

DELTA AIR LINES INC /DE/  
Form 10-Q  
October 25, 2011

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 September 30, 2011

Or

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE  
ACT OF 1934

Commission File Number 001-5424

DELTA AIR LINES, INC.

(Exact name of registrant as specified in its charter)

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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ☐ Accelerated filer ☐ Non-accelerated filer ☒ Smaller reporting company ☐

(Do not check if a smaller reporting company)

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.

Yes ☒ No ☐

Number of shares outstanding by each class of common stock, as of September 30, 2011:

Common Stock, \$0.0001 par value - 847,144,480 shares outstanding

This document is also available through our website at [http://www.delta.com/about\\_delta/investor\\_relations](http://www.delta.com/about_delta/investor_relations).

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Unless otherwise indicated, the terms “Delta,” “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. Known material risk factors applicable to Delta are described in “Item 1A. Risk Factors” of our Annual Report on Form 10-K for the fiscal year ended December 31, 2010 (“Form 10-K”), other than risks that could apply to any issuer or offering. 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.

DELTA AIR LINES, INC.  
Consolidated Balance Sheets  
(Unaudited)

| (in millions, except share data)                                                                                                                            | September 30,<br>2011 | December 31,<br>2010 |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------|----------------------|
| <b>ASSETS</b>                                                                                                                                               |                       |                      |
| Current Assets:                                                                                                                                             |                       |                      |
| Cash and cash equivalents                                                                                                                                   | \$2,307               | \$2,892              |
| Short-term investments                                                                                                                                      | 958                   | 718                  |
| Restricted cash, cash equivalents and short-term investments                                                                                                | 405                   | 409                  |
| Accounts receivable, net of an allowance for uncollectible accounts of \$39 and \$40 at September 30, 2011 and December 31, 2010, respectively              | 1,816                 | 1,456                |
| Expendable parts and supplies inventories, net of an allowance for obsolescence of \$96 and \$104 at September 30, 2011 and December 31, 2010, respectively | 380                   | 318                  |
| Deferred income taxes, net                                                                                                                                  | 396                   | 355                  |
| Prepaid expenses and other                                                                                                                                  | 1,067                 | 1,159                |
| Total current assets                                                                                                                                        | 7,329                 | 7,307                |
| Property and Equipment, Net:                                                                                                                                |                       |                      |
| Property and equipment, net of accumulated depreciation and amortization of \$5,172 and \$4,164 at September 30, 2011 and December 31, 2010, respectively   | 20,256                | 20,307               |
| Other Assets:                                                                                                                                               |                       |                      |
| Goodwill                                                                                                                                                    | 9,794                 | 9,794                |
| Identifiable intangibles, net of accumulated amortization of \$582 and \$530 at September 30, 2011 and December 31, 2010, respectively                      | 4,697                 | 4,749                |
| Other noncurrent assets                                                                                                                                     | 960                   | 1,031                |
| Total other assets                                                                                                                                          | 15,451                | 15,574               |
| Total assets                                                                                                                                                | \$43,036              | \$43,188             |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>                                                                                                                 |                       |                      |
| Current Liabilities:                                                                                                                                        |                       |                      |
| Current maturities of long-term debt and capital leases                                                                                                     | \$1,937               | \$2,073              |
| Air traffic liability                                                                                                                                       | 4,072                 | 3,306                |
| Accounts payable                                                                                                                                            | 1,641                 | 1,713                |
| Frequent flyer deferred revenue                                                                                                                             | 1,701                 | 1,690                |
| Accrued salaries and related benefits                                                                                                                       | 1,203                 | 1,370                |
| Taxes payable                                                                                                                                               | 597                   | 579                  |
| Other accrued liabilities                                                                                                                                   | 861                   | 654                  |
| Total current liabilities                                                                                                                                   | 12,012                | 11,385               |
| Noncurrent Liabilities:                                                                                                                                     |                       |                      |
| Long-term debt and capital leases                                                                                                                           | 12,557                | 13,179               |
| Pension, postretirement and related benefits                                                                                                                | 11,250                | 11,493               |
| Frequent flyer deferred revenue                                                                                                                             | 2,604                 | 2,777                |
| Deferred income taxes, net                                                                                                                                  | 1,967                 | 1,924                |
| Other noncurrent liabilities                                                                                                                                | 1,424                 | 1,533                |
| Total noncurrent liabilities                                                                                                                                | 29,802                | 30,906               |
| Commitments and Contingencies                                                                                                                               |                       |                      |
| Stockholders' Equity:                                                                                                                                       |                       |                      |

