions, there may be future fair market adjustments of our insured auction rate securities. For additional information regarding the valuation of our short-term investments, see Note 3.

### *Restricted Cash*

Restricted cash included in current assets on our Consolidated Balance Sheets totaled \$517 million and \$520 million at June 30, 2008 and December 31, 2007, respectively. Restricted cash recorded in other noncurrent assets on our Consolidated Balance Sheets totaled \$15 million at each of June 30, 2008 and December 31, 2007. Restricted cash is recorded at cost, which approximates fair value.

At June 30, 2008, our restricted cash balance primarily relates to fuel hedge margin received from a counterparty and cash held to meet certain projected self-insurance obligations. At December 31, 2007, our restricted cash balance primarily related to \$295 million held in a grantor trust for the benefit of Delta pilots to fund the then remaining balance of an obligation we had under our comprehensive agreement with ALPA to reduce pilot labor costs. The amount in the grantor trust was classified as restricted cash with a corresponding note payable on our Consolidated

Balance Sheet until it was distributed in January 2008.

**Goodwill and Other Intangible Assets**

Goodwill reflects the excess of the reorganization value of the Successor over the fair value of tangible and identifiable intangible assets, reduced by liabilities, from the adoption of fresh start reporting, adjusted for impairment. The following table reflects the change in the carrying amount of goodwill at June 30, 2008:

| (in millions)                                                | Total     |
|--------------------------------------------------------------|-----------|
| Balance at December 31, 2007                                 | \$ 12,104 |
| Impairment charge                                            | (6,939)   |
| Adjustment to pre-emergence deferred tax assets and reserves | 4         |
| Balance at June 30, 2008                                     | 5,169     |

In accordance with SFAS No. 142, Goodwill and Other Intangible Assets ( SFAS 142 ), we apply a fair value-based impairment test to the net book value of goodwill and indefinite-lived intangible assets on an annual basis and, if certain events or circumstances indicate that an impairment loss may have been incurred, on an interim basis. The analysis of potential impairment of goodwill requires a two-step process. The first step is the estimation of fair value. If step one indicates that impairment potentially exists, the second step is performed to measure the amount of impairment, if any. Goodwill impairment exists when the estimated fair value of goodwill is less than its carrying value.

During the three months ended March 31, 2008, we experienced a significant decline in market capitalization driven primarily by record fuel prices and overall airline industry conditions. In addition, the announcement of our intention to merge with Northwest Airlines Corporation ( Northwest ) established a stock exchange ratio based on the relative valuation of Delta and Northwest (see Note 11). We determined that these factors combined with further increases in fuel prices were an indicator that a goodwill impairment test was required pursuant to SFAS 142. As a result, we estimated fair value based on a discounted projection of future cash flows, supported with a market-based valuation. We determined that goodwill was impaired and recorded a non-cash charge of \$6.1 billion based on a preliminary assessment. We finalized the second step of the impairment test during the June 2008 quarter and recorded an additional non-cash charge of \$839 million due to the net increase in the fair value of our other assets and liabilities for a total impairment charge to \$6.9 billion. In estimating fair value under this second step, we based our estimates and assumptions on the same valuation techniques employed and levels of inputs used to estimate the fair value of goodwill upon adoption of fresh start reporting.

In accordance with SOP 90-7, a reduction in the valuation allowance associated with the realization of pre-emergence deferred tax assets will sequentially reduce the value of recorded goodwill followed by other indefinite-lived intangible assets until the net carrying cost of these assets is zero. During the six months ended June 30, 2008, we increased goodwill by \$4 million associated with adjustments to pre-emergence deferred tax assets and reserves.

In addition to the goodwill impairment charge, we recorded a non-cash charge of \$357 million (\$238 million after tax) to reduce the carrying value of certain intangible assets based on their revised estimated fair values. This charge was recorded to impairment of intangible assets on our Consolidated Statement of Operations for the three and six months ended June 30, 2008. The following tables reflect the changes in the carrying amount of intangible assets at June 30, 2008:

**Indefinite-Lived Intangible Assets**

| (in millions)             | Carrying<br>Amount<br>December 31,<br>2007 | Impairment | Carrying<br>Amount<br>June 30,<br>2008 |
|---------------------------|--------------------------------------------|------------|----------------------------------------|
| Trade name                | \$ 880                                     | \$ (30)    | \$ 850                                 |
| Takeoff and arrival slots | 635                                        | (85)       | 550                                    |
| SkyTeam alliance          | 480                                        | (199)      | 281                                    |
| Other                     | 2                                          |            | 2                                      |
| Total                     | \$ 1,997                                   | \$ (314)   | \$ 1,683                               |





**Definite-Lived Intangible Assets**

| (in millions)          | Net<br>Carrying<br>Amount<br>December 31,<br>2007 | Amortization | Impairment | Net<br>Carrying<br>Amount<br>June 30,<br>2008 |
|------------------------|---------------------------------------------------|--------------|------------|-----------------------------------------------|
| Marketing agreements   | \$ 581                                            | (97)         |            | \$ 484                                        |
| Contracts              | 195                                               | (8)          | (12)       | 175                                           |
| Customer relationships | 33                                                | (2)          | (31)       |                                               |
| Total                  | \$ 809                                            | \$ (107)     | \$ (43)    | \$ 659                                        |

Changes in assumptions or circumstances could result in an additional impairment in the period in which the change occurs and in future years. Factors which could cause impairment include, but are not limited to, (1) long-term negative trends in our market capitalization, (2) continued high fuel prices, (3) declining passenger mile yields, (4) lower demand as a result of the weakening U.S. economy, (5) interruption to our operations due to an employee strike, terrorist attack, or other reasons and (6) consolidation of competitors within the industry. For additional information about our accounting policy for goodwill and other intangible assets, see Notes 2 and 5 of the Notes to the Consolidated Financial Statements in our Form 10-K.

**Reclassifications**

We reclassified certain prior period amounts in our Condensed Consolidated Financial Statements to be consistent with our current period presentation.

**3. FAIR VALUE MEASUREMENTS**

SFAS No. 157, Fair Value Measurements ( SFAS 157 ), among other things, defines fair value, establishes a consistent framework for measuring fair value and expands disclosure for each major asset and liability category measured at fair value on either a recurring or nonrecurring basis. SFAS 157 establishes a three-tier fair value hierarchy which prioritizes the inputs used in measuring fair value as follows:

*Level 1.* Observable inputs such as quoted prices in active markets;

*Level 2.* Inputs, other than the quoted prices in active markets, that are observable either directly or indirectly; and

*Level 3.* Unobservable inputs in which there is little or no market data, which require the reporting entity to develop its own assumptions.

**Assets and Liabilities Measured at Fair Value on a Recurring Basis**

| (in millions)          | June 30,<br>2008 | Quoted Prices<br>in Active<br>Markets for<br>Identical Assets<br>(Level 1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |
|------------------------|------------------|----------------------------------------------------------------------------|-----------------------------------------------------------|----------------------------------------------------|
| Cash equivalents       | \$ 3,093         | \$ 3,093                                                                   | \$                                                        | \$                                                 |
| Short-term investments | 103              |                                                                            |                                                           | 103                                                |
| Fuel hedge derivatives | 1,229            |                                                                            | 234                                                       | 995                                                |

## Edgar Filing: DELTA AIR LINES INC /DE/ - Form 10-Q

Our fuel hedge option contracts are valued under the income approach using option-pricing models. During the June 2008 quarter, we reevaluated the valuation inputs used for our option contracts. As a result, we reclassified these contracts from Level 2 to Level 3 within SFAS 157's three-tier fair value hierarchy since valuation at December 31, 2007.

**Assets Measured at Fair Value on a Recurring Basis Using Significant Unobservable Inputs (Level 3)**

| (in millions)                                                                                                                              | Short-term<br>Investments | Fuel Hedging<br>Derivatives |
|--------------------------------------------------------------------------------------------------------------------------------------------|---------------------------|-----------------------------|
| Balance at December 31, 2007                                                                                                               | \$ 107                    | \$                          |
| Transfers to Level 3                                                                                                                       |                           | 53                          |
| Change in fair value included in earnings                                                                                                  | (4)                       | 231                         |
| Change in fair value included in other comprehensive income                                                                                |                           | 789                         |
| Purchases and settlements                                                                                                                  |                           | (78)                        |
| Balance at June 30, 2008                                                                                                                   | \$ 103                    | \$ 995                      |
| (Losses) gains included in earnings attributable to the change in unrealized (losses) gains relating to assets still held at June 30, 2008 | \$ (4)                    | \$ 14                       |

Gains (losses) included in earnings (above) for the six months ended June 30, 2008 are recorded on our Consolidated Statement of Operations as follows:

| (in millions)                                                             | Fuel Expense and<br>Related Taxes | Other (Expense)<br>Income |
|---------------------------------------------------------------------------|-----------------------------------|---------------------------|
| Total gains (losses) included in earnings                                 | \$ 225                            | \$ (8)                    |
| Change in unrealized gains relating to assets still held at June 30, 2008 | \$                                | \$ 10                     |

**Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis**

| (in millions)                      | June 30,<br>2008 | Significant<br>Unobservable<br>Inputs<br>(Level 3) | Total<br>Impairment |
|------------------------------------|------------------|----------------------------------------------------|---------------------|
| Goodwill                           | \$ 5,169         | \$ 5,169                                           | \$ 6,939            |
| Indefinite-lived intangible assets | 1,683            | 1,683                                              | 314                 |
| Definite-lived intangible assets   | 659              | 659                                                | 43                  |

At December 31, 2007, we had goodwill of \$12.1 billion, indefinite-lived intangible assets of \$2.0 billion and definite-lived intangible assets of \$809 million. During the six months ended June 30, 2008, we recorded non-cash impairment charges of \$6.9 billion for goodwill, \$314 million for indefinite-lived intangible assets and \$43 million for definite-lived intangible assets. For additional information regarding these impairments, see Note 2.

We did not record any other fair value adjustments for assets and liabilities measured at fair value on a nonrecurring basis during the six months ended June 30, 2008.

**4. DERIVATIVE INSTRUMENTS*****Fuel Hedging Program***

Our results of operations are materially impacted by changes in the price of aircraft fuel. In an effort to manage our exposure to changes in aircraft fuel prices, we periodically enter into derivative contracts comprised of crude oil, heating oil and jet fuel swap, collar and call option contracts to hedge a portion of our projected aircraft fuel requirements, including those of our contract carriers under capacity purchase agreements. As of June 30, 2008, our open fuel hedge contracts had an estimated fair value gain of \$1.2 billion, which is recorded in fuel hedge derivatives within both current and other assets on our Consolidated Balance Sheet.

## Edgar Filing: DELTA AIR LINES INC /DE/ - Form 10-Q

In accordance with our fuel hedge agreements, (1) we may require counterparties to fund the margin associated with our gain position on fuel hedge contracts, and (2) counterparties may require us to fund the margin associated with our loss position on these contracts. The amount of the margin, if any, is periodically adjusted based on the fair value of the fuel hedge contracts. The margin requirements are intended to mitigate a party's exposure to market volatility and the associated contracting party risk.

The fuel hedge margin we receive from counterparties is recorded, as appropriate, in cash and cash equivalents or restricted cash, with the offsetting obligation in fuel hedge margin on our Consolidated Balance Sheet. The margin we provide to counterparties is recorded in restricted cash on our Consolidated Balance Sheet. All cash flows associated with purchasing and selling fuel hedge contracts are classified as operating cash flows on our Condensed Consolidated Statement of Cash Flows.

At June 30, 2008, we held \$973 million of fuel hedge margin from counterparties, \$671 million of which is recorded in cash and cash equivalents and \$302 million of which is recorded in restricted cash on our Consolidated Balance Sheet. At June 30, 2008, we were not required to fund any fuel hedge margin with counterparties.

For option contracts entered into during 2008, we assess effectiveness based on the total changes in an option's cash flows (the measurement includes the option's total change in fair value, not just the change in intrinsic value). Ineffectiveness is measured as the excess, if any, of the cumulative change in fair value of the option over the cumulative change in fair value of a perfectly effective hypothetical derivative, which acts as a proxy for the fair value of the cumulative change in expected cash flows from the purchase of aircraft fuel.

For option contracts entered into prior to 2008, ineffectiveness is measured based on the intrinsic value of the derivative. The difference between the fair value and intrinsic value represents the time value of the option contract. Time value is excluded from the calculation of ineffectiveness and amortized to other (expense) income on our Consolidated Statements of Operations.

As of June 30, 2008, our fuel hedging position for the six months ending December 31, 2008 and the years ending December 31, 2009 and 2010 is as follows:

|                                        | Percentage of<br>Projected<br>Fuel<br>Requirements<br>Hedged | Contract<br>Fair Value at<br>June 30,<br>2008 |
|----------------------------------------|--------------------------------------------------------------|-----------------------------------------------|
| (in millions, unless otherwise stated) |                                                              |                                               |
| Six months ending December 31, 2008    | 44%                                                          | \$ 628                                        |
| 2009                                   | 22                                                           | 455                                           |
| 2010                                   | 5                                                            | 146                                           |
| Total                                  | 20%                                                          | \$ 1,229                                      |

Gains (losses) recorded on our Consolidated Statements of Operations for the three months ended June 30, 2008, the two months ended June 30, 2007 and the one month ended April 30, 2007 related to our fuel hedge contracts are as follows:

|                              | Aircraft fuel and related taxes              |                                            |                                            | Other (expense) income                       |                                            |                                            |
|------------------------------|----------------------------------------------|--------------------------------------------|--------------------------------------------|----------------------------------------------|--------------------------------------------|--------------------------------------------|
|                              | Successor                                    |                                            | Predecessor                                | Successor                                    |                                            | Predecessor                                |
|                              | Three<br>Months<br>Ended<br>June 30,<br>2008 | Two<br>Months<br>Ended<br>June 30,<br>2007 | One<br>Month<br>Ended<br>April 30,<br>2007 | Three<br>Months<br>Ended<br>June 30,<br>2008 | Two<br>Months<br>Ended<br>June 30,<br>2007 | One<br>Month<br>Ended<br>April 30,<br>2007 |
| (in millions)                |                                              |                                            |                                            |                                              |                                            |                                            |
| Open fuel hedge contracts    | \$                                           | \$                                         | \$                                         | \$ 23                                        | \$ 2                                       | \$ (7)                                     |
| Settled fuel hedge contracts | 313                                          | 4                                          | 10                                         | 8                                            |                                            | (2)                                        |
| Total                        | \$ 313                                       | \$ 4                                       | \$ 10                                      | \$ 31                                        | \$ 2                                       | \$ (9)                                     |

Gains (losses) recorded on our Consolidated Statements of Operations for the six months ended June 30, 2008, the two months ended June 30, 2007 and the four months ended April 30, 2007 related to our fuel hedge contracts are as follows:

|                              | Aircraft fuel and related taxes            |                                            |                                              | Other (expense) income                     |                                            |                                              |
|------------------------------|--------------------------------------------|--------------------------------------------|----------------------------------------------|--------------------------------------------|--------------------------------------------|----------------------------------------------|
|                              | Successor                                  |                                            | Predecessor                                  | Successor                                  |                                            | Predecessor                                  |
|                              | Six<br>Months<br>Ended<br>June 30,<br>2008 | Two<br>Months<br>Ended<br>June 30,<br>2007 | Four<br>Months<br>Ended<br>April 30,<br>2007 | Six<br>Months<br>Ended<br>June 30,<br>2008 | Two<br>Months<br>Ended<br>June 30,<br>2007 | Four<br>Months<br>Ended<br>April 30,<br>2007 |
| (in millions)                |                                            |                                            |                                              |                                            |                                            |                                              |
| Open fuel hedge contracts    | \$                                         | \$                                         | \$                                           | \$ 6                                       | \$ 2                                       | \$ 15                                        |
| Settled fuel hedge contracts | 354                                        | 4                                          | (8)                                          | 8                                          |                                            | (1)                                          |
| Total                        | \$ 354                                     | \$ 4                                       | \$ (8)                                       | \$ 14                                      | \$ 2                                       | \$ 14                                        |

For additional information about our fuel hedging program, see Note 2 of the Notes to the Consolidated Financial Statements in our Form 10-K.