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Common stock at \$0.0001 par value; 1,500,000,000 shares authorized, 861,436,003 and 847,716,723

shares issued at September 30, 2011 and December 31, 2010, respectively

|                                                                                                                     |          |          |   |
|---------------------------------------------------------------------------------------------------------------------|----------|----------|---|
|                                                                                                                     | —        | —        |   |
| Additional paid-in capital                                                                                          | 13,983   | 13,926   |   |
| Accumulated deficit                                                                                                 | (8,823   | ) (9,252 | ) |
| Accumulated other comprehensive loss                                                                                | (3,724   | ) (3,578 | ) |
| Treasury stock, at cost, 14,291,523 and 12,993,100 shares at September 30, 2011 and December 31, 2010, respectively | (214     | ) (199   | ) |
| Total stockholders' equity                                                                                          | 1,222    | 897      |   |
| Total liabilities and stockholders' equity                                                                          | \$43,036 | \$43,188 |   |

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

DELTA AIR LINES, INC.  
Consolidated Statements of Operations  
(Unaudited)

| (in millions, except per share data)               | Three Months Ended<br>September 30, |         | Nine Months Ended<br>September 30, |           |
|----------------------------------------------------|-------------------------------------|---------|------------------------------------|-----------|
|                                                    | 2011                                | 2010    | 2011                               | 2010      |
| Operating Revenue:                                 |                                     |         |                                    |           |
| Passenger:                                         |                                     |         |                                    |           |
| Mainline                                           | \$6,857                             | \$6,204 | \$18,198                           | \$16,170  |
| Regional carriers                                  | 1,711                               | 1,571   | 4,836                              | 4,420     |
| Total passenger revenue                            | 8,568                               | 7,775   | 23,034                             | 20,590    |
| Cargo                                              | 257                                 | 227     | 771                                | 614       |
| Other                                              | 991                                 | 948     | 2,911                              | 2,762     |
| Total operating revenue                            | 9,816                               | 8,950   | 26,716                             | 23,966    |
| Operating Expense:                                 |                                     |         |                                    |           |
| Aircraft fuel and related taxes                    | 2,881                               | 2,023   | 7,710                              | 5,666     |
| Salaries and related costs                         | 1,717                               | 1,669   | 5,183                              | 5,043     |
| Contract carrier arrangements                      | 1,432                               | 1,236   | 4,142                              | 3,125     |
| Aircraft maintenance materials and outside repairs | 428                                 | 405     | 1,398                              | 1,174     |
| Passenger commissions and other selling expenses   | 480                                 | 404     | 1,289                              | 1,145     |
| Contracted services                                | 419                                 | 398     | 1,259                              | 1,156     |
| Depreciation and amortization                      | 384                                 | 375     | 1,141                              | 1,139     |
| Landing fees and other rents                       | 342                                 | 331     | 975                                | 968       |
| Passenger service                                  | 207                                 | 190     | 552                                | 493       |
| Aircraft rent                                      | 72                                  | 92      | 224                                | 305       |
| Profit sharing                                     | 167                                 | 185     | 175                                | 275       |
| Restructuring and other items                      | 3                                   | 206     | 154                                | 342       |
| Other                                              | 424                                 | 433     | 1,265                              | 1,212     |
| Total operating expense                            | 8,956                               | 7,947   | 25,467                             | 22,043    |
| Operating Income                                   | 860                                 | 1,003   | 1,249                              | 1,923     |
| Other (Expense) Income:                            |                                     |         |                                    |           |
| Interest expense, net                              | (229)                               | ) (249) | ) (683)                            | ) (750)   |
| Amortization of debt discount, net                 | (48)                                | ) (53)  | ) (141)                            | ) (170)   |
| Loss on extinguishment of debt                     | (5)                                 | ) (360) | ) (38)                             | ) (360)   |
| Miscellaneous, net                                 | (31)                                | ) 25    | (35)                               | ) (55)    |
| Total other expense, net                           | (313)                               | ) (637) | ) (897)                            | ) (1,335) |
| Income Before Income Taxes                         | 547                                 | 366     | 352                                | 588       |
| Income Tax Benefit (Provision)                     | 2                                   | (3)     | ) 77                               | (14)      |
| Net Income                                         | \$549                               | \$363   | \$429                              | \$574     |
| Basic Earnings Per Share                           | \$0.66                              | \$0.43  | \$0.51                             | \$0.69    |
| Diluted Earnings Per Share                         | \$0.65                              | \$0.43  | \$0.51                             | \$0.68    |

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

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## DELTA AIR LINES, INC.