#### Interest Rate Swaps

## Edgar Filing: DELTA AIR LINES INC /DE/ - Form 10-Q

From time to time, we may enter into interest rate swap agreements. We record interest rate swap agreements that qualify as fair value hedges under SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities ( SFAS 133 ) at their fair value on our Consolidated Balance Sheets and adjust these amounts and the related debt to reflect changes in their fair values. We record net periodic interest rate swap settlements as adjustments to interest expense in other income (expense) on our Consolidated Statements of Operations. During June 2008, we entered into interest rate swap agreements converting our interest rate exposure on a portion of our debt portfolio from a fixed rate to a floating rate. The interest rate swap agreements have an aggregate notional amount of \$1 billion maturing September 2011 through July 2012. The floating rates are based on three month LIBOR plus a margin.

At June 30, 2008, our interest rate swap agreements had a fair value of \$3 million, which was recorded in other noncurrent assets on our Consolidated Balance Sheet. In accordance with fair value hedge accounting, the carrying value of our long-term debt at June 30, 2008 included \$3 million of adjustments to debt.

## **5. DEBT**

### ***Aircraft Financing***

During the March 2008 quarter, we entered into a facility to refinance debt that matured in January 2008 and to finance two B-777-200LR aircraft deliveries. Borrowings under this facility are secured by certain aircraft, including the two B-777-200LR aircraft described above, that we own. At June 30, 2008, total borrowings under this facility were \$518 million. Our obligations under this facility will be paid in installments through February 20, 2020 and bear interest at a floating rate based on LIBOR plus a margin.

### ***Pre-Delivery Deposits Financing***

In December 2007, we entered into a facility to borrow up to \$233 million to finance certain pre-delivery payments payable by us to The Boeing Company ( Boeing ) for future deliveries of 10 B-737-700 aircraft and eight B-777-200LR aircraft.

The facility consists of 18 separate loans, one loan for each covered aircraft. The separate loan for each covered aircraft matures upon the delivery of that aircraft to us by Boeing. The loans under the facility have various maturity dates, beginning in February 2008 through August 2009, and bear interest at a floating rate based on LIBOR plus a margin.

During the six months ended June 30, 2008, we borrowed \$47 million under this facility, net of repayments by us, upon the delivery of covered aircraft. As of June 30, 2008, \$203 million of borrowings were outstanding under this facility.

For additional information regarding this facility, see Note 6 of the Notes to the Consolidated Financial Statements in our Form 10-K.

### ***CRJ-900 Financing***

In September 2007, we and our wholly owned subsidiary, Comair, each entered into separate agreements to borrow up to \$290 million with respect to future deliveries of CRJ-900 aircraft. We guarantee payment on behalf of Comair. Our obligations under these debt agreements are secured by the underlying aircraft.

A separate loan for each CRJ-900 aircraft is issued upon delivery of that aircraft to us. Our obligations under these agreements will be paid in installments over 15-years after delivery. The loans under these agreements will have various maturity dates and bear interest at a floating rate based on LIBOR plus a margin.

As of June 30, 2008, a total of \$397 million of borrowings were outstanding under these agreements.

### ***Other Aircraft Financing Arrangements***

In July 2008, we received a commitment from a third party to finance, on a secured basis at the time of acquisition, a substantial portion of the purchase price for the future deliveries of all then-outstanding firm orders of Mainline aircraft (including options for two B-777-200LR aircraft we exercised in July 2008, but excluding orders for 32 B-773-800 aircraft that we have definitive agreements to sell to third parties immediately following delivery to us by the manufacturer). Borrowings under this commitment (1) will be due in monthly installments for 12 years after the date of borrowing and (2) bear interest at LIBOR plus a margin.

### ***Covenants***

We were in compliance with all debt and aircraft lease financing agreement covenants at June 30, 2008.

## **6. PURCHASE COMMITMENTS AND CONTINGENCIES**

### ***Aircraft Order Commitments***



## Edgar Filing: DELTA AIR LINES INC /DE/ - Form 10-Q

Future commitments for aircraft on firm order as of June 30, 2008 approximate \$2.6 billion. The following table shows the timing of these commitments:

### Year Ending December 31,

| (in millions)                       | Amount   |
|-------------------------------------|----------|
| Six months ending December 31, 2008 | \$ 590   |
| 2009                                | 1,310    |
| 2010                                | 710      |
| Total                               | \$ 2,610 |

Our aircraft order commitments as of June 30, 2008 consist of firm orders to purchase six B-777-200LR aircraft, 10 B-737-700 aircraft, 34 B-737-800 aircraft and 15 CRJ-900 aircraft as discussed below. Our firm orders to purchase 34 B-737-800 aircraft include 32 B-737-800 aircraft, which we have entered into definitive agreements to sell to third parties immediately following delivery of these aircraft to us by the manufacturer. These sales will reduce our future commitments by approximately \$1.3 billion during the period from 2008 through 2010 (\$80 million, \$590 million and \$650 million for 2008, 2009 and 2010, respectively). We have received long-term, secured financing commitments from a third party for a substantial portion of the purchase price for our firm orders for Mainline aircraft, as discussed in Note 5.

During 2007, we entered into agreements with Bombardier Inc. ( Bombardier ) to purchase 44 CRJ-900 aircraft for delivery between August 2007 and February 2010. These aircraft will be delivered in two-class, 76 seat configuration. We have available to us long-term, secured financing commitments to fund a substantial portion of the aircraft purchase price for these orders. We expect these CRJ-900 aircraft will be operated by regional air carriers under our capacity purchase agreements. Our agreements with Bombardier permit us to assign to other carriers our CRJ-900 aircraft orders and related support provisions. In April 2007, we assigned to Pinnacle Airlines, Inc. ( Pinnacle ) our orders to purchase 16 CRJ-900 aircraft (the CRJ-900 Assigned Aircraft ). The remaining 28 CRJ-900 aircraft are scheduled for delivery through May 2009. As of June 30, 2008, we had accepted delivery of 20 of these 28 CRJ-900 aircraft, seven of which are being leased to a contract carrier.

The above table includes the potential commitment by us for the CRJ-900 Assigned Aircraft. Pinnacle is required to purchase and make the related payments for those aircraft. We are required to cure any default by Pinnacle of its purchase obligation, and have certain indemnification rights against it for costs incurred in effecting such a cure. As of June 30, 2008, Pinnacle has accepted delivery of nine of the 16 CRJ-900 Assigned Aircraft, and we have received no notice that Pinnacle has defaulted on its purchase obligation.

In July 2008, we exercised options to purchase two additional B-777-200LR aircraft for delivery in 2010. These orders are covered by the third party financing commitment discussed above in Note 5.

### Contract Carrier Agreements

*Capacity Purchase Agreements.* During the six months ended June 30, 2008, seven regional air carriers (in addition to Comair) operated for us pursuant to capacity purchase agreements. Under these agreements, the regional air carriers operate some or all of their aircraft under our flight code, and we schedule those aircraft, sell the seats on those flights and retain the related revenues. We pay those airlines an amount, as defined in the applicable agreement, which is based on a determination of their cost of operating those flights and other factors intended to approximate market rates for those services.

The following table shows the estimated payments under these capacity purchase agreements. The payments set forth in the table assume certain levels of flying by the contract carriers, but this flying is subject to change in accordance with the terms of the agreements between us and the contract carriers and other factors. The payments also reflect assumptions regarding certain costs such as fuel, labor, maintenance, insurance, catering, property tax and landing fees. Accordingly, our actual payments under these agreements could differ materially from the estimated payments set forth in the table.

### Year Ending December 31,

| (in millions)                       | Amount <sup>(1)(2)(3)</sup> |
|-------------------------------------|-----------------------------|
| Six months ending December 31, 2008 | \$ 1,520                    |
| 2009                                | 3,030                       |
| 2010                                | 3,100                       |
| 2011                                | 3,160                       |
| 2012                                | 3,010                       |
| Thereafter                          | 17,350                      |
| <b>Total</b>                        | <b>\$ 31,170</b>            |

(1) These amounts represent estimated payments based on certain assumptions under our capacity purchase agreements with Atlantic Southeast Airlines, Inc., Chautauqua, ExpressJet Airlines, Inc. ( Express Jet ), Freedom, Pinnacle, Shuttle America and SkyWest Airlines, Inc. (excluding contract carrier lease payments accounted for as operating leases, which are described in Note 7 of the Notes to the Consolidated Financial Statements in our Form 10-K). Our capacity purchase agreement with ExpressJet will terminate by mutual agreement as of September 1, 2008.

## Edgar Filing: DELTA AIR LINES INC /DE/ - Form 10-Q

- (2) In March 2008, we issued a notice to Freedom to terminate, effective June 30, 2008, their ERJ-145 capacity purchase agreement due to Freedom's failure to meet certain minimum operational performance requirements under the agreement. Freedom filed a lawsuit against us in the U.S. District Court for the Northern District of Georgia alleging, among other things, that our termination of the agreement was wrongful. In May 2008, the District Court granted Freedom's request for a preliminary injunction, temporarily enjoining us from terminating Freedom's ERJ-145 capacity purchase agreement. We have appealed this ruling to the U.S. Court of Appeals for the Eleventh Circuit.
- (3) In June 2008, we issued a notice to Pinnacle of our intent to terminate its capacity purchase agreement due to Pinnacle's failure to meet certain minimum operational performance requirements under the agreement. Pinnacle has advised us that it believes we do not have the right to terminate the agreement. We have agreed for Pinnacle to continue as a connection carrier through September 2008 and are in discussions with Pinnacle regarding whether the matters underlying the termination notice can be resolved through mutual agreement. As a result of these matters, the table above does not include any payment we would have made to Pinnacle after September 2008.

### *Contingencies Related to Termination of Contract Carrier Agreements*

We may terminate the Chautauqua and Shuttle America agreements without cause at any time after May 2010 and July 2015, respectively, by providing certain advance notice. If we terminate either the Chautauqua or Shuttle America agreements without cause, Chautauqua or Shuttle America, respectively, has the right to (1) assign to us leased aircraft that the airline operates for us, provided we are able to continue the leases on the same terms the airline had prior to the assignment and (2) require us to purchase or lease any of the aircraft that the airline owns and operates for us at the time of the termination. If we are required to purchase aircraft owned by Chautauqua or Shuttle America, the purchase price would be equal to the amount necessary to (1) reimburse Chautauqua or Shuttle America for the equity it provided to purchase the aircraft and (2) repay in full any debt outstanding at such time that is not being assumed in connection with such purchase. If we are required to lease aircraft owned by Chautauqua or Shuttle America, the lease would have (1) a rate equal to the debt payments of Chautauqua or Shuttle America for the debt financing of the aircraft calculated as if 90% of the aircraft was debt financed by Chautauqua or Shuttle America and (2) other specified terms and conditions.

We estimate that the total fair values, determined as of June 30, 2008, of the aircraft that Chautauqua or Shuttle America could assign to us or require that we purchase if we terminate without cause our contract carrier agreements with those airlines (the Put Right ) are approximately \$470 million and \$360 million, respectively. The actual amount that we may be required to pay in these circumstances may be materially different from these estimates. If the Chautauqua or Shuttle America Put Right is exercised, we must also pay to the exercising carrier 10% interest (compounded monthly) on the equity the carrier provided when it purchased the put aircraft. These equity amounts for Chautauqua and Shuttle America total \$56 million and \$34 million, respectively.

### *Legal Contingencies*

We are involved in various legal proceedings relating to employment practices, environmental issues and other matters concerning our business. We cannot reasonably estimate the potential loss for certain legal proceedings because, for example, the litigation is in its early stages or the plaintiff does not specify the damages being sought.

#### *Comair Flight 5191*

On August 27, 2006, Comair Flight 5191 crashed shortly after take-off in a field near the Blue Grass Airport in Lexington, Kentucky. All 47 passengers and two members of the flight crew died in the accident. The third crew member survived with severe injuries. Lawsuits arising out of this accident have been filed against our wholly owned subsidiary, Comair, on behalf of 44 passengers. A number of lawsuits also name Delta, the Federal Aviation Administration (the FAA ) and the third crew member, as a defendant. The lawsuits generally assert claims for wrongful death and related personal injuries, and seek unspecified damages, including punitive damages in most cases. As of July 8, 2008, settlements have been reached with the families of 17 of the 47 passengers. All the remaining passenger lawsuits are currently pending in the U.S. District Court for the Eastern District of Kentucky and have been consolidated as *In Re Air Crash at Lexington, Kentucky, August 27, 2006*, Master File No. 5:06-CV-316.

On July 8, 2008, the District Court granted Delta's motion to dismiss all claims against Delta in the pending lawsuits. Comair continues to pursue settlement negotiations with the plaintiffs in these lawsuits. The settled cases have been dismissed with prejudice.

Comair has filed direct actions in the U.S. District Court for the Eastern District of Kentucky against the U.S. (based on the actions of the FAA), and in state court in Fayette County, Kentucky, against the Lexington Airport Board and certain other Lexington airport defendants. Comair has also filed third party complaints against these same parties in each of the pending passenger lawsuits. These actions seek to apportion liability for damages arising from this accident among all responsible parties.

During 2006, we recorded a long-term liability with a corresponding long-term receivable from our insurance carriers in other noncurrent liabilities and assets, respectively, on our Consolidated Balance Sheet relating to the Comair Flight 5191 accident. These amounts may be revised as additional information becomes available and as settlements are finalized. We carry aviation risk liability insurance and believe that this insurance is sufficient to cover any liability likely to arise from this accident.

#### *Cincinnati Airport Settlement*

On April 24, 2007, the Bankruptcy Court approved the Cincinnati Airport Settlement Agreement with the Kenton County Airport Board ( KCAB ) and UMB Bank, N.A., the trustee (the Bond Trustee ) for the Series 1992 Bonds (as defined below), to restructure certain of our lease and other obligations at the Cincinnati-Northern Kentucky International Airport (the Cincinnati Airport ). The Series 1992 Bonds include: (1) the \$419 million Kenton County Airport Board Special Facilities Revenue Bonds, 1992 Series A (Delta Air Lines, Inc. Project), \$397 million of which were then outstanding and (2) the \$19 million Kenton County Airport Board Special Facilities Revenue Bonds, 1992 Series B (Delta Air Lines, Inc. Project), \$16 million of which were then outstanding.

The Cincinnati Airport Settlement Agreement, among other things:

provides for agreements under which we will continue to use certain facilities at the Cincinnati Airport at substantially reduced costs;

settles all disputes among us, the KCAB, the Bond Trustee and the former, present and future holders of the 1992 Bonds (the 1992 Bondholders );

gives the Bond Trustee, on behalf of the 1992 Bondholders, a \$260 million allowed general, unsecured claim in our bankruptcy proceedings; and

provides for our issuance of \$66 million principal amount of senior unsecured notes to the Bond Trustee on behalf of the 1992 Bondholders.

On May 3, 2007, the parties to the Cincinnati Airport Settlement Agreement implemented that agreement in accordance with its terms. A small group of bondholders (the Objecting Bondholders ) challenged the settlement in the U.S. District Court for the Southern District of New York. In August 2007, the District Court affirmed the Bankruptcy Court's order approving the settlement. The Objecting Bondholders have appealed to the U.S. Court of Appeals for the Second Circuit.

### ***Credit Card Processing Agreements***

#### ***Visa/MasterCard Processing Agreement***

In June 2007, we entered into an amended and restated Visa/MasterCard credit card processing agreement (the Amended Processing Agreement ) that, among other things, resulted in the release by the credit card processor ( Processor ) of the Reserve (defined below) under the agreement and extended the term of the agreement to October 31, 2008.

The Amended Processing Agreement provides that no future cash reserve of an amount ( Reserve ) equal to the Processor's potential liability for tickets purchased with Visa or MasterCard that had not yet been used for travel is required except in certain circumstances, including events that in the reasonable determination of the Processor would have a material adverse effect on us.

Further, if either we or the Processor determines not to extend the term of the Amended Processing Agreement beyond October 31, 2008, then the Processor may maintain a Reserve, if we do not maintain a certain amount of cash, during the period of 90 days before the expiration date of the agreement. The Reserve would equal approximately 100% of the value of tickets for which we had received payment under the Amended Processing Agreement, but which have not been used for travel. Such a Reserve would be released to us following termination of the Amended Processing Agreement as tickets are used for travel. There was no Reserve as of June 30, 2008.

#### ***American Express***

Our American Express credit card processing agreement, entered into in 2004 and amended in 2005, provides that American Express is permitted to withhold our receivables in certain circumstances. These circumstances include a material increase in the risk that we will be unable to meet our obligations under the agreement or that our business undergoes a material adverse change that materially increases American Express' risk of loss. No amounts were withheld as of June 30, 2008.

### ***Other Contingencies***

#### ***Regional Airports Improvement Corporation ( RAIC )***

We have obligations under a facilities agreement with the RAIC to pay the bond trustee amounts sufficient to pay the debt service on \$47 million in Facilities Sublease Refunding Revenue Bonds. These bonds were issued in 1996 to refinance bonds that financed the construction of certain airport and terminal facilities we use at Los Angeles International Airport. We also provide a guarantee to the bond trustee covering payment of the debt service.

#### ***General Indemnifications***

We are the lessee under many commercial real estate leases. It is common in these transactions for us, as the lessee, to agree to indemnify the lessor and the lessor's related parties for tort, environmental and other liabilities that arise out of or relate to our use or occupancy of the leased premises. This type of indemnity would typically make us responsible to indemnified parties for liabilities arising out of the conduct of, among others, contractors, licensees and invitees at or in connection with the use or occupancy of the leased premises. This indemnity often extends to related liabilities arising from the negligence of the indemnified parties, but usually excludes any liabilities caused by either their sole or gross negligence and their willful misconduct.

## Edgar Filing: DELTA AIR LINES INC /DE/ - Form 10-Q

Our aircraft and other equipment lease and financing agreements typically contain provisions requiring us, as the lessee or obligor, to indemnify the other parties to those agreements, including certain of those parties' related persons, against virtually any liabilities that might arise from the condition, use or operation of the aircraft or such other equipment.

We believe that our insurance would cover most of our exposure to such liabilities and related indemnities associated with the types of lease and financing agreements described above, including real estate leases. However, our insurance does not typically cover environmental liabilities, although we have certain policies in place to meet the requirements of applicable environmental laws.

Certain of our aircraft and other financing transactions include provisions, which require us to make payments to preserve an expected economic return to the lenders if that economic return is diminished due to certain changes in law or regulations. In certain of these financing transactions, we also bear the risk of certain changes in tax laws that would subject payments to non-U.S. lenders to withholding taxes.

We cannot reasonably estimate our potential future payments under the indemnities and related provisions described above because we cannot predict (1) when and under what circumstances these provisions may be triggered and (2) the amount that would be payable if the provisions were triggered because the amounts would be based on facts and circumstances existing at such time.

#### *Employees Under Collective Bargaining Agreements*

At June 30, 2008, we had a total of 55,397 full-time equivalent employees. Approximately 17% of these employees, including all of our pilots, are represented by labor unions. The following table presents certain information concerning the union representation of our active domestic employees as of June 30, 2008.

| Employee Group               | Approximate<br>Number of<br>Employees<br>Represented | Union                | Date on which Collective<br>Bargaining Agreement<br>Becomes Amendable |
|------------------------------|------------------------------------------------------|----------------------|-----------------------------------------------------------------------|
| Delta Pilots                 | 6,590                                                | ALPA                 | December 31, 2009                                                     |
| Delta Flight Superintendents | 182                                                  | PAFCA <sup>(1)</sup> | January 1, 2010                                                       |
| Comair Pilots                | 1,434                                                | ALPA                 | March 2, 2011                                                         |
| Comair Maintenance Employees | 528                                                  | IAM <sup>(2)</sup>   | December 31, 2010                                                     |
| Comair Flight Attendants     | 945                                                  | IBT <sup>(3)</sup>   | December 31, 2010                                                     |

The table above was not subject to the review procedures of our Independent Registered Public Accounting Firm.

(1) PAFCA Professional Airline Flight Controllers Association

(2) IAM International Association of Machinists and Aerospace Workers

(3) IBT International Brotherhood of Teamsters

In March 2008, the National Mediation Board authorized an election to determine whether to certify the Association of Flight Attendants/Communication Workers of America (AFA) as the collective bargaining representative for Delta's over 13,000 flight attendants. In May 2008, the National Mediation Board announced that a substantial majority of eligible flight attendants rejected AFA representation.

#### *War-Risk Insurance Contingency*

As a result of the terrorist attacks on September 11, 2001, aviation insurers significantly reduced the maximum amount of insurance coverage available to commercial air carriers for liability to persons (other than employees or passengers) for claims resulting from acts of terrorism, war or similar events. At the same time, aviation insurers significantly increased the premiums for such coverage and for aviation insurance in general. Since September 24, 2001, the U.S. government has been providing U.S. airlines with war-risk insurance to cover losses, including those resulting from terrorism, to passengers, third parties (ground damage) and the aircraft hull. The coverage currently extends through December 31, 2008. The withdrawal of government support of airline war-risk insurance would require us to obtain war-risk insurance coverage commercially, if available. Such commercial insurance could have substantially less desirable coverage than currently provided by the U.S. government, may not be adequate to protect our risk of loss from future acts of terrorism, may result in a material increase to our operating expenses or may not be obtainable at all, resulting in an interruption to our operations.

#### *Fuel Inventory Supply Agreement*

We have an agreement with J. Aron & Company (Aron), an affiliate of Goldman Sachs & Co., pursuant to which Aron is the exclusive jet fuel supplier for our operations at the Atlanta airport, the Cincinnati airport and the three major airports in the New York City area.



## Edgar Filing: DELTA AIR LINES INC /DE/ - Form 10-Q

In August 2007, we and Aron amended and restated the agreement effective as of September 15, 2007. As amended, the agreement with Aron is effective through September 30, 2008 and automatically renews for a one year term thereafter unless terminated by either party thirty days prior to September 30, 2008. Upon termination of the agreement, we will be required to purchase, at market prices at the time of termination, all jet fuel inventory that Aron is holding in the storage facilities that support our operations at the Atlanta and Cincinnati airports and all jet fuel inventory that is in transit to these airports as well as to the three major New York City area airports. Our cost to purchase such inventory may be material. At termination of the agreement, Aron will return to us our rights to use the storage facilities in Atlanta and Cincinnati and our allocations in pipeline systems.

### *Other*

We have certain contracts for goods and services that require us to pay a penalty, acquire inventory specific to us or purchase contract specific equipment, as defined by each respective contract, if we terminate the contract without cause prior to its expiration date. Because these obligations are contingent on our termination of the contract without cause prior to its expiration date, no obligation would exist unless such a termination occurs.

**7. EMPLOYEE BENEFIT PLANS***Net Periodic Cost*

Net periodic cost for the three and six months ended June 30, 2008, the two months ended June 30, 2007 and the one month and four months ended April 30, 2007 includes the following components:

| (in millions)                      | Pension Benefits                 |                                |                                |                                |                                |                                  |
|------------------------------------|----------------------------------|--------------------------------|--------------------------------|--------------------------------|--------------------------------|----------------------------------|
|                                    | Successor                        |                                | Predecessor                    | Successor                      |                                | Predecessor                      |
|                                    | Three Months Ended June 30, 2008 | Two Months Ended June 30, 2007 | One Month Ended April 30, 2007 | Six Months Ended June 30, 2008 | Two Months Ended June 30, 2007 | Four Months Ended April 30, 2007 |
| Service cost                       | \$                               | \$                             | \$                             | \$                             | \$                             | \$                               |
| Interest cost                      | 114                              | 74                             | 36                             | 228                            | 74                             | 145                              |
| Expected return on plan assets     | (106)                            | (70)                           | (32)                           | (211)                          | (70)                           | (129)                            |
| Amortization of prior service cost |                                  |                                |                                |                                |                                |                                  |
| Recognized net actuarial loss      |                                  |                                | 5                              |                                |                                | 19                               |
| Settlement gain on termination     |                                  |                                | (30)                           |                                |                                | (30)                             |
| Revaluation of liability           |                                  |                                | (143)                          |                                |                                | (143)                            |
| Net periodic (benefit) cost        | \$ 8                             | \$ 4                           | \$ (164)                       | \$ 17                          | \$ 4                           | \$ (138)                         |

| (in millions)                         | Other Postretirement Benefits    |                                |                                |                                |                                |                                  |
|---------------------------------------|----------------------------------|--------------------------------|--------------------------------|--------------------------------|--------------------------------|----------------------------------|
|                                       | Successor                        |                                | Predecessor                    | Successor                      |                                | Predecessor                      |
|                                       | Three Months Ended June 30, 2008 | Two Months Ended June 30, 2007 | One Month Ended April 30, 2007 | Six Months Ended June 30, 2008 | Two Months Ended June 30, 2007 | Four Months Ended April 30, 2007 |
| Service cost                          | \$ 2                             | \$ 2                           | \$ 1                           | \$ 4                           | \$ 2                           | \$ 4                             |
| Interest cost                         | 14                               | 10                             | 5                              | 29                             | 10                             | 21                               |
| Amortization of prior service benefit |                                  |                                | (8)                            |                                |                                | (31)                             |
| Recognized net actuarial loss         | (1)                              |                                | 2                              | (3)                            |                                | 8                                |
| Revaluation of liability              |                                  |                                | 49                             |                                |                                | 49                               |
| Net periodic cost                     | \$ 15                            | \$ 12                          | \$ 49                          | \$ 30                          | \$ 12                          | \$ 51                            |

| (in millions)                         | Other Postemployment Benefits    |                                |                                |                                |                                |                                  |
|---------------------------------------|----------------------------------|--------------------------------|--------------------------------|--------------------------------|--------------------------------|----------------------------------|
|                                       | Successor                        |                                | Predecessor                    | Successor                      |                                | Predecessor                      |
|                                       | Three Months Ended June 30, 2008 | Two Months Ended June 30, 2007 | One Month Ended April 30, 2007 | Six Months Ended June 30, 2008 | Two Months Ended June 30, 2007 | Four Months Ended April 30, 2007 |
| Service cost                          | \$ 7                             | \$ 5                           | \$ 3                           | \$ 14                          | \$ 5                           | \$ 8                             |
| Interest cost                         | 32                               | 21                             | 10                             | 63                             | 21                             | 41                               |
| Expected return on plan assets        | (38)                             | (26)                           | (13)                           | (75)                           | (26)                           | (51)                             |
| Amortization of prior service benefit |                                  |                                |                                |                                |                                | (2)                              |
| Recognized net actuarial loss         |                                  |                                | 1                              |                                |                                | 5                                |
| Revaluation of liability              |                                  |                                | (273)                          |                                |                                | (273)                            |
| Net periodic (benefit) cost           | \$ 1                             | \$                             | \$ (272)                       | \$ 2                           | \$                             | \$ (272)                         |

Edgar Filing: DELTA AIR LINES INC /DE/ - Form 10-Q

For additional information about our benefit plans, see Note 10 of the Notes to the Consolidated Financial Statements in our Form 10-K.

## 8. COMPREHENSIVE (LOSS) INCOME

Comprehensive (loss) income primarily includes (1) our reported net (loss) income, (2) changes in our unrecognized pension, postretirement and postemployment benefit liabilities, (3) changes in the effective portion of our open fuel hedge contracts which qualify for hedge accounting and (4) changes in our deferred tax asset valuation allowance as a result of items (2) and (3) above.

The following table shows our comprehensive (loss) income for the three and six months ended June 30, 2008, the two months ended June 30, 2007 and the one month and four months ended April 30, 2007:

|                                                                                | Successor                                    |                                            | Predecessor                                |  | Successor                                  |                                            | Predecessor                                  |  |
|--------------------------------------------------------------------------------|----------------------------------------------|--------------------------------------------|--------------------------------------------|--|--------------------------------------------|--------------------------------------------|----------------------------------------------|--|
|                                                                                | Three<br>Months<br>Ended<br>June 30,<br>2008 | Two<br>Months<br>Ended<br>June 30,<br>2007 | One<br>Month<br>Ended<br>April 30,<br>2007 |  | Six<br>Months<br>Ended<br>June 30,<br>2008 | Two<br>Months<br>Ended<br>June 30,<br>2007 | Four<br>Months<br>Ended<br>April 30,<br>2007 |  |
| (in millions)                                                                  |                                              |                                            |                                            |  |                                            |                                            |                                              |  |
| Net (loss) income                                                              | \$ (1,044)                                   | \$ 164                                     | \$ 1,428                                   |  | \$ (7,434)                                 | \$ 164                                     | \$ 1,298                                     |  |
| Gains on effective portion of our open fuel hedge contracts, net of tax effect | 497                                          | 5                                          | (8)                                        |  | 621                                        | 5                                          | 69                                           |  |
| Deferred tax asset valuation allowance                                         | 305                                          | 3                                          |                                            |  | 396                                        | 3                                          |                                              |  |
| Other                                                                          | (1)                                          |                                            | 6                                          |  | (1)                                        |                                            | 6                                            |  |
| Comprehensive (loss) income                                                    | \$ (243)                                     | \$ 172                                     | \$ 1,426                                   |  | \$ (6,418)                                 | \$ 172                                     | \$ 1,373                                     |  |

## 9. RESTRUCTURING AND OTHER RESERVES

In March 2008, we announced two voluntary workforce reduction programs for U.S. non-pilot employees with the intent of reducing planned workforce levels by approximately 2,000 positions. Approximately 4,200 employees elected to participate in these programs, which have been accounted for in accordance with SFAS No. 112, Employers Accounting for Postemployment Benefits an amendment of Financial Accounting Standards Board Statements No. 5 and 43, and SFAS No. 88, Employers Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits. We recorded \$96 million and \$112 million in restructuring and related items on our Consolidated Statement of Operations for the three and six months ended June 30, 2008 in connection with the workforce reduction programs. We expect any additional charges to be incurred in connection with the workforce reduction programs will be immaterial.