Condensed Consolidated Statements of Cash Flows  
(Unaudited)

|                                                          | Nine Months Ended<br>September 30, |          |
|----------------------------------------------------------|------------------------------------|----------|
| (in millions)                                            | 2011                               | 2010     |
| Net Cash Provided By Operating Activities                | \$ 1,676                           | \$ 2,514 |
| Cash Flows From Investing Activities:                    |                                    |          |
| Property and equipment additions:                        |                                    |          |
| Flight equipment, including advance payments             | (676)                              | (753)    |
| Ground property and equipment, including technology      | (210)                              | (168)    |
| Purchase of investments                                  | (719)                              | (451)    |
| Redemption of investments                                | 503                                | —        |
| Other, net                                               | 16                                 | 15       |
| Net cash used in investing activities                    | (1,086)                            | (1,357)  |
| Cash Flows From Financing Activities:                    |                                    |          |
| Payments on long-term debt and capital lease obligations | (3,426)                            | (2,546)  |
| Proceeds from long-term obligations                      | 2,380                              | 223      |
| Debt issuance costs                                      | (62)                               | —        |
| Restricted cash and cash equivalents                     | (84)                               | —        |
| Other, net                                               | 17                                 | (5)      |
| Net cash used in financing activities                    | (1,175)                            | (2,328)  |
| Net Decrease in Cash and Cash Equivalents                | (585)                              | (1,171)  |
| Cash and cash equivalents at beginning of period         | 2,892                              | 4,607    |
| Cash and cash equivalents at end of period               | \$ 2,307                           | \$ 3,436 |
| Non-cash transactions:                                   |                                    |          |
| Flight equipment under capital leases                    | \$ 98                              | \$ 203   |
| JFK redevelopment project funded by third parties        | 70                                 | —        |
| Debt relief through vendor negotiations                  | —                                  | 160      |
| Debt discount on American Express Agreement              | —                                  | 110      |

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

DELTA AIR LINES, INC.

Notes to the Condensed Consolidated Financial Statements

September 30, 2011

(Unaudited)

## NOTE 1. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Basis of Presentation

The accompanying unaudited Condensed Consolidated Financial Statements include the accounts of Delta Air Lines, Inc. and our wholly-owned subsidiaries. These financial statements have been prepared in accordance with accounting principles generally accepted in the United States ("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. We reclassified certain prior period amounts, none of which were material, to conform to the current period presentation.

Management believes the accompanying unaudited Condensed Consolidated Financial Statements reflect all adjustments, including normal recurring items and restructuring and other 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, changes in global economic conditions and other factors, operating results for the three and nine months ended September 30, 2011 are not necessarily indicative of operating results for the entire year.

On July 1, 2010, we sold Compass Airlines, Inc. ("Compass") and Mesaba Aviation, Inc. ("Mesaba"), our wholly-owned subsidiaries, to Trans States Airlines Inc. ("Trans States") and Pinnacle Airlines Corp. ("Pinnacle"), respectively. The sales of Compass and Mesaba did not have a material impact on our Condensed Consolidated Financial Statements. Upon the closing of these transactions, we entered into new or amended long-term capacity purchase agreements with Compass, Mesaba, and Pinnacle. Prior to these sales, expenses related to Compass and Mesaba as our wholly-owned subsidiaries were reported in the applicable expense line items. Subsequent to these sales, expenses related to Compass and Mesaba are reported as contract carrier arrangements expense.

### Recent Accounting Standards

#### Revenue Arrangements with Multiple Deliverables

In October 2009, the Financial Accounting Standards Board ("FASB") issued "Revenue Arrangements with Multiple Deliverables." The standard (1) revises guidance on when individual deliverables may be treated as separate units of accounting, (2) establishes a selling price hierarchy for determining the selling price of a deliverable, (3) eliminates the residual method for revenue recognition and (4) provides guidance on allocating consideration among separate deliverables. It applies only to contracts entered into or materially modified after December 31, 2010. We adopted this standard on a prospective basis beginning January 1, 2011. The adoption of this standard did not have a material impact on the timing of revenue recognition or its classification.

We determined that the only revenue arrangements impacted by the adoption of this standard are those associated with our frequent flyer program (the "SkyMiles Program"). The SkyMiles Program includes two types of transactions that are considered revenue arrangements with multiple deliverables. As discussed below, these are (1) passenger ticket sales earning mileage credits and (2) the sale of mileage credits to participating companies with which we have

marketing agreements. Mileage credits are a separate unit of accounting as they can be redeemed by customers in future periods for air travel on Delta and participating airlines, membership in our Sky Club and other program awards.

Passenger Ticket Sales Earning Mileage Credits. The SkyMiles Program allows customers to earn mileage credits by flying on Delta, regional air carriers with which we have contract carrier agreements and airlines that participate in the SkyMiles Program. We applied the new standard to passenger ticket sales earning mileage credits under our SkyMiles Program because we provide customers with two deliverables: (1) mileage credits earned and (2) air transportation. The new guidance requires us to value each component of the arrangement on a standalone basis. Our estimate of the standalone selling price of a mileage credit is based on an analysis of our sales of mileage credits to other airlines. We use established ticket prices to determine the standalone selling price of air transportation. Under the new guidance, we allocate the total amount collected from passenger ticket sales between the deliverables based on their relative selling prices.

We continue to defer revenue from the mileage credit component of passenger ticket sales and recognize it as passenger revenue when miles are redeemed and services are provided. We also continue to record the portion of the passenger ticket sales for air transportation in air traffic liability and recognize these amounts in passenger revenue when we provide transportation or when the ticket expires unused.

**Sale of Mileage Credits.** Customers may earn mileage credits through participating companies such as credit card companies, hotels and car rental agencies with which we have marketing agreements to sell mileage credits. Our contracts to sell mileage credits under these marketing agreements have two deliverables: (1) the mileage credits sold and (2) the marketing component. Our most significant contract to sell mileage credits relates to our co-brand credit card relationship with American Express. The guidance does not apply to our existing contract with American Express or other contracts to sell mileage credits unless those contracts are materially modified. Therefore, we continue to use the residual method for revenue recognition and value only the mileage credits. Under the residual method, the portion of the revenue from the mileage component is deferred and recognized as passenger revenue when miles are redeemed and services are provided. The portion of the revenue received in excess of the fair value of mileage credits sold is recognized in income as other revenue when the related marketing services are provided. We determine the value of a mileage credit based on an analysis of our sales of mileage credits to other airlines.

If we enter into new contracts or materially modify existing contracts to sell mileage credits related to our SkyMiles Program, we will value the standalone selling price of the marketing component and allocate the revenue from the contract based on the relative selling price of the mileage credits and the marketing component. A material modification of an existing contract could impact our deferral rate or cause an adjustment to our deferred revenue balance, which could materially impact our future financial results.

#### Fair Value Measurement and Disclosure Requirements

In May 2011, the FASB issued "Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs." The standard revises guidance for fair value measurement and expands the disclosure requirements. It is effective prospectively for fiscal years beginning after December 15, 2011. We are currently evaluating the impact the adoption of this standard will have on our Consolidated Financial Statements.

#### Presentation of Comprehensive Income

In June 2011, the FASB issued "Presentation of Comprehensive Income." The standard revises the presentation and prominence of the items reported in other comprehensive income. It is effective retrospectively for fiscal years beginning after December 15, 2011, with early adoption permitted. We will adopt this standard in the March 2012 quarter. The adoption of this standard will not have a material impact on our Consolidated Financial Statements.

#### Testing Goodwill for Impairment

In September 2011, the FASB issued "Testing Goodwill for Impairment." The standard revises the way in which entities test goodwill for impairment. It is effective prospectively for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011, with early adoption permitted. We intend to adopt this standard and apply the provisions to our annual goodwill impairment test in the December 2011 quarter. The adoption of this standard will not have a material impact on our Consolidated Financial Statements.

#### Disclosures about an Employer's Participation in a Multiemployer Plan

In September 2011, the FASB issued "Disclosures about an Employer's Participation in a Multiemployer Plan." The standard revises the way in which entities disclose participation in a multiemployer plan. It is effective retrospectively for fiscal years ending after December 15, 2011. The adoption of this standard will not have a material impact on our Consolidated Financial Statements.