The following table shows charges recorded for restructuring and related items for the three and six months ended June 30, 2008 related to (1) severance and related costs under our 2008 voluntary workforce reduction program and (2) facility closures and other costs:

|                             | Three Months<br>Ended<br>June 30,<br>2008 | Six Months<br>Ended<br>June 30,<br>2008 |
|-----------------------------|-------------------------------------------|-----------------------------------------|
| (in millions)               |                                           |                                         |
| Severance and related costs | \$ 96                                     | \$ 112                                  |
| Facilities and other        | 6                                         | 6                                       |
| Total                       | \$ 102                                    | \$ 118                                  |

The following table shows our restructuring and related items balances as of June 30, 2008, and the activity for the six months then ended related to (1) severance and related costs under our 2008 voluntary workforce reduction programs and (2) facility closures and other costs:

|               | Balance at<br>December 31,<br>2007 | Additional<br>Costs<br>and<br>Expenses | Payments | Balance at<br>June 30,<br>2008 |
|---------------|------------------------------------|----------------------------------------|----------|--------------------------------|
| (in millions) |                                    |                                        |          |                                |

Edgar Filing: DELTA AIR LINES INC /DE/ - Form 10-Q

|                                     |    |   |    |     |    |      |    |     |
|-------------------------------------|----|---|----|-----|----|------|----|-----|
| Severance and related costs         | \$ | 3 | \$ | 112 | \$ | (11) | \$ | 101 |
| Facilities and other <sup>(1)</sup> |    |   |    | 6   |    | (1)  |    | 8   |
| Total                               | \$ | 3 | \$ | 118 | \$ | (12) | \$ | 109 |

<sup>(1)</sup> The facilities and other balance includes costs related primarily to (1) future lease payments on closed facilities and (2) contract termination fees. During the six months ended June 30, 2008, we recorded a \$6 million charge related primarily to the closure of certain facilities.

**10. (LOSS) EARNINGS PER SHARE**

We calculate basic (loss) earnings per share by dividing the net (loss) earnings attributable to common shareowners by the weighted average number of common shares outstanding. In accordance with SFAS No. 128, Earnings per Share, shares issuable upon the satisfaction of certain conditions pursuant to a contingent stock agreement, such as those contemplated by the Plan of Reorganization, are considered outstanding common shares and included in the computation of basic earnings per share. Accordingly, all 386 million shares contemplated by the Plan of Reorganization to be distributed to holders of allowed general, unsecured claims are included in the calculation of basic (loss) earnings per share for the three and six months ended June 30, 2008 and the two months ended June 30, 2007.

Diluted (loss) earnings per share includes the dilutive effects of stock options and restricted stock. To the extent stock options and restricted stock are anti-dilutive, they are excluded from the calculation of earnings per share. For the three and six months ended June 30, 2008, we excluded from our earnings per share calculations all common stock equivalents because their effect on earnings per share was anti-dilutive. For additional information regarding these shares, see Note 16 of the Notes to the Consolidated Financial Statements in our Form 10-K.

The following table shows our computation of basic and diluted (loss) earnings per share for the three and six months ended June 30, 2008, the two months ended June 30, 2007 and the one month and four months ended April 30, 2007:

|                                                                        | <b>Successor</b>                  |                                 | <b>Predecessor</b>             |                                 | <b>Successor</b>                |                                  | <b>Predecessor</b>             |                                  |
|------------------------------------------------------------------------|-----------------------------------|---------------------------------|--------------------------------|---------------------------------|---------------------------------|----------------------------------|--------------------------------|----------------------------------|
|                                                                        | <b>Three<br/>Months<br/>Ended</b> | <b>Two<br/>Months<br/>Ended</b> | <b>One<br/>Month<br/>Ended</b> | <b>Six<br/>Months<br/>Ended</b> | <b>Two<br/>Months<br/>Ended</b> | <b>Four<br/>Months<br/>Ended</b> | <b>One<br/>Month<br/>Ended</b> | <b>Four<br/>Months<br/>Ended</b> |
|                                                                        | <b>June 30,<br/>2008</b>          | <b>June 30,<br/>2007</b>        | <b>April 30,<br/>2007</b>      | <b>June 30,<br/>2008</b>        | <b>June 30,<br/>2007</b>        | <b>April 30,<br/>2007</b>        | <b>June 30,<br/>2008</b>       | <b>April 30,<br/>2007</b>        |
| <b>(in millions, except per share data)</b>                            |                                   |                                 |                                |                                 |                                 |                                  |                                |                                  |
| <b>Basic:</b>                                                          |                                   |                                 |                                |                                 |                                 |                                  |                                |                                  |
| Net (loss) income                                                      | \$ (1,044)                        | \$ 164                          | \$ 1,428                       | \$ (7,434)                      | \$ 164                          | \$ 1,298                         |                                |                                  |
| Basic weighted average shares outstanding                              | 395.7                             | 393.6                           | 197.3                          | 395.7                           | 393.6                           | 197.3                            |                                |                                  |
| Basic (loss) earnings per share                                        | \$ (2.64)                         | \$ 0.42                         | \$ 7.24                        | \$ (18.79)                      | \$ 0.42                         | \$ 6.58                          |                                |                                  |
| <b>Diluted:</b>                                                        |                                   |                                 |                                |                                 |                                 |                                  |                                |                                  |
| Net (loss) income                                                      | \$ (1,044)                        | \$ 164                          | \$ 1,428                       | \$ (7,434)                      | \$ 164                          | \$ 1,298                         |                                |                                  |
| Gain recognized on the forgiveness of convertible debt                 |                                   |                                 | (216)                          |                                 |                                 | (216)                            |                                |                                  |
| Net (loss) income assuming conversion                                  | \$ (1,044)                        | \$ 164                          | \$ 1,212                       | \$ (7,434)                      | \$ 164                          | \$ 1,082                         |                                |                                  |
| Basic weighted average shares outstanding                              | 395.7                             | 393.6                           | 197.3                          | 395.7                           | 393.6                           | 197.3                            |                                |                                  |
| Additional shares assuming:                                            |                                   |                                 |                                |                                 |                                 |                                  |                                |                                  |
| Restricted shares                                                      |                                   | 0.2                             |                                |                                 | 0.2                             |                                  |                                |                                  |
| Conversion of 8.0% Convertible Senior Notes                            |                                   |                                 | 12.5                           |                                 |                                 | 12.5                             |                                |                                  |
| Conversion of 2 <sup>7</sup> / <sub>8</sub> % Convertible Senior Notes |                                   |                                 | 23.9                           |                                 |                                 | 23.9                             |                                |                                  |
| Weighted average shares outstanding, as adjusted                       | 395.7                             | 393.8                           | 233.7                          | 395.7                           | 393.8                           | 233.7                            |                                |                                  |
| Dilutive (loss) earnings per share                                     | \$ (2.64)                         | \$ 0.42                         | \$ 5.19                        | \$ (18.79)                      | \$ 0.42                         | \$ 4.63                          |                                |                                  |

**11. MERGER AND RELATED MATTERS**

On April 14, 2008, we entered into an Agreement and Plan of Merger (the Merger Agreement) with Northwest whereby Northwest will become a wholly owned subsidiary of Delta. The merger has been approved by the Board of Directors of each company.

Under the terms of the Merger Agreement, each outstanding share of Northwest common stock (including those shares issuable pursuant to Northwest's plan of reorganization under Chapter 11) will be exchanged for 1.25 shares of Delta common stock. Northwest stock options and other equity awards will generally convert upon completion of the merger into stock options and equity awards with respect to Delta common stock, after giving effect to the exchange ratio. In addition, we have agreed to issue common stock equal to 3.5% of our fully-diluted outstanding shares for Delta pilots and 2.38% of our fully-diluted outstanding shares for Northwest pilots (after giving effect to the shares issued in

## Edgar Filing: DELTA AIR LINES INC /DE/ - Form 10-Q

connection with the merger), effective on the closing of the merger and subject to ratification by Delta and Northwest pilots of the tentative combined collective bargaining agreement, described below, and approval by Delta stockholders of the amendment to the Delta 2007 Performance Compensation Plan to increase the number of shares of Delta common stock issuable under that plan. We have also announced our intention to issue to U.S. based non-pilot employees of Delta and Northwest shares of our common stock equal to 4% of our fully-diluted outstanding shares (after giving effect to the shares issued in connection with the merger), effective on the closing of the merger and subject to shareholder approval of the amendment to the Delta 2007 Performance Compensation Plan to increase the number of shares of Delta common stock issuable under that plan.

Completion of the merger is subject to customary conditions, including approval by holders of common stock of Northwest and Delta and regulatory clearance under the Hart-Scott-Rodino Antitrust Improvements Act of 1976 and the applicable merger control laws of the European Commission. The Merger Agreement contains certain termination rights for both Delta and Northwest. The Merger Agreement further provides that, upon termination of the Merger Agreement under specified circumstances, Northwest may be required to pay to Delta, or Delta may be required to pay to Northwest, a termination fee of \$165 million. We currently target the merger to close by the end of 2008.

Certain contracts, employee benefit arrangements and debt instruments of Delta and Northwest contain change in control provisions that may be triggered by the merger, resulting in changes to the terms or settlement amounts of the contracts, arrangements or instruments.

We have also reached a tentative combined collective bargaining agreement that would cover Delta's pilots and Northwest's pilots upon the closing of the merger. The tentative combined agreement is subject to separate ratification by Delta and Northwest pilots, would become effective on the closing of the merger and would become amendable on December 31, 2012. We cannot predict the outcome of the separate ratification votes by Delta or Northwest pilots. The Delta Master Executive Council (the Delta MEC), the governing body of the Delta unit of ALPA, the Northwest Master Executive Council (the Northwest MEC), the governing body of the Northwest Airlines, Inc. unit of ALPA, and ALPA have also agreed to adopt and be bound by a Process Agreement relating to the determination of an integrated seniority list, which would become effective upon the closing of the merger, for the combined Delta and Northwest pilot groups. The parties to the Process Agreement may not revise, waive any material right under, or terminate the Process Agreement without our consent.

If the stockholders of Delta do not approve an amendment to the Delta 2007 Performance Compensation Plan to increase the number of shares of Delta common stock issuable under that plan, the Delta MEC and the Northwest MEC will separately have the ability, prior to the closing of the merger, to terminate the transaction framework agreement that we have entered into with the Delta MEC, the Northwest MEC and ALPA. Such a termination would cause the transaction framework agreement and the combined collective bargaining agreement to become void. If those agreements become void, we cannot assure you when or whether we could reach new agreements with the pilot groups.



**ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**  
**Background**

We are a major air carrier that provides scheduled air transportation for passengers and cargo throughout the United States ( U.S. ) and around the world. We offer service, including Delta Connection carrier service, to 327 destinations in 62 countries in July 2008. We are a founding member of SkyTeam, a global airline alliance that provides customers with extensive worldwide destinations, flights and services. Including our SkyTeam and worldwide codeshare partners, we offer flights to 499 worldwide destinations in 105 countries in July 2008.

On April 30, 2007 (the Effective Date ), we and substantially all of our subsidiaries (collectively, the Debtors ) emerged from bankruptcy as a competitive airline with a global network. Upon emergence from Chapter 11, we adopted fresh start reporting in accordance with American Institute of Certified Public Accountants' Statement of Position 90-7, Financial Reporting by Entities in Reorganization under the Bankruptcy Code ( SOP 90-7 ). The adoption of fresh start reporting resulted in our becoming a new entity for financial reporting purposes. Accordingly, the Condensed Consolidated Financial Statements on or after May 1, 2007 are not comparable to the Condensed Consolidated Financial Statements prior to that date.

References in this Form 10-Q to Successor refer to Delta on or after May 1, 2007, after giving effect to (1) the cancellation of Delta common stock issued prior to the Effective Date, (2) the issuance of new Delta common stock and certain debt securities in accordance with the Debtors Joint Plan of Reorganization (the Plan of Reorganization ) and (3) the application of fresh start reporting. References to Predecessor refer to Delta prior to May 1, 2007.

**Combined Quarterly Financial Results of the Predecessor and Successor**

Due to our adoption of fresh start reporting on April 30, 2007, the accompanying Consolidated Statements of Operations include the results of operations for (1) the one month and four months ended April 30, 2007 of the Predecessor and (2) the two months ended June 30, 2007 of the Successor.

For purposes of management's discussion and analysis of the results of operations in this Form 10-Q, we combined the results of operations for (1) the one month ended April 30, 2007 of the Predecessor with the two months ended June 30, 2007 of the Successor and (2) the four months April 30, 2007 of the Predecessor with the two months ended June 30, 2007 of the Successor. We then compare the combined results of operations for the three and six months ended June 30, 2007 with the corresponding periods in the current year.

We believe the combined results of operations for the three and six months ended June 30, 2007 provide management and investors with a more meaningful perspective on Delta's financial and operational performance than if we did not combine the results of operations of the Predecessor and the Successor in this manner. Similarly, we combine the financial results of the Predecessor and the Successor when discussing our sources and uses of cash for the six months ended June 30, 2007.

**Recent Developments**

***Merger***

On April 14, 2008, we entered into an Agreement and Plan of Merger (the Merger Agreement ) with Northwest Airlines Corporation ( Northwest ) whereby Northwest will become a wholly owned subsidiary of Delta. The merger better positions us to manage through economic cycles and volatile fuel prices, to invest in our fleet and to improve services for customers. We believe the merger will generate approximately \$2 billion in annual revenue and cost synergies by 2012 from more effective aircraft utilization, a more comprehensive and diversified route system and cost synergies from reduced overhead and improved operational efficiency. The merger has been approved by the Board of Directors of each company.

Under the terms of the Merger Agreement, each outstanding share of Northwest common stock (including those shares issuable pursuant to Northwest's plan of reorganization under Chapter 11) will be exchanged for 1.25 shares of Delta common stock. Northwest stock options and other equity awards will generally convert upon completion of the merger into stock options and equity awards with respect to Delta common stock, after giving effect to the exchange ratio. In addition, we have agreed to issue common stock equal to 3.5% of our fully-diluted outstanding shares for Delta pilots and 2.38% of our fully-diluted outstanding shares for Northwest pilots (after giving effect to the shares issued in connection with the merger), effective on the closing of the merger and subject to ratification by Delta and Northwest pilots of the tentative combined collective bargaining agreement, described below, and approval by Delta stockholders of the amendment to the Delta 2007 Performance Compensation Plan to increase the number of shares of Delta common stock issuable under that plan. We have also announced our intention to issue to U.S. based non-pilot employees of Delta and Northwest shares of our common stock equal to 4% of our fully-diluted shares (after giving effect to the shares issued in connection with the merger), effective on the closing of the merger and subject to stockholder approval of the amendment to the Delta 2007 Performance Compensation Plan to increase the number of shares of Delta common stock issuable under

that plan.

Completion of the merger is subject to customary conditions, including approval by holders of common stock of Northwest and Delta and regulatory clearance under the Hart-Scott-Rodino Antitrust Improvements Act of 1976 and the applicable merger control laws of the European Commission. The Merger Agreement contains certain termination rights for both Delta and Northwest. The Merger Agreement further provides that, upon termination of the Merger Agreement under specified circumstances, Northwest may be required to pay to Delta, or Delta may be required to pay to Northwest, a termination fee of \$165 million. We currently target the merger to close by the end of 2008.

#### ***ALPA Matters***

In connection with the Merger Agreement, we reached an agreement with the Air Line Pilots Association, International (ALPA) to modify the existing collective bargaining agreement covering Delta's pilots, which was ratified by Delta pilots. Subsequently, we reached a tentative combined collective bargaining agreement that would cover Delta's pilots and Northwest's pilots upon the closing of the merger. The tentative combined agreement is subject to separate ratification by Delta and Northwest pilots, would become effective on the closing of the merger and would become amendable on December 31, 2012. The Delta Master Executive Council (the Delta MEC), the governing body of the Delta unit of ALPA, and the Northwest Master Executive Council (the Northwest MEC), the governing body of the Northwest Airlines, Inc. unit of ALPA, have each agreed to recommend that Delta and Northwest pilots, respectively, ratify the tentative combined agreement and use their reasonable best efforts to cause a ratification vote by August 25, 2008. We cannot predict the outcome of the ratification vote by Delta or Northwest pilots. The Delta MEC, the Northwest MEC and ALPA have also agreed to adopt and be bound by a Process Agreement relating to the determination of an integrated seniority list, which would become effective upon the closing of the merger, for the combined Delta and Northwest pilot groups. The parties to the Process Agreement may not revise, waive any material right under, or terminate the Process Agreement without our consent.