## NOTE 2. FAIR VALUE MEASUREMENTS

## Assets (Liabilities) Measured at Fair Value on a Recurring Basis

| (in millions)                                          | September 30,<br>2011 | Level 1  | Level 2 | Level 3 |
|--------------------------------------------------------|-----------------------|----------|---------|---------|
| Cash equivalents                                       | \$ 2,082              | \$ 2,082 | \$—     | \$—     |
| Short-term investments                                 | 958                   | 958      | —       | —       |
| Restricted cash equivalents and short-term investments | 441                   | 441      | —       | —       |
| Long-term investments                                  | 134                   | —        | 25      | 109     |
| Hedge derivatives, net                                 |                       |          |         |         |
| Fuel hedge contracts                                   | (119)                 | ) —      | (119)   | )—      |
| Interest rate contracts                                | (119)                 | ) —      | (119)   | )—      |
| Foreign currency exchange contracts                    | (92)                  | ) —      | (92)    | )—      |
| (in millions)                                          | December 31,<br>2010  | Level 1  | Level 2 | Level 3 |
| Cash equivalents                                       | \$ 2,696              | \$ 2,696 | \$—     | \$—     |
| Short-term investments                                 | 718                   | 718      | —       | —       |
| Restricted cash equivalents and short-term investments | 440                   | 440      | —       | —       |
| Long-term investments                                  | 144                   | —        | 25      | 119     |
| Hedge derivatives, net                                 |                       |          |         |         |
| Fuel hedge contracts                                   | 351                   | —        | 351     | —       |
| Interest rate contracts                                | (74)                  | ) —      | (74)    | )—      |
| Foreign currency exchange contracts                    | (96)                  | ) —      | (96)    | )—      |

Cash Equivalents, Short-term Investments and Restricted Cash Equivalents and Short-term Investments. Cash equivalents and short-term investments generally consist of money market funds and treasury bills. Restricted cash equivalents and short-term investments are primarily held to meet certain projected self-insurance obligations and generally consist of money market funds and time deposits. A portion of our restricted cash equivalents and short-term investments are recorded in other noncurrent assets. Cash equivalents, short-term investments and restricted cash equivalents and short-term investments are recorded at cost, which approximates fair value. Fair value is based on the market approach using prices and other relevant information generated by market transactions involving identical or comparable assets.

Long-term Investments. Long-term investments are comprised primarily of student loan backed and insured auction rate securities, which are recorded at fair value. At September 30, 2011 and December 31, 2010, the fair value of our auction rate securities was \$109 million and \$119 million, respectively. The cost of these investments was \$133 million and \$143 million, respectively. These investments are classified as long-term in other noncurrent assets.

Because auction rate securities are not actively traded, fair values were estimated by discounting the cash flows expected to be received over the remaining maturities of the underlying securities. We based the valuations on our assessment of observable yields on instruments bearing comparable risks and considered the creditworthiness of the underlying debt issuer. Changes in market conditions could result in further adjustments to the fair value of these securities.

**Hedge Derivatives.** Our derivative instruments are primarily comprised of contracts that are privately negotiated with counterparties without going through a public exchange. Accordingly, our fair value assessments give consideration to the risk of counterparty default (as well as our own credit risk).

**Fuel Derivatives.** Our fuel derivative instruments generally consist of (1) single and multi-structured option contracts, (2) swap contracts and (3) futures contracts. Heating oil, crude oil and jet fuel are the underlying commodities for these instruments. Option contracts are valued under the income approach using option pricing models based on data either readily observable in public markets, derived from public markets or provided by counterparties who regularly trade in public markets. Volatilities used in these valuations ranged from 16% to 52% depending on the maturity dates, underlying commodities and strike prices of the option contracts. Swap and futures contracts are valued under the income approach using a discounted cash flow model based on data either readily observable or derived from public markets. Discount factors used in these valuations ranged from 0.995 to 0.999 based on interest rates applicable to the maturity dates of the swap and futures contracts.

**Interest Rate Derivatives.** Our interest rate derivative instruments consist of swap contracts and are valued primarily based on data readily observable in public markets.

**Foreign Currency Derivatives.** Our foreign currency derivative instruments consist of Japanese yen and Canadian dollar forward contracts and are valued based on data readily observable in public markets.

For additional information regarding the composition and classification of our derivative instruments on the Consolidated Balance Sheets, see Note 3.

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

In the September 2010 quarter, we recorded a \$146 million impairment charge primarily related to our decision to substantially reduce the fleet of Comair over the two years ending December 31, 2012 by retiring older, less-efficient CRJ-100/200 50-seat aircraft. In evaluating these aircraft for impairment, we estimated their fair value by utilizing a market approach considering (1) published market data generally accepted in the airline industry, (2) recent market transactions, where available, (3) the current and projected supply of and demand for these aircraft and (4) the condition and age of the aircraft. Based on our fair value assessments, these aircraft have an aggregate estimated fair value of \$97 million and are classified in Level 3 of the three-tier fair value hierarchy.

#### Fair Value of Debt

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. In the table below, the aggregate fair value of debt was based primarily on reported market values, recently completed market transactions and estimates based on interest rates, maturities, credit risk and underlying collateral.

| (in millions)             | September 30, 2011 | December 31, 2010 |
|---------------------------|--------------------|-------------------|
| Total debt at par value   | \$14,543           | \$15,442          |
| Unamortized discount, net | (793)              | (935)             |
| Net carrying amount       | \$13,750           | \$14,507          |
| Fair value                | \$14,200           | \$15,400          |





## NOTE 3. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

Our results of operations are impacted by changes in aircraft fuel prices, interest rates and foreign currency exchange rates. In an effort to manage our exposure to these risks, we enter into derivative instruments and monitor and adjust our portfolio of these instruments. Our hedge portfolio generally consists of (1) single and multi-structured option contracts, (2) swap contracts and (3) futures contracts.

In June 2011, we discontinued hedge accounting for our then existing fuel derivative instruments that had been designated as accounting hedges. Prior to this change in accounting designation, gains or losses on these instruments were deferred in accumulated other comprehensive loss until contract settlement. At September 30, 2011, \$45 million of unrealized gains remained in accumulated other comprehensive loss related to these instruments. We will reclassify these gains to earnings on the original contract settlement dates through June 2012. Because fuel derivative instruments are no longer designated as accounting hedges, we will record market adjustments for the changes in their fair value to earnings during their remaining contract terms.

## Hedge Gains (Losses)

Gains (losses) recorded on the Condensed Consolidated Financial Statements related to our hedge contracts, including those previously designated as accounting hedges, are as follows:

|                                                    | Effective Portion<br>Recognized in Other<br>Comprehensive<br>Income (Loss) |         | Effective Portion<br>Reclassified from<br>Accumulated Other<br>Comprehensive Loss<br>to Earnings |         | Ineffective Portion<br>Recognized in Other<br>(Expense) Income |        |
|----------------------------------------------------|----------------------------------------------------------------------------|---------|--------------------------------------------------------------------------------------------------|---------|----------------------------------------------------------------|--------|
| (in millions)                                      | 2011                                                                       | 2010    | 2011                                                                                             | 2010    | 2011                                                           | 2010   |
| Three Months Ended September 30                    |                                                                            |         |                                                                                                  |         |                                                                |        |
| Fuel hedge contracts <sup>(1)</sup>                | \$(70)                                                                     | \$(165) | \$68                                                                                             | \$(66)  | \$—                                                            | \$12   |
| Interest rate contracts <sup>(2)</sup>             | (51)                                                                       | (16)    | —                                                                                                | (1)     | —                                                              | —      |
| Foreign currency exchange contracts <sup>(3)</sup> | (22)                                                                       | (25)    | (31)                                                                                             | (12)    | —                                                              | —      |
| Total designated                                   | \$(143)                                                                    | \$(124) | \$37                                                                                             | \$(79)  | \$—                                                            | \$12   |
| Nine Months Ended September 30                     |                                                                            |         |                                                                                                  |         |                                                                |        |
| Fuel hedge contracts <sup>(1)</sup>                | \$(136)                                                                    | \$(61)  | \$202                                                                                            | \$(92)  | \$(10)                                                         | \$(25) |
| Interest rate contracts <sup>(2)</sup>             | (44)                                                                       | (55)    | —                                                                                                | (1)     | —                                                              | —      |
| Foreign currency exchange contracts <sup>(3)</sup> | 4                                                                          | (33)    | (53)                                                                                             | (21)    | —                                                              | —      |
| Total designated                                   | \$(176)                                                                    | \$(149) | \$149                                                                                            | \$(114) | \$(10)                                                         | \$(25) |

Gains (losses) on fuel hedge contracts reclassified from accumulated other comprehensive loss are recorded in

(1) aircraft fuel and related taxes. For the three and nine months ended September 30, 2011, we recorded mark-to-market losses of \$179 million and \$99 million, respectively, related to contracts that were not designated as hedges in aircraft fuel and related taxes.

(2) Gains (losses) on interest rate contracts reclassified from accumulated other comprehensive loss are recorded in interest expense.

(3) Gains (losses) on foreign currency exchange contracts reclassified from accumulated other comprehensive loss are recorded in passenger revenue.