If the stockholders of Delta do not approve an amendment to the Delta 2007 Performance Compensation Plan to increase the number of shares of Delta common stock issuable under that plan, the Delta MEC and the Northwest MEC will separately have the ability, prior to the closing of the merger, to terminate the transaction framework agreement that we have entered into with the Delta MEC, the Northwest MEC and ALPA. Such a termination would cause the transaction framework agreement and the combined collective bargaining agreement to become void. If those agreements become void, we cannot assure you when or whether we could reach new agreements with the pilot groups.

#### ***Antitrust Immunity***

On May 23, 2008, the U.S. Department of Transportation issued a final order granting antitrust immunity for alliance agreements allowing coordination of pricing, schedules, sales and other marketing activities in transatlantic markets between Delta, Northwest, Air France, KLM, Alitalia and CSA Czech Airlines. The order, effectively combines the preexisting antitrust immunity between (1) Northwest and KLM and (2) Delta, Air France, Alitalia, and CSA Czech Airlines in the transatlantic markets. The grant of immunity is subject to a number of conditions, including the implementation of a planned four-way transatlantic joint venture between Delta, Air France, Northwest and KLM, within 18 months of the date of the final order.

#### **Overview of June 2008 Quarter Results**

In the June 2008 quarter, we recorded a consolidated net loss of \$1.0 billion, which includes a \$1.2 billion non-cash charge (\$1.1 billion after tax) from an impairment of goodwill and other intangible assets.

#### ***Business Initiatives***

The rapid increase in fuel costs to record high levels (crude oil prices have increased from an average of \$68 per barrel in June 2007 to an average of \$134 per barrel in June 2008) and the weakening U.S. economy continue to place significant pressure on the airline industry and our business. Fuel prices for the June 2008 quarter, including those of our contract carriers, accounted for over \$1.0 billion of the increase in total operating expense (offset by \$313 million in effective fuel hedges) as compared to the June 2007 quarter.

In March 2008, we announced we had recalibrated our 2008 business plan with a focus on preserving liquidity in light of the significant increase in crude oil prices. During the June 2008 quarter, as fuel prices continued to rise, we reevaluated our flight schedule, targeting additional reductions in capacity. We now expect system capacity for the second half of 2008 to be down 4% compared to 2007, with domestic capacity down 13% and international capacity up 14%. We have also implemented revenue and productivity initiatives as well as continued to build our fuel hedging portfolio to help address high fuel costs. As a result of our actions, we mitigated nearly 80% of the impact of higher fuel prices during the June 2008 quarter.

#### **Results of Operations June 2008 and 2007 Quarters**

##### ***Net (Loss) Income***

## Edgar Filing: DELTA AIR LINES INC /DE/ - Form 10-Q

We had a consolidated net loss of \$1.0 billion for the June 2008 quarter and consolidated net income of \$1.6 billion for the June 2007 quarter. The results for the June 2008 quarter reflect (1) a \$1.2 billion non-cash charge (\$1.1 billion after tax) from an impairment of goodwill and other intangible assets, (2) the impact of increased jet fuel prices to record high levels and (3) a weakening domestic economy. The June 2007 quarter results include a \$1.3 billion gain to reorganization items, net, primarily reflecting a \$2.1 billion gain in connection with our emergence from bankruptcy.

**Operating Revenue**

|                           | Successor<br>Three Months<br>Ended<br>June 30,<br>2008 | Combined<br>Three Months<br>Ended<br>June 30,<br>2007 | Increase<br>(Decrease) | %<br>Increase<br>(Decrease) |
|---------------------------|--------------------------------------------------------|-------------------------------------------------------|------------------------|-----------------------------|
| (in millions)             |                                                        |                                                       |                        |                             |
| <b>Operating Revenue:</b> |                                                        |                                                       |                        |                             |
| Passenger:                |                                                        |                                                       |                        |                             |
| Mainline                  | \$ 3,627                                               | \$ 3,384                                              | \$ 243                 | 7%                          |
| Regional affiliates       | 1,143                                                  | 1,109                                                 | 34                     | 3%                          |
| Total passenger revenue   | 4,770                                                  | 4,493                                                 | 277                    | 6%                          |
| Cargo                     | 160                                                    | 118                                                   | 42                     | 36%                         |
| Other, net                | 569                                                    | 392                                                   | 177                    | 45%                         |
| Total operating revenue   | \$ 5,499                                               | \$ 5,003                                              | \$ 496                 | 10%                         |

Operating revenue totaled \$5.5 billion for the June 2008 quarter, a \$496 million, or 10%, increase compared to the June 2007 quarter. Passenger revenue increased 6% on a 2% increase in available seat miles ( ASMs ), or capacity, and a 0.5 point increase in load factor. The increase in passenger revenue reflects a rise of 4% and 5% in passenger mile yield and passenger revenue per available seat mile ( PRASM ), respectively. Mainline passenger revenue increased primarily due to (1) our increased service to international destinations, (2) yield management and (3) increased SkyMiles revenue, including changes made to the accounting for our SkyMiles program upon our adoption of fresh start reporting. Passenger revenue of regional affiliates increased primarily due to higher yield and a higher load factor, despite a 2% decrease in RPMs on a 3% decline in capacity. Other, net revenue increased primarily due to (1) increased administrative service charges and baggage handling fees, (2) growth in aircraft maintenance and repair services provided to third parties and (3) higher SkyMiles revenue primarily associated with an increase in fees related to the SkyMiles program.

|                           | Successor<br>Three Months<br>Ended<br>June 30,<br>2008 | Increase (Decrease)<br>Three Months Ended June 30, 2008 vs. 2007 |       |                            |       |                |          |
|---------------------------|--------------------------------------------------------|------------------------------------------------------------------|-------|----------------------------|-------|----------------|----------|
|                           | Passenger<br>Revenue                                   | RPMs                                                             | ASMs  | Passenger<br>Mile<br>Yield | PRASM | Load<br>Factor |          |
| (in millions)             |                                                        |                                                                  |       |                            |       |                |          |
| <b>Passenger Revenue:</b> |                                                        |                                                                  |       |                            |       |                |          |
| North America             | \$ 3,163                                               | (1)%                                                             | (5)%  | (6)%                       | 4%    | 5%             | 0.7pts   |
| International             | 1,583                                                  | 26%                                                              | 17%   | 16%                        | 7%    | 8%             | 0.7pts   |
| Charter                   | 24                                                     | (3)%                                                             | (26)% |                            | 31%   | (3)%           | (9.9)pts |
| Total passenger revenue   | \$ 4,770                                               | 6%                                                               | 2%    | 2%                         | 4%    | 5%             | 0.5pts   |

**North American Passenger Revenue.** North American passenger revenue decreased by \$45 million, or 1%, driven by a 5% decline in RPMs on a 6% decline in capacity. The passenger mile yield increased 4%. The decline in passenger revenue reflects the weakening domestic economy and the continued restructuring of our route network to reduce less productive short haul domestic flights and reallocate widebody aircraft to international routes.

**International Passenger Revenue.** International passenger revenue increased \$323 million, or 26%, generated by a 17% increase in RPMs on a 16% increase in capacity and an 8% increase in PRASM. The passenger mile yield increased 7%. These results reflect increases in service to international destinations, primarily in the Atlantic and Latin American markets, from the restructuring of our route network, combined with pricing initiatives implemented in response to the increasing cost of fuel. Our mix of domestic versus international capacity was 62% and 38%, respectively, in the three months ended June 30, 2008, compared to 66% and 34%, respectively, for the three months ended June 30, 2007.



**Operating Expense**

|                                                    | Successor<br>Three Months<br>Ended | Combined<br>Three Months<br>Ended |                        |                             |
|----------------------------------------------------|------------------------------------|-----------------------------------|------------------------|-----------------------------|
| (in millions)                                      | June 30,<br>2008                   | June 30,<br>2007                  | Increase<br>(Decrease) | %<br>Increase<br>(Decrease) |
| <b>Operating Expense:</b>                          |                                    |                                   |                        |                             |
| Aircraft fuel and related taxes                    | \$ 1,678                           | \$ 1,112                          | \$ 566                 | 51%                         |
| Salaries and related costs                         | 1,092                              | 1,039                             | 53                     | 5%                          |
| Contract carrier arrangements                      | 931                                | 769                               | 162                    | 21%                         |
| Depreciation and amortization                      | 302                                | 288                               | 14                     | 5%                          |
| Aircraft maintenance materials and outside repairs | 295                                | 247                               | 48                     | 19%                         |
| Contracted services                                | 257                                | 243                               | 14                     | 6%                          |
| Passenger commissions and other selling expenses   | 248                                | 253                               | (5)                    | (2)%                        |
| Landing fees and other rents                       | 185                                | 182                               | 3                      | 2%                          |
| Passenger service                                  | 105                                | 85                                | 20                     | 24%                         |
| Aircraft rent                                      | 67                                 | 56                                | 11                     | 20%                         |
| Impairment of goodwill                             | 839                                |                                   | 839                    | NM                          |
| Impairment of intangible assets                    | 357                                |                                   | 357                    | NM                          |
| Restructuring and related items                    | 104                                |                                   | 104                    | NM                          |
| Profit sharing                                     |                                    | 79                                | (79)                   | NM                          |
| Other                                              | 126                                | 160                               | (34)                   | (21)%                       |
| <b>Total operating expense</b>                     | <b>\$ 6,586</b>                    | <b>\$ 4,513</b>                   | <b>\$ 2,073</b>        | <b>46%</b>                  |

Operating expense was \$6.6 billion for the June 2008 quarter, a \$2.1 billion, or 46%, increase compared to the June 2007 quarter. Operating expense increased primarily due to (1) a \$1.2 billion non-cash charge from an impairment of goodwill and other intangible assets, (2) higher fuel prices, including those of our contract carriers, which increased operating expense by more than \$1.0 billion (partially offset by \$313 million in fuel hedge gains), and (3) increased capacity. Operating capacity increased 2% to 38.7 billion ASMs due mainly to increases in service to international destinations, primarily in the Atlantic and Latin American markets and from the restructuring of our route network.

*Aircraft fuel and related taxes.* Aircraft fuel and related taxes increased primarily due to higher average fuel prices. These increases were partially offset by gains on our fuel hedge derivatives. Fuel prices averaged \$3.13 per gallon, including fuel hedge gains of \$313 million, for the June 2008 quarter, compared to \$2.09 per gallon, including fuel hedge gains of \$14 million, for the June 2007 quarter.

*Salaries and related costs.* The increase in salaries and related costs reflects (1) a 4% increase in average Mainline headcount (primarily incurred prior to the departures under the voluntary workforce reduction programs) due to our assumption of Atlantic Southeast Airlines, Inc. (ASA) ramp operations in Atlanta and the hiring of pilots and flight attendants to staff our increased international flights, (2) increases in group insurance rates and (3) expense associated with share-based compensation.

*Contract carrier arrangements.* Contract carrier arrangements expense increased primarily due to higher average fuel prices and an increase in passenger handling fees from higher contract rates. Fuel prices for our contract carriers averaged \$3.85 per gallon for the June 2008 quarter, compared to \$2.24 per gallon for the June 2007 quarter. These increases were partially offset by an adjustment associated with reimbursement for maintenance and crew related interrupted operations.

*Aircraft maintenance materials and outside repairs.* The increase in aircraft maintenance materials and outside repairs is primarily due to the cost of sales associated with growth in our maintenance and repair business.

*Impairment of goodwill.* During the March 2008 quarter, we experienced a significant decline in market capitalization driven primarily by record fuel prices and overall airline industry conditions. In addition, the announcement of our intention to merge with Northwest established a stock exchange ratio based on the relative valuation of Delta and Northwest. As a result of these indicators, we determined that goodwill was impaired and recorded a non-cash charge of \$6.1 billion based on a preliminary assessment. We finalized the second step of the impairment test during the June 2008 quarter and recorded an additional non-cash charge of \$839 million for a total impairment charge of \$6.9 billion.

*Impairment of intangible assets.* In addition to the goodwill impairment charge, we recorded a non-cash charge of \$357 million to reduce the carrying value of certain intangible assets based on their revised estimated fair values.



*Restructuring and related items.* In March 2008, we announced two voluntary workforce reduction programs for U.S. non-pilot employees. We recorded \$96 million in restructuring and related charges for the June 2008 quarter in connection with these programs. In addition, we recorded \$8 million in charges related to the closure of certain facilities and merger-related expenses.

*Other.* The decrease in other operating expense is primarily due to (1) a gain on sales of aircraft and (2) impairment charges recorded in 2007 on flight simulators.

### ***Operating (Loss) Income and Operating Margin***

We reported an operating loss of \$1.1 billion and operating income of \$490 million for the June 2008 and 2007 quarters, respectively. Operating margin, which is the ratio of operating (loss) income to operating revenues, was (20%) and 10% for the June 2008 and 2007 quarters, respectively.

### ***Other (Expense) Income***

Other expense, net for the June 2008 quarter was \$76 million, compared to \$138 million for the June 2007 quarter. This change is substantially attributable to (1) a \$41 million, or 23%, decrease in interest expense primarily due to the repayment in 2007 of our debtor-in-possession financing facilities and other higher floating rate debt in connection with our emergence from Chapter 11 and the amortization of premiums associated with the revaluation of our debt and capital lease obligations in connection with our adoption of fresh start reporting, partially offset by interest expense on incremental borrowings and (2) a \$33 million increase to miscellaneous, net associated with marking our fuel hedge derivatives to fair value. These improvements were partially offset by a \$12 million decrease to interest income primarily due to lower interest rates.

### ***Reorganization Items, Net***

Reorganization items, net totaled a \$1.3 billion gain for the June 2007 quarter, primarily consisting of the following:

*Emergence gain.* A net \$2.1 billion gain due to our emergence from bankruptcy, comprised of (1) a \$4.4 billion gain related to the discharge of liabilities subject to compromise in connection with the settlement of claims, (2) a \$2.6 billion charge associated with the revaluation of our SkyMiles frequent flyer obligation and (3) a \$238 million gain from the revaluation of our remaining assets and liabilities to fair value. For additional information regarding this gain, see Note 1 of the Notes to the Condensed Consolidated Financial Statements.

*Aircraft financing renegotiations and rejections.* \$438 million of estimated claims primarily associated with the restructuring of the financing arrangements of 127 aircraft and adjustments to prior claims estimates.

*Emergence compensation.* In accordance with the Plan of Reorganization, we made \$130 million in lump-sum cash payments to approximately 39,000 eligible non-contract, non-management employees. We also recorded an additional charge of \$32 million related to our portion of payroll related taxes associated with the issuance, as contemplated by the Plan of Reorganization, of approximately 14 million shares of common stock to those employees.

*Facility leases.* A net \$80 million charge from an allowed general, unsecured claim in connection with the settlement relating to the restructuring of certain of our lease and other obligations at the Cincinnati-Northern Kentucky International Airport ( CVG ).

### ***Income Taxes***

We recorded an income tax benefit of \$119 million for the June 2008 quarter as a result of the impairment of our indefinite-lived intangible assets. The impairment of goodwill did not result in an income tax benefit as goodwill is not deductible for income tax purposes. We did not record an income tax benefit for the remainder of our June 2008 quarter loss. The deferred tax asset resulting from such net operating losses is fully reserved by a valuation allowance.