We perform, at least quarterly, both a prospective and retrospective assessment of the effectiveness of our derivative instruments designated as hedges, including assessing the possibility of counterparty default. If we determine that a derivative is no longer expected to be highly effective, we discontinue hedge accounting prospectively and recognize subsequent changes in the fair value of the hedge in earnings. As a result of our effectiveness assessment at

September 30, 2011, we believe our derivative instruments that continue to be designated as hedges, consisting of interest rate swap and foreign currency exchange forward contracts, will continue to be highly effective in offsetting changes in cash flow attributable to the hedged risk.

As of September 30, 2011, we recorded in accumulated other comprehensive loss \$6 million of net gains on hedge contracts scheduled to settle in the next 12 months.

## Hedge Position

The following table reflects the fair value asset (liability) positions of our hedge contracts:

| (in millions, unless otherwise stated) | Notional Balance                                          | Maturity Date                | Prepaid Expenses and Other Assets | Other Noncurrent Assets | Other Accrued Liabilities | Other Noncurrent Liabilities | Hedge Margin Receivable (Payable), net |
|----------------------------------------|-----------------------------------------------------------|------------------------------|-----------------------------------|-------------------------|---------------------------|------------------------------|----------------------------------------|
| As of September 30, 2011:              |                                                           |                              |                                   |                         |                           |                              |                                        |
| Designated as hedges                   |                                                           |                              |                                   |                         |                           |                              |                                        |
| Interest rate contracts                | \$1,014                                                   | December 2012 - May 2019     | \$ —                              | \$ —                    | \$ (59 )                  | \$ (60 )                     |                                        |
| Foreign currency exchange contracts    | 137.3 billion Japanese yen; 370 million Canadian dollars  | October 2011 - April 2014    | 11                                | 11                      | (63 )                     | (51 )                        |                                        |
| Total designated                       |                                                           |                              | 11                                | 11                      | (122 )                    | (111 )                       |                                        |
| Not designated as hedges               |                                                           |                              |                                   |                         |                           |                              |                                        |
| Fuel hedge contracts                   | 1.9 billion gallons - heating oil, crude oil and jet fuel | October 2011 - December 2012 | 97                                | —                       | (213 )                    | (3 )                         |                                        |
| Total derivative instruments           |                                                           |                              | \$ 108                            | \$ 11                   | \$ (335 )                 | \$ (114 )                    | \$ 27                                  |
| As of December 31, 2010:               |                                                           |                              |                                   |                         |                           |                              |                                        |
| Designated as hedges                   |                                                           |                              |                                   |                         |                           |                              |                                        |
| Fuel hedge contracts                   | 1.5 billion gallons - crude oil                           | January 2011 - February 2012 | \$ 328                            | \$ 24                   | \$ —                      | \$ —                         |                                        |
| Interest rate contracts                | \$1,143                                                   | August 2011 - May 2019       | —                                 | —                       | (35 )                     | (39 )                        |                                        |
| Foreign currency exchange contracts    | 141.1 billion Japanese yen; 233 million Canadian dollars  | January 2011 - November 2013 | —                                 | —                       | (60 )                     | (36 )                        |                                        |
| Total designated                       |                                                           |                              | 328                               | 24                      | (95 )                     | (75 )                        |                                        |
| Not designated as hedges               |                                                           |                              |                                   |                         |                           |                              |                                        |
| Fuel hedge contracts                   | 192 million gallons - crude oil and crude oil products    | January 2011 - December 2011 | 27                                | 14                      | (19 )                     | (8 )                         |                                        |
| Total derivative instruments           |                                                           |                              | \$ 355                            | \$ 38                   | \$ (114 )                 | \$ (83 )                     | \$ (119 )                              |

## Credit Risk

To manage credit risk associated with our aircraft fuel price, interest rate and foreign currency hedging programs, we select counterparties based on their credit ratings and limit our exposure to any one counterparty. We monitor our relative market position with each counterparty.

Our hedge contracts contain margin funding requirements, which are driven by changes in the price of the underlying hedge items and the instruments used. Our margin funding requirements may require us to post margin to counterparties or may require our counterparties to post margin to us as market prices in the underlying hedge items change. Due to the fair value position of our hedge contracts as of September 30, 2011, we paid \$27 million in net hedge margin to counterparties.

## NOTE 4. DEBT

## Pacific Routes Term Loan Facility due 2016

During the March 2011 quarter, we amended our \$250 million first lien term loan facility, which is secured by our Pacific route authorities and certain related assets (the “Pacific Routes Term Loan Facility”), to, among other things, (1) reduce the interest rate, (2) extend the maturity date from September 2013 to March 2016 and (3) modify certain negative covenants and default provisions to be substantially similar to those described below under “Senior Secured Credit Facilities due 2016 and 2017.” The Pacific Routes Term Loan Facility bears interest at a variable rate equal to LIBOR, which shall not be less than 1.25%, or another index rate, in each case plus a specified margin. As of September 30, 2011, the Pacific Routes Term Loan Facility had an interest rate of 4.25% per annum.

## Certificates

During the nine months ended September 30, 2011, we received proceeds from offerings of Pass-Through Trust Certificates (“EETC”) as shown in the table below. We used the proceeds of these offerings to refinance aircraft securing other debt instruments at their maturities, primarily the 2001-1 EETC, to reimburse ourselves for the prior refinancing of certain aircraft and for general corporate purposes.

During the September 2011 quarter, we paid \$693 million to retire the outstanding principal amount under the 2001-1 EETC, which resulted in the release of 36 aircraft that had secured the 2001-1 EETC. We used 10 of those aircraft as security for the 2010-2 EETC and the remaining 26 aircraft to secure the 2011-1 EETC. As a result of using those aircraft as security for the 2010-2 and 2011-1 EETC offerings, we received \$591 million in proceeds that had been held in escrow. During the March 2011 quarter, we received \$243 million in net proceeds from the 2010-1B and 2010-2 EETC offerings.

The following table shows proceeds received during the nine months ended September 30, 2011 from EETC offerings:

| (In millions, unless otherwise stated) | March 2011 Quarter Proceeds Received | September 2011 Quarter Proceeds Received | Total Principal | Fixed Interest Rate | Offering Completion Date | Final Maturity Date | Collateral      |
|----------------------------------------|--------------------------------------|------------------------------------------|-----------------|---------------------|--------------------------|---------------------|-----------------|
| 2010-1B                                | \$ 100                               | \$ —                                     | \$ 100          | 6.375%              | February 2011            | January 2016        | 24 aircraft     |
| 2010-2A                                | 51                                   | 153                                      | 474             | (1) 4.950%          | November 2010            | May 2019            | 28 aircraft     |
| 2010-2B                                | 92                                   | 43                                       | 135             | 6.750%              | February 2011            | November 2015       | 28 aircraft (2) |
| 2011-1A                                | —                                    | 293                                      | 293             | 5.300%              | April 2011               | April 2019          | 26 aircraft     |
| 2011-1B                                | —                                    | 102                                      | 102             | 7.125%              | August 2011              | October 2014        | 26 aircraft (3) |
| Total                                  | \$ 243                               | \$ 591                                   | \$ 1,104        |                     |                          |                     |                 |

(1) In November 2010, we received and used \$270 million in proceeds from the 2010-2A EETC to finance or refinance 12 aircraft.

(2) The 2010-2B EETC is secured by the same 28 aircraft that secure the 2010-2A EETC.

(3) The 2011-1B EETC is secured by the same 26 aircraft that secure the 2011-1A EETC.

## Senior Secured Credit Facilities due 2016 and 2017

During the June 2011 quarter, we entered into senior secured first-lien credit facilities (the “Senior Secured Credit Facilities”) to borrow up to \$2.6 billion. The Senior Secured Credit Facilities consist of a \$1.2 billion first-lien

revolving credit facility, up to \$500 million of which may be used for the issuance of letters of credit (the “Revolving Credit Facility”), and a \$1.4 billion first-lien term loan facility (the “Term Loan Facility”). At September 30, 2011, the Term Loan Facility was outstanding and the Revolving Credit Facility was undrawn.

In connection with entering into the Senior Secured Credit Facilities, we retired the outstanding loans under our \$2.5 billion senior secured exit financing facilities (due April 2012 and April 2014), and terminated those facilities as well as an existing undrawn \$100 million revolving credit facility.

Borrowings under the Term Loan Facility must be repaid annually in an amount equal to 1% of the original principal amount (to be paid in equal quarterly installments). All remaining borrowings under the Term Loan Facility are due in April 2017. Borrowings under the Revolving Credit Facility are due in April 2016. The Senior Secured Credit Facilities bear interest at a variable rate equal to LIBOR (subject to a 1.25% floor) or another index rate, in each case plus a specified margin. As of September 30, 2011, the Term Loan Facility had an interest rate of 5.5% per annum.

Our obligations under the Senior Secured Credit Facilities are guaranteed by substantially all of our domestic subsidiaries