For the June 2007 quarter, we recorded an income tax provision totaling \$99 million. We have recorded a full valuation allowance against our net deferred tax assets, excluding the effect of the deferred tax liabilities that are unable to be used as a source of income against these deferred

## Edgar Filing: DELTA AIR LINES INC /DE/ - Form 10-Q

tax assets, based on our belief that it is more likely than not that the asset will not be realized in the future. We will continue to assess the need for a full valuation allowance in future periods. In accordance with SOP 90-7, the reduction of the valuation allowance associated with the realization of pre-emergence deferred tax assets will sequentially reduce the value of our recorded goodwill followed by other indefinite-lived intangible assets until the net carrying cost of these assets is zero. Accordingly, during the June 2007 quarter, we reduced goodwill by \$103 million with respect to the realization of pre-emergence deferred tax assets.

**Combined Results of Operations Six Months Ended June 2008 and 2007****Net (Loss) Income**

We had a consolidated net loss of \$7.4 billion for the six months ended June 30, 2008, and consolidated net income of \$1.5 billion for the six months ended June 30, 2007. The results for the six months ended June 30, 2008 reflect (1) a \$7.3 billion non-cash charge (\$7.2 billion after tax) from an impairment of goodwill and other intangible assets, (2) the impact of increased jet fuel prices to record high levels and (3) a weakening domestic economy. The results for the six months ended June 30, 2007 include a \$1.2 billion gain to reorganization items, net, primarily reflecting a \$2.1 billion gain in connection with our emergence from bankruptcy.

**Operating Revenue**

| (in millions)             | Successor<br>Six Months<br>Ended<br>June 30,<br>2008 | Combined<br>Six Months<br>Ended<br>June 30,<br>2007 | Increase<br>(Decrease) | %<br>Increase<br>(Decrease) |
|---------------------------|------------------------------------------------------|-----------------------------------------------------|------------------------|-----------------------------|
| <b>Operating Revenue:</b> |                                                      |                                                     |                        |                             |
| Passenger:                |                                                      |                                                     |                        |                             |
| Mainline                  | \$ 6,688                                             | \$ 6,167                                            | \$ 521                 | 8%                          |
| Regional affiliates       | 2,182                                                | 2,056                                               | 126                    | 6%                          |
| Total passenger revenue   | 8,870                                                | 8,223                                               | 647                    | 8%                          |
| Cargo                     | 294                                                  | 230                                                 | 64                     | 28%                         |
| Other, net                | 1,101                                                | 791                                                 | 310                    | 39%                         |
| Total operating revenue   | \$ 10,265                                            | \$ 9,244                                            | \$ 1,021               | 11%                         |

Operating revenue totaled \$10.3 billion for the six months ended June 30, 2008, a \$1.0 billion, or 11%, increase compared to the six months ended June 30, 2007. Passenger revenue increased 8% on a 3% increase in capacity and 0.7 point increase in load factor. The increase in passenger revenue is primarily due to a rise of 5% and 6% in passenger mile yield and PRASM, respectively. Mainline passenger revenue increased primarily due (1) our increased service to international destinations, (2) yield management and (3) increased SkyMiles revenue, including changes made to the accounting for our SkyMiles program upon our adoption of fresh start reporting. Passenger revenue of regional affiliates increased primarily due to higher yield and a higher load factor, which resulted in a 7% increase in PRASM on a 1% decline in capacity. Other, net revenue increased primarily due to (1) increased administrative service charges and baggage handling fees, (2) growth in aircraft maintenance and repair services provided to third parties and (3) higher SkyMiles revenue primarily associated with an increase in fees related to the SkyMiles program and increased purchases of SkyMiles by participating companies.

| (in millions)             | Increase (Decrease)<br>Six Months Ended June 30, 2008 vs. 2007 |                      |           |      |               |       |                |
|---------------------------|----------------------------------------------------------------|----------------------|-----------|------|---------------|-------|----------------|
|                           | Successor<br>Six Months<br>Ended                               |                      | Passenger |      |               |       |                |
|                           | June 30,<br>2008                                               | Passenger<br>Revenue | RPMs      | ASMs | Mile<br>Yield | PRASM | Load<br>Factor |
| <b>Passenger Revenue:</b> |                                                                |                      |           |      |               |       |                |
| North America             | \$ 6,084                                                       | 1%                   | (3)%      | (4)% | 4%            | 6%    | 0.9pts         |
| International             | 2,729                                                          | 25%                  | 15%       | 14%  | 9%            | 10%   | 0.7pts         |
| Charter                   | 57                                                             | 13%                  | 11%       | 10%  | 1%            | 3%    | 0.5pts         |
| Total passenger revenue   | \$ 8,870                                                       | 8%                   | 3%        | 2%   | 5%            | 6%    | 0.7pts         |

**North American Passenger Revenue.** North American passenger revenue increased \$88 million, or 1%, driven by a 0.9 point increase in load factor and 6% increase in PRASM on a 4% decline in capacity. The passenger mile yield increased 4%. The increases in passenger revenue and PRASM reflect the continued restructuring of our route network to reduce less productive short haul domestic flights and reallocate widebody

aircraft to international routes.

*International Passenger Revenue.* International passenger revenue increased \$553 million, or 25%, generated by a 15% increase in RPMs from a 14% increase in capacity. The passenger mile yield and PRASM increased 9% and 10%, respectively. These results reflect increases in service to international destinations, primarily in the Atlantic and Latin American markets, from the restructuring of our route network, combined with pricing initiatives implemented in response to the increasing cost of fuel. Our mix of domestic versus international capacity was 64% and 36%, respectively, in the six months ended June 30, 2008, compared to 68% and 32%, respectively, for the six months ended June 30, 2007.

**Operating Expense**

| (in millions)                                      | Successor<br>Six Months<br>Ended<br>June 30,<br>2008 | Combined<br>Six Months<br>Ended<br>June 30,<br>2007 | Increase<br>(Decrease) | %<br>Increase<br>(Decrease) |
|----------------------------------------------------|------------------------------------------------------|-----------------------------------------------------|------------------------|-----------------------------|
| <b>Operating Expense:</b>                          |                                                      |                                                     |                        |                             |
| Aircraft fuel and related taxes                    | \$ 3,100                                             | \$ 2,060                                            | \$ 1,040               | 50%                         |
| Salaries and related costs                         | 2,183                                                | 2,010                                               | 173                    | 9%                          |
| Contract carrier arrangements                      | 1,827                                                | 1,486                                               | 341                    | 23%                         |
| Depreciation and amortization                      | 599                                                  | 579                                                 | 20                     | 3%                          |
| Aircraft maintenance materials and outside repairs | 563                                                  | 485                                                 | 78                     | 16%                         |
| Contracted services                                | 511                                                  | 486                                                 | 25                     | 5%                          |
| Passenger commissions and other selling expenses   | 473                                                  | 473                                                 |                        | %                           |
| Landing fees and other rents                       | 364                                                  | 372                                                 | (8)                    | (2)%                        |
| Passenger service                                  | 189                                                  | 156                                                 | 33                     | 21%                         |
| Aircraft rent                                      | 131                                                  | 126                                                 | 5                      | 4%                          |
| Impairment of goodwill                             | 6,939                                                |                                                     | 6,939                  | NM                          |
| Impairment of intangible assets                    | 357                                                  |                                                     | 357                    | NM                          |
| Restructuring and related items                    | 120                                                  |                                                     | 120                    | NM                          |
| Profit sharing                                     |                                                      | 79                                                  | (79)                   | NM                          |
| Other                                              | 257                                                  | 287                                                 | (30)                   | 10%                         |
| <b>Total operating expense</b>                     | <b>\$ 17,613</b>                                     | <b>\$ 8,599</b>                                     | <b>\$ 9,014</b>        | <b>105%</b>                 |

Operating expense was \$17.6 billion for the six months ended June 30, 2008, a \$9.0 billion, or 105%, increase compared to the six months ended June 30, 2007. As discussed below, the increase in operating expense was primarily due to (1) a \$7.3 billion non-cash charge from an impairment of goodwill and other intangible assets, (2) higher fuel prices, including those of our contract carriers, which increased operating expense by more than \$1.7 billion (partially offset by \$354 million in fuel hedge gains), and (3) increased capacity. Operating capacity increased 2% to 74.8 billion ASMs primarily due to higher contract carrier flying from our business plan initiatives to right-size capacity.

*Aircraft fuel and related taxes.* Aircraft fuel and related taxes increased primarily due to higher average fuel prices. These increases were partially offset by gains on our fuel hedge derivatives. Fuel prices averaged \$2.99 per gallon, including fuel hedge gains of \$354 million, for the six months ended June 30, 2008, compared to \$2.02 per gallon, including fuel hedge losses of \$4 million, for the six months ended June 30, 2007.

*Salaries and related costs.* The increase in salaries and related costs reflects (1) a 6% increase in average Mainline headcount (primarily incurred prior to the departures under the workforce reduction programs) due to our assumption of ASA ramp operations in Atlanta and the hiring of pilots and flight attendants to staff our increased international flights, (2) increases in group insurance rates and (3) expense associated with share-based compensation.

*Contract carrier arrangements.* Contract carrier arrangements expense increased primarily due to higher average fuel prices and an increase in passenger handling fees from higher contract rates. Fuel prices for our contract carriers averaged \$3.49 per gallon for the six months ended June 30, 2008, compared to \$2.07 per gallon for the six months ended June 30, 2007.

*Aircraft maintenance materials and outside repairs.* The increase in aircraft maintenance materials and outside repairs is primarily due to the cost of sales associated with growth in our maintenance and repair business.

*Passenger Service.* The increase in passenger service is primarily due to the increased cost of catering to international passengers and upgrades in our Business Elite cabins.

*Impairment of goodwill.* During the March 2008 quarter, we experienced a significant decline in market capitalization driven primarily by record fuel prices and overall airline industry conditions. In addition, the announcement of our intention to merge with Northwest established a stock exchange ratio based on the relative valuation of Delta and Northwest. As a result of these indicators, we determined that goodwill was impaired and recorded a non-cash charge of \$6.9 billion.

*Impairment of intangible assets.* In addition to the goodwill impairment charge, we recorded a non-cash charge of \$357 million to reduce the carrying value of certain intangible assets based on their revised estimated fair values.

*Restructuring and related items.* In March 2008, we announced two voluntary workforce reduction programs for U.S. non-pilot employees. We recorded \$112 million in restructuring and related charges for the six months ended June 30, 2008 in connection with these programs. In addition, we recorded \$8 million in charges related to the closure of certain facilities and merger-related expenses.

*Profit sharing.* Our broad-based employee profit sharing plan provides that, for each year in which we have an annual pre-tax profit (as defined), we will pay at least 15% of that profit to eligible employees. Based on our pre-tax earnings for 2007, we accrued \$79 million under the profit sharing plan. No accrual has been recorded for 2008.

*Other.* The decrease in other operating expense is primarily due to (1) credits for services provided for ASA ramp operations, (2) a gain on sales of aircraft and (3) impairment charges recorded in 2007 on flight simulators. These decreases were partially offset by increased navigation charges from our increased international operations and a prior year frequent flyer liability benefit.

### ***Operating (Loss) Income and Operating Margin***

We reported an operating loss of \$7.3 billion for the six months ended June 30, 2008 and operating income of \$645 million for the six months ended June 30, 2007. Operating margin, which is the ratio of operating income (loss) to operating revenues, was (72)% and 7% for the six months ended June 30, 2008 and 2007, respectively.

### ***Other (Expense) Income***

Other expense, net for the six months ended June 30, 2008 was \$205 million, compared to \$299 million for the six months ended June 30, 2007. This change is substantially attributable to a 25%, or \$94 million, decrease in interest expense primarily due to the repayment of our debtor-in-possession financing facilities and other higher floating rate debt in connection with our emergence from Chapter 11 and the amortization of premiums associated with the revaluation of our debt and capital lease obligations in connection with our adoption of fresh start reporting, partially offset by interest expense on incremental borrowings.

### ***Reorganization Items, Net***

Reorganization items, net totaled a \$1.2 billion gain for the six months ended June 30, 2007, primarily consisting of the following:

*Emergence gain.* A net \$2.1 billion gain due to our emergence from bankruptcy. For additional information regarding this gain, see Results of Operations - June 2008 and 2007 Quarters - Reorganization Items, Net above.

*Aircraft financing renegotiations and rejections.* \$440 million of estimated claims primarily associated with the restructuring of the financing arrangements for 143 aircraft and adjustments to prior claims estimates.

*Contract carrier agreements.* A net charge of \$163 million in connection with amendments to certain contract carrier agreements.

*Emergence compensation.* In accordance with the Plan of Reorganization, we made \$130 million in lump-sum cash payments to approximately 39,000 eligible non-contract, non-management employees. We also recorded an additional charge of \$32 million related to our portion of payroll related taxes associated with the issuance, as contemplated by the Plan of Reorganization, of approximately 14 million shares of common stock to those employees.

*Pilot collective bargaining agreement.* An \$83 million allowed general, unsecured claim in connection with Comair's agreement with ALPA to reduce Comair's pilot labor costs.

*Facility leases.* A net \$43 million gain, which primarily reflects (1) a \$126 million net gain related to our settlement agreement with the Massachusetts Port Authority offset by (2) a net \$80 million charge from an allowed general, unsecured claim in connection with the settlement relating to the restructuring of certain of our lease and other obligations at CVG.

***Income Taxes***

We recorded an income tax benefit of \$119 million for the six months ended June 30, 2008 as a result of the impairment of our indefinite-lived intangible assets. The impairment of goodwill did not result in an income tax benefit as goodwill is not deductible for income tax purposes. We did not record an income tax benefit for the remainder of our loss for the six months ended June 30, 2008. The deferred tax asset resulting from such net operating losses is fully reserved by a valuation allowance.

For the six months ended June 30, 2007, we recorded an income tax provision totaling \$99 million. We have recorded a full valuation allowance against our net deferred tax assets, excluding the effect of the deferred tax liabilities that are unable to be used as a source of income against these deferred tax assets, based on our belief that it is more likely than not that the asset will not be realized in the future. We will continue to assess the need for a full valuation allowance in future periods. In accordance with SOP 90-7, the reduction of the valuation allowance associated with the realization of pre-emergence deferred tax assets will sequentially



reduce the value of our recorded goodwill followed by other indefinite-lived intangible assets until the net carrying cost of these assets is zero. Accordingly, during the six months ended June 30, 2007, we reduced goodwill by \$103 million with respect to realization of pre-emergence deferred tax assets.

### Operating Statistics

The following table sets forth our operating statistics for the three and six months ended June 30, 2008 and 2007.

|                                                           | Successor<br>Three<br>Months<br>Ended<br>June 30,<br>2008 | Combined<br>Three<br>Months<br>Ended<br>June 30,<br>2007 | Successor<br>Six<br>Months<br>Ended<br>June 30,<br>2008 | Combined<br>Six<br>Months<br>Ended<br>June 30,<br>2007 |
|-----------------------------------------------------------|-----------------------------------------------------------|----------------------------------------------------------|---------------------------------------------------------|--------------------------------------------------------|
| <b>Consolidated Combined:</b>                             |                                                           |                                                          |                                                         |                                                        |
| RPMs (millions) <sup>(1)</sup>                            | 32,269                                                    | 31,578                                                   | 60,473                                                  | 58,790                                                 |
| ASMs (millions) <sup>(1)</sup>                            | 38,736                                                    | 38,127                                                   | 74,827                                                  | 73,407                                                 |
| Passenger Mile Yield <sup>(1)</sup>                       | 14.78¢                                                    | 14.23¢                                                   | 14.67¢                                                  | 13.99¢                                                 |
| PRASM <sup>(1)</sup>                                      | 12.31¢                                                    | 11.78¢                                                   | 11.85¢                                                  | 11.20¢                                                 |
| Operating Cost Per Available Seat Mile <sup>(1) (2)</sup> | 17.00¢                                                    | 11.84¢                                                   | 23.54¢                                                  | 11.71¢                                                 |
| Passenger Load Factor <sup>(1)</sup>                      | 83.3%                                                     | 82.8%                                                    | 80.8%                                                   | 80.1%                                                  |
| Fuel Gallons Consumed (millions)                          | 535                                                       | 531                                                      | 1,035                                                   | 1,022                                                  |
| Average Price Per Fuel Gallon, Net of Hedging activity    | \$ 3.13                                                   | \$ 2.09                                                  | \$ 2.99                                                 | \$ 2.02                                                |
| Number of Aircraft in Fleet, End of Period                | 579                                                       | 573                                                      | 579                                                     | 573                                                    |
| Full-Time Equivalent Employees, End of Period             | 55,397                                                    | 55,542                                                   | 55,397                                                  | 55,542                                                 |
| <b>Mainline:</b>                                          |                                                           |                                                          |                                                         |                                                        |
| RPMs (millions)                                           | 27,558                                                    | 26,776                                                   | 51,353                                                  | 49,769                                                 |
| ASMs (millions)                                           | 32,902                                                    | 32,130                                                   | 63,172                                                  | 61,684                                                 |
| Operating Cost Per Available Seat Mile                    | 16.10¢                                                    | 10.69¢                                                   | 23.85¢                                                  | 10.53¢                                                 |
| Number of Aircraft in Fleet, End of Period                | 450                                                       | 440                                                      | 450                                                     | 440                                                    |

<sup>(1)</sup> Includes the operations under contract carrier agreements with unaffiliated regional air carriers:

ASA, SkyWest Airlines, Inc., Chautauqua Airlines, Inc., Freedom Airlines, Inc. and Shuttle America Corporation for all periods presented;

ExpressJet for the three and six months ended June 30, 2008 and from June 1 to June 30, 2007; and

Pinnacle for the three and six months ended June 30, 2008.

<sup>(2)</sup> Includes the operations of our ancillary businesses, Delta TechOps, which provides aircraft maintenance and repair to aviation and airline customers, and Delta Global Services, LLC, which provides general and aviation services, training and technical services and staffing to airlines.

For additional information about our contract carrier agreements, see Note 6 of the Notes to the Condensed Consolidated Financial Statements.

### Financial Condition and Liquidity

We expect to meet our cash needs for 2008 from cash flows from operations, cash and cash equivalents and short-term investments and financing arrangements. We also have an undrawn \$1.0 billion revolving credit facility that is a part of our senior secured exit financing facility. Our cash and cash equivalents and short-term investments were \$3.3 billion at June 30, 2008, compared to \$3.4 billion at June 30, 2007.

### Significant Liquidity Events

Significant liquidity events during the six months ended June 30, 2008 are as follows:

As of June 30, 2008, our open fuel hedge contracts had an estimated fair value gain of \$1.2 billion. In accordance with our fuel hedge agreements, (1) we may require counterparties to fund the margin associated with our gain position on fuel hedge contracts, and (2) counterparties may require us to fund the margin associated with our loss position on these contracts. At June 30, 2008, we held \$973 million of fuel hedge margin from counterparties, \$671 million of which is recorded in cash and cash equivalents and \$302 million of which is recorded in restricted cash on our Consolidated Balance Sheet. At June 30, 2008, we were not required to fund any fuel hedge margin with counterparties.

In February 2008, we entered into a facility to refinance debt that matured in January 2008 and finance two B-777-200LR aircraft deliveries in the March 2008 quarter. Borrowings under this facility are secured by certain aircraft, including the two B-777-200LR aircraft described above, that we own. At June 30 2008, total borrowings under this facility were \$518 million. Our obligations under this facility will be paid in installments through February 20, 2020.

In December 2007, we entered into a facility to borrow up to \$233 million to finance certain pre-delivery payments payable by us to The Boeing Company ( Boeing ) for future deliveries of 10 B-737-700 aircraft and eight B-777-200LR aircraft. During the six months ended June 30, 2008, we borrowed \$47 million under this facility, net of repayments by us upon the delivery of covered aircraft. As of June 30, 2008, \$203 million of borrowings were outstanding under this facility.

In September 2007, we and our wholly owned subsidiary, Comair, each entered into separate agreements to borrow up to \$290 million with respect to future deliveries of CRJ-900 aircraft. We guarantee payment on behalf of Comair. Our obligations under these debt agreements are secured by the underlying aircraft. A separate loan for each CRJ-900 aircraft is issued upon delivery of that aircraft to us. Our obligations under these agreements will be paid in installments over 15-years after delivery. The loans under these agreements will have various maturity dates and bear interest at a floating rate based on LIBOR plus a margin. As of June 30, 2008, a total of \$397 million of borrowings were outstanding under these agreements.

#### ***Sources and Uses of Cash***

##### ***Cash flows from operating activities***

Cash provided by operating activities was \$1.3 billion and \$815 million for the six months ended June 30, 2008 and 2007, respectively. Cash provided by operating activities was higher for the six months ended June 30, 2008 compared to the six months ended June 30, 2007 primarily due to (1) a \$970 million decrease in short-term investments primarily from sales of auction rate securities, (2) \$671 million of unrestricted fuel hedge margin we received from counterparties related to open fuel hedge contracts, (3) a \$303 million reduction in restricted cash that had been set aside as collateral by credit card processors in 2007 and (4) a \$195 million increase in advance ticket sales. These increases were partially offset by (1) an increase in fuel payments from the impact of record high fuel prices, as discussed above, (2) the payment of \$175 million in premiums for fuel hedge derivatives entered into during 2008, (3) the payment of \$158 million under our broad-based employee profit sharing plan and (4) a \$127 million increase in accounts receivable associated with advance ticket sales and the timing of settlements of these receivables.

##### ***Cash flows from investing activities***

Cash used in investing activities totaled \$809 million and \$153 million for the six months ended June 30, 2008 and 2007, respectively. Cash used in investing activities was higher for the six months ended June 30, 2008 compared to the six months ended June 30, 2007 primarily due to (1) an increase in investment of \$537 million for flight equipment and advanced payments for aircraft commitments and \$41 million for ground property and equipment and (2) a \$108 million reduction in the amount of cash released from restriction. These increases were partially offset by \$56 million in proceeds from the sale of aircraft and other flight equipment.

##### ***Cash flows from financing activities***

Cash provided by financing activities totaled \$128 million for the six months ended June 30, 2008, compared to cash used in financing activities of \$866 million for the six months ended June 30, 2007. Cash provided by financing activities for the six months ended June 30, 2008 primarily reflects \$848 million in proceeds from aircraft financing, including those discussed above, partially offset by the repayment of \$400 million of Series 2003-1 Enhanced Equipment Trust Certificates and scheduled principal payments on long-term debt and capital lease obligations.

#### ***Contractual Obligations***

The following is a summary of significant changes in our contractual obligations since December 31, 2007:

*Contract carrier obligations.* As of June 30, 2008, the estimated payments under our capacity purchase agreements with contract carriers increased by a total of \$5.2 billion for the period beginning in July 2008 and ending in 2020 compared to the estimate

## Edgar Filing: DELTA AIR LINES INC /DE/ - Form 10-Q

included in our Form 10-K. This increase is primarily associated with increases in fuel prices to record high levels. The estimated payments assume certain levels of flying under the capacity purchase agreements, but this flying is subject to change in accordance with the terms of the agreements between us and the contract carriers and other factors. The payments also reflect assumptions regarding certain costs such as fuel, labor, maintenance, insurance, catering, property tax and landing fees. Accordingly, our actual payments under these agreements could differ materially from these estimated payments.

**Application of Critical Accounting Policies*****Critical Accounting Estimates******Goodwill and Other Intangible Assets***

Goodwill reflects the excess of the reorganization value of the Successor over the fair value of tangible and identifiable intangible assets, reduced by liabilities, from the adoption of fresh start reporting, adjusted for impairment. The following table reflects the change in the carrying amount of goodwill at June 30, 2008:

| (in millions)                                                | Total     |
|--------------------------------------------------------------|-----------|
| Balance at December 31, 2007                                 | \$ 12,104 |
| Impairment charge                                            | (6,939)   |
| Adjustment to pre-emergence deferred tax assets and reserves | 4         |
| Balance at June 30, 2008                                     | \$ 5,169  |

In accordance with SFAS No. 142, *Goodwill and Other Intangible Assets* (SFAS 142), we apply a fair value-based impairment test to the net book value of goodwill and indefinite-lived intangible assets on an annual basis and, if certain events or circumstances indicate that an impairment loss may have been incurred, on an interim basis. The analysis of potential impairment of goodwill requires a two-step process. The first step is the estimation of fair value. If step one indicates that impairment potentially exists, the second step is performed to measure the amount of impairment, if any. Goodwill impairment exists when the estimated fair value of goodwill is less than its carrying value.

During the three months ended March 31, 2008, we experienced a significant decline in market capitalization driven primarily by record fuel prices and overall airline industry conditions. In addition, the announcement of our intention to merge with Northwest established a stock exchange ratio based on the relative valuation of Delta and Northwest (see Note 11 of the Notes to the Condensed Consolidated Financial Statements). We determined that these factors combined with further increases in fuel prices were an indicator that a goodwill impairment test was required pursuant to SFAS 142. As a result, we estimated fair value based on a discounted projection of future cash flows, supported with a market-based valuation. We determined that goodwill was impaired and recorded a non-cash charge of \$6.1 billion based on a preliminary assessment. We finalized the second step of the impairment test during the June 2008 quarter and recorded an additional non-cash charge of \$839 million due to the net increase in the fair value of our other assets and liabilities for a total impairment charge to \$6.9 billion. In estimating fair value under this second step, we based our estimates and assumptions on the same valuation techniques employed and levels of inputs used to estimate the fair value of goodwill upon adoption of fresh start reporting.

In accordance with SOP 90-7, a reduction in the valuation allowance associated with the realization of pre-emergence deferred tax assets will sequentially reduce the value of recorded goodwill followed by other indefinite-lived intangible assets until the net carrying cost of these assets is zero. During the six months ended June 30, 2008, we increased goodwill by \$4 million associated with adjustments to pre-emergence deferred tax assets and reserves.

In addition to the goodwill impairment charge, we recorded a non-cash charge of \$357 million (\$238 million after tax) to reduce the carrying value of certain intangible assets based on their revised estimated fair values. This charge was recorded to impairment of intangible assets on our Consolidated Statement of Operations for the three and six months ended June 30, 2008. The following tables reflect the change in the carrying amount of intangible assets at June 30, 2008:

**Indefinite-Lived Intangible Assets**

| (in millions)             | Carrying<br>Amount<br>December 31,<br>2007 | Impairment | Carrying<br>Amount<br>June 30,<br>2008 |
|---------------------------|--------------------------------------------|------------|----------------------------------------|
| Trade name                | \$ 880                                     | \$ (30)    | \$ 850                                 |
| Takeoff and arrival slots | 635                                        | (85)       | 550                                    |
| SkyTeam alliance          | 480                                        | (199)      | 281                                    |

Edgar Filing: DELTA AIR LINES INC /DE/ - Form 10-Q

|       |  |          |          |          |
|-------|--|----------|----------|----------|
| Other |  | 2        |          | 2        |
| Total |  | \$ 1,997 | \$ (314) | \$ 1,683 |

**Definite-Lived Intangible Assets**

| (in millions)          | Net Carrying Amount |  | Amortization | Impairment | Net Carrying Amount |  |
|------------------------|---------------------|--|--------------|------------|---------------------|--|
|                        | December 31, 2007   |  |              |            | June 30, 2008       |  |
| Marketing agreements   | \$ 581              |  | \$ (97)      |            | \$ 484              |  |
| Contracts              | 195                 |  | (8)          | (12)       | 175                 |  |
| Customer relationships | 33                  |  | (2)          | (31)       |                     |  |
| Total                  | \$ 809              |  | \$ (107)     | \$ (43)    | \$ 659              |  |

Changes in assumptions or circumstances could result in an additional impairment in the period in which the change occurs and in future years. Factors which could cause impairment include, but are not limited to, (1) long-term negative trends in our market capitalization, (2) continued high fuel prices, (3) declining passenger mile yields, (4) lower demand as a result of the weakening U.S. economy, (5) interruption to our operations due to an employee strike, terrorist attack, or other reasons and (6) consolidation of competitors within the industry. For additional information about our accounting policy for goodwill and other intangible assets, see Notes 2 and 5 of the Notes to the Consolidated Financial Statements in our Form 10-K.

For information regarding our other Critical Accounting Estimates, see the Application of Critical Accounting Policies section of Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations in our Form 10-K.

**ITEM 3. Quantitative and Qualitative Disclosures About Market Risk**

There have been no material changes in market risk from the information provided in the Market Risks Associated with Financial Instruments section of Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations in our Form 10-K other than those discussed below.

**Aircraft Fuel Price Risk**

Our results of operations are materially impacted by changes in the price of aircraft fuel. In an effort to manage our exposure to change in aircraft fuel prices, we periodically enter into derivative contracts comprised of crude oil, heating oil and jet fuel swap, collar and call option contracts to hedge a portion of our projected aircraft fuel requirements, including those of our contract carriers under capacity purchase agreements. As of June 30, 2008, our open fuel hedge contracts had an estimated fair value gain of \$1.2 billion, which is recorded in fuel hedge derivatives within both current and other assets on our Consolidated Balance Sheet.

In accordance with our fuel hedge agreements, (1) we may require counterparties to fund the margin associated with our gain position on fuel hedge contracts, and (2) counterparties may require us to fund the margin associated with our loss position on these contracts. At June 30, 2008, we held \$973 million of fuel hedge margin from counterparties, \$671 million of which is recorded in cash and cash equivalents and \$302 million of which is recorded in restricted cash on our Consolidated Balance Sheet. At June 30, 2008, we were not required to fund any fuel hedge margin with counterparties.

For the six months ended June 30, 2008, aircraft fuel and related taxes accounted for 18% of our total operating expenses. Aircraft fuel and related taxes for the six months ended June 30, 2008 increased 50% compared to the six months ended June 30, 2007 primarily due to higher average fuel prices. Fuel prices averaged \$2.99 per gallon, including fuel hedge gains of \$354 million, for the six months ended June 30, 2008, compared to \$2.02 per gallon, including fuel hedge losses of \$4 million, for the six months ended June 30, 2007.

## Edgar Filing: DELTA AIR LINES INC /DE/ - Form 10-Q

As of June 30, 2008, our fuel hedging position for the six months ending December 31, 2008 and the years ending December 31, 2009 and 2010 is as follows:

|                                               | Weighted<br>Average<br>Contract<br>Strike<br>Price<br>per Gallon | Percentage of<br>Projected<br>Fuel<br>Requirements<br>Hedged | Contract<br>Fair<br>Value<br>at<br>June 30,<br>2008 | Contract Fair<br>Value<br>Based<br>Upon 10%<br>Rise in Futures<br>Prices <sup>(1)</sup> | Increase in<br>Aircraft Fuel<br>Expense<br>Due<br>to 10%<br>Rise<br>in Jet Fuel<br>Price <sup>(2)</sup> |
|-----------------------------------------------|------------------------------------------------------------------|--------------------------------------------------------------|-----------------------------------------------------|-----------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------|
| <b>(in millions, unless otherwise stated)</b> |                                                                  |                                                              |                                                     |                                                                                         |                                                                                                         |
| <b>Six months ending December 31, 2008</b>    |                                                                  |                                                              |                                                     |                                                                                         |                                                                                                         |
| <i>Heating oil</i>                            |                                                                  |                                                              |                                                     |                                                                                         |                                                                                                         |
| Call options                                  | \$ 2.41                                                          | 17%                                                          | \$ 335                                              | \$ 421                                                                                  | \$ 190                                                                                                  |
| Swaps                                         | 2.72                                                             | 5                                                            | 78                                                  | 102                                                                                     | 55                                                                                                      |
| Collars cap/floor                             | 2.98/2.90                                                        | 3                                                            | 32                                                  | 45                                                                                      | 28                                                                                                      |
| <i>Crude Oil</i>                              |                                                                  |                                                              |                                                     |                                                                                         |                                                                                                         |
| Collars cap/floor                             | 3.05/2.81                                                        | 8                                                            | 39                                                  | 87                                                                                      | 91                                                                                                      |
| <i>Jet Fuel</i>                               |                                                                  |                                                              |                                                     |                                                                                         |                                                                                                         |
| Swaps                                         | 2.92                                                             | 11                                                           | 144                                                 | 197                                                                                     | 114                                                                                                     |
| Total                                         |                                                                  | 44%                                                          | \$ 628                                              | \$ 852                                                                                  | \$ 478                                                                                                  |
| <b>2009</b>                                   |                                                                  |                                                              |                                                     |                                                                                         |                                                                                                         |
| <i>Heating oil</i>                            |                                                                  |                                                              |                                                     |                                                                                         |                                                                                                         |
| Collars cap/floor                             | \$ 3.68/3.45                                                     | 3%                                                           | \$ 24                                               | \$ 71                                                                                   | \$ 196                                                                                                  |
| <i>Crude oil</i>                              |                                                                  |                                                              |                                                     |                                                                                         |                                                                                                         |
| Swaps                                         | 2.57                                                             | 1                                                            | 12                                                  | 18                                                                                      | 49                                                                                                      |
| Call options                                  | 2.05                                                             | 10                                                           | 325                                                 | 408                                                                                     | 771                                                                                                     |
| Collars cap/floor                             | 2.97/2.76                                                        | 8                                                            | 94                                                  | 209                                                                                     | 656                                                                                                     |
| Total                                         |                                                                  | 22%                                                          | \$ 455                                              | \$ 706                                                                                  | \$ 1,672                                                                                                |
| <b>2010</b>                                   |                                                                  |                                                              |                                                     |                                                                                         |                                                                                                         |
| <i>Crude oil</i>                              |                                                                  |                                                              |                                                     |                                                                                         |                                                                                                         |
| Call options                                  | \$ 2.16                                                          | 5%                                                           | \$ 146                                              | \$ 188                                                                                  | \$ 1,714                                                                                                |
| Total                                         |                                                                  | 5%                                                           | \$ 146                                              | \$ 188                                                                                  | \$ 1,714                                                                                                |

<sup>(1)</sup> Projection based upon average futures prices per gallon by contract settlement month.

<sup>(2)</sup> Projection based upon estimated jet fuel price per gallon of \$3.85, \$4.22 and \$4.46 for the six months ending December 31, 2008 and the years ending December 31, 2009 and 2010, respectively, and estimated aircraft fuel consumption of 1.2 billion gallons, 2.4 billion gallons and 2.5 billion gallons for the six months ending December 31, 2008 and the years ending December 31, 2009 and 2010, respectively.

### Interest Rate Risk

Our exposure to market risk from volatility in interest rates is primarily associated with our long-term debt obligations. Market risk associated with our fixed and variable rate long-term debt relates to the potential reduction in fair value and negative impact to future earnings, respectively, from an increase in interest rates. During June 2008, we entered into interest rate swap agreements converting our interest rate exposure on a portion of our debt portfolio from a fixed rate to a floating rate. The interest rate swap agreements have an aggregate notional amount of \$1 billion maturing September 2011 through July 2012. The floating rates are based on three month LIBOR plus a margin.

At June 30, 2008, our interest rate swap agreements had a fair value of \$3 million, which was recorded in other noncurrent assets on our Consolidated Balance Sheet. In accordance with fair value hedge accounting, the carrying value of our long-term debt at June 30, 2008 included



\$3 million of fair value adjustments.

**ITEM 4. Controls and Procedures**

Management, including our Chief Executive Officer and President and Chief Financial Officer, performed an evaluation of our disclosure controls and procedures, which have been designed to effectively identify and timely disclose important information. Management, including our Chief Executive Officer and President and Chief Financial Officer, concluded that the controls and procedures were effective as of June 30, 2008 to ensure that material information was accumulated and communicated to management, including our Chief Executive Officer and President and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

During the June 2008 quarter, we made no change in our internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and Shareowners of

Delta Air Lines, Inc.

We have reviewed the consolidated balance sheet of Delta Air Lines, Inc. (the Company) as of June 30, 2008 (Successor), and the related consolidated statements of operations for the three-month and six-month periods ended June 30, 2008 (Successor), the two-month period ended June 30, 2007 (Successor), the one-month and four-month periods ended April 30, 2007 (Predecessor), and the condensed consolidated statements of cash flows for the six-month period ended June 30, 2008 (Successor), the two-month period ended June 30, 2007 (Successor) and the four-month period ended April 30, 2007 (Predecessor). These financial statements are the responsibility of the Company's management.

We conducted our review in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with standards of the Public Company Accounting Oversight Board, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the accompanying condensed consolidated financial statements referred to above for them to be in conformity with U.S. generally accepted accounting principles.

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of Delta Air Lines, Inc. as of December 31, 2007 (Successor), and the related consolidated statements of operations, shareowners' equity, and cash flows for the eight-month period ended December 31, 2007 (Successor), and the four-month period ended April 30, 2007 (Predecessor) of Delta Air Lines, Inc. and in our report dated February 13, 2008, we expressed an unqualified opinion on those consolidated financial statements.

/s/ Ernst & Young LLP

Atlanta, Georgia

July 16, 2008

**PART II. OTHER INFORMATION****ITEM 1. Legal Proceedings***D Augusta, et al. Antitrust Litigation*

In June 2008, an antitrust lawsuit was filed in the U.S. District Court for the Northern District of California against us and Northwest Airlines Corporation in connection with our proposed merger with Northwest. The plaintiffs allege, among other things, that Delta and Northwest are substantial competitors on routes operated in the United States and that the proposed merger between Delta and Northwest would harm consumers through higher ticket prices and diminished airline services. The plaintiffs claim the merger, if consummated, would substantially lessen competition or create a monopoly in the transportation of airline passengers in the United States in violation of Section 7 of the Clayton Act. Plaintiffs seek a determination that the merger violates Section 7 of the Clayton Act, a preliminary and permanent injunction to prohibit the merger, costs and attorneys' fees. The District Court has not scheduled a trial date for this lawsuit. We believe that the plaintiffs' claims are without merit, and we intend to vigorously defend this lawsuit.

*Comair Flight 5191*

On August 27, 2006, Comair Flight 5191 crashed shortly after take-off in a field near the Blue Grass Airport in Lexington, Kentucky. All 47 passengers and two members of the flight crew died in the accident. The third crew member survived with severe injuries. Lawsuits arising out of this accident have been filed against our wholly owned subsidiary, Comair, on behalf of 44 passengers. A number of lawsuits also name Delta, the Federal Aviation Administration (the "FAA") and the third crew member as a defendant. The lawsuits generally assert claims for wrongful death and related personal injuries, and seek unspecified damages, including punitive damages in most cases. As of July 8, 2008, settlements have been reached with the families of 17 of the 47 passengers. All the remaining passenger lawsuits are currently pending in the U.S. District Court for the Eastern District of Kentucky and have been consolidated as *In Re Air Crash at Lexington, Kentucky, August 27, 2006*, Master File No. 5:06-CV-316.

On July 8, 2008, the District Court granted Delta's motion to dismiss all claims against Delta in the pending lawsuits. Comair continues to pursue settlement negotiations with the plaintiffs in these lawsuits. The settled cases have been dismissed with prejudice.

Comair has filed direct actions in the U.S. District Court for the Eastern District of Kentucky against the U.S. (based on the actions of the FAA), and in state court in Fayette County, Kentucky, against the Lexington Airport Board and certain other Lexington airport defendants. Comair has also filed third party complaints against these same parties in each of the pending passenger lawsuits. These actions seek to apportion liability for damages arising from this accident among all responsible parties.

We carry aviation risk liability insurance and believe that this insurance is sufficient to cover any liability likely to arise from this accident.

\* \* \*

Item 3. Legal Proceedings, of our Form 10-K includes a discussion of other legal proceedings.

**ITEM 1A. Risk Factors**

Item 1A. Risk Factors of our Form 10-K includes a discussion of our risk factors. The information presented below updates, and should be read in conjunction with, the risk factors and information disclosed in our Form 10-K. Except as presented below, there have been no material changes from the risk factors described in our Form 10-K.

**Risk Factors Relating to Delta**

*Our ability to use net operating loss carryforwards to offset future taxable income for U.S. federal income tax purposes is subject to limitation and may be limited further as a result of the merger with Northwest and the employee equity issuance.*

In general, under Section 382 of the Internal Revenue Code of 1986, as amended (the "Code"), a corporation that undergoes an ownership change is subject to limitations on its ability to utilize its pre-change net operating losses ("NOLs"), to offset future taxable income. In general, an ownership change occurs if the aggregate stock ownership of certain stockholders increases by more than 50 percentage points over such stockholders' lowest percentage ownership during the testing period (generally three years). The amount of the annual limitation generally is

## Edgar Filing: DELTA AIR LINES INC /DE/ - Form 10-Q

equal to the value of the stock of the corporation immediately prior to the ownership change multiplied by the adjusted federal tax-exempt rate, set by the Internal Revenue Service.

As of December 31, 2007, we had approximately \$9.1 billion of federal and state NOL carryforwards. We experienced an ownership change in 2007 as a result of our plan of reorganization under Chapter 11 of the U.S. Bankruptcy Code. Pursuant to the merger agreement, we will elect out of Section 382(l)(5) of the Code, in which case Section 382(l)(6) of the Code will be applicable to the ownership changes that occurred pursuant to our plan of reorganization. Under Section 382(l)(6) of the Code, the determination of the value of the corporation, for purposes of determining the Section 382 limitation, includes any increase in the value of the

corporation resulting from the surrender or cancellation of creditors' claims in the reorganization. Nonetheless, a second ownership change could further limit our ability to utilize NOL carryforwards for taxable years including or following the subsequent ownership change.

It is currently anticipated that the merger and the employee equity issuance, together with certain other transactions involving the sale of Delta common stock within the testing period, will result in a second ownership change of Delta. Even if the merger and the employee equity issuance did not result in an ownership change, the merger and the employee equity issuance would increase the risk that there would be an additional ownership change in the future (which ownership change could occur as a result of transactions involving Delta stock that are outside of our control).

The occurrence of a second ownership change could limit the ability to utilize pre-change NOLs that are not currently subject to limitation, and could further limit the ability to utilize NOLs that are currently subject to limitation. Limitations imposed on the ability to use NOLs to offset future taxable income could cause U.S. federal income taxes to be paid earlier than otherwise would be paid if such limitations were not in effect and could cause such NOLs to expire unused, in each case reducing or eliminating the benefit of such NOLs. Similar rules and limitations may apply for state income tax purposes.

## ITEM 2. Issuer Purchases of Equity Securities

The following shares of Common Stock were withheld to satisfy tax withholding obligations during the June 2008 quarter from the distributions described below. These shares may be deemed to be issuer purchases of shares that are required to be disclosed pursuant to this Item.

| Period           | Total<br>Number of<br>Shares<br>Purchased <sup>(1)</sup> | Average<br>Price Paid<br>Per<br>Share | Total Number of Shares<br>Purchased as Part of<br>Publicly Announced<br>Plans or Programs <sup>(1)</sup> | Maximum Number<br>(or Approximate<br>Dollar Value) of Shares<br>That May Yet Be<br>Purchased Under the<br>Plan or Programs |
|------------------|----------------------------------------------------------|---------------------------------------|----------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------|
| April 1-30, 2008 | 24,845                                                   | \$ 9.09                               | 24,845                                                                                                   | (2)                                                                                                                        |
| May 1-31, 2008   | 6,489                                                    | 7.57                                  | 6,489                                                                                                    | (2)                                                                                                                        |
| June 1-30, 2008  | 7,672                                                    | 5.66                                  | 7,672                                                                                                    | (2)                                                                                                                        |
| Total            | 39,006                                                   | \$ 8.16                               | 39,006                                                                                                   |                                                                                                                            |

(1) Shares were withheld from employees to satisfy certain tax withholding obligations due in connection with grants of stock under our 2007 Performance Compensation Plan (Performance Compensation Plan) and in connection with bankruptcy claims. We disclosed these matters generally in our Disclosure Statement dated February 7, 2007, as amended, and the Plan of Reorganization, which were filed with the Securities and Exchange Commission under Form 8-K.

(2) The Performance Compensation Plan and the Plan of Reorganization provide for the withholding of shares to satisfy tax withholding obligations. Neither specifies a maximum number of shares that can be withheld for this purpose. For additional information about the Plan of Reorganization and the Performance Compensation Plan, see Notes 1 and 12 of the Notes to the Consolidated Financial Statements in our Form 10-K.

## ITEM 4. Submission of Matters to a Vote of Security Holders

Delta's Annual Meeting of Stockholders was held on June 3, 2008 in New York City, New York (Annual Meeting). At the Annual Meeting, the holders of common stock took the following actions:

1. Elected the persons named below to our Board of Directors by the following vote:

Edgar Filing: DELTA AIR LINES INC /DE/ - Form 10-Q

| NOMINEES              | FOR         | AGAINST    | ABSTENTIONS |
|-----------------------|-------------|------------|-------------|
| Richard H. Anderson   | 220,416,084 | 2,522,318  | 46,122      |
| John S. Brinzo        | 220,747,137 | 2,196,281  | 41,107      |
| Daniel A. Carp        | 220,707,811 | 2,252,715  | 23,998      |
| Eugene I. Davis       | 180,285,122 | 42,658,022 | 41,380      |
| Richard Karl Goeltz   | 220,790,122 | 2,153,040  | 41,363      |
| David R. Goode        | 220,610,669 | 2,348,924  | 24,931      |
| Victor L. Lund        | 213,937,453 | 9,022,980  | 24,090      |
| Walter E. Massey      | 220,536,533 | 2,406,091  | 41,899      |
| Paula Rosput Reynolds | 218,316,900 | 4,626,277  | 41,347      |
| Kenneth C. Rogers     | 220,686,063 | 2,261,168  | 37,293      |
| Kenneth B. Woodrow    | 220,571,985 | 2,382,987  | 29,552      |

There were no broker non-votes on this matter.

2. Ratified the appointment of Ernst & Young as independent auditors for the year ending December 31, 2008 by the following vote of:

| FOR                                            | AGAINST   | ABSTENTIONS |
|------------------------------------------------|-----------|-------------|
| 221,572,482                                    | 1,240,293 | 171,748     |
| There were no broker non-votes on this matter. |           |             |

**ITEM 6. Exhibits**

(a) Exhibits

- 10 Transaction Framework Agreement among Delta, Delta Master Executive Council, Northwest Master Executive Council and Air Line Pilots Association, International dated as of June 26, 2008.
- 15 Letter from Ernst & Young LLP regarding unaudited interim financial information
- 31.1 Certification by Delta's Chief Executive Officer with respect to Delta's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2008
- 31.2 Certification by Delta's President and Chief Financial Officer with respect to Delta's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2008
- 32 Certification pursuant to Section 1350 of Chapter 63 of Title 18 of the United States Code by Delta's Chief Executive Officer and President and Chief Financial Officer with respect to Delta's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2008

**SIGNATURE**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Delta Air Lines, Inc.

(Registrant)

By: /s/ EDWARD H. BASTIAN  
**Edward H. Bastian**

**President and Chief Financial Officer**

**(Principal Financial and Accounting Officer)**

July 17, 2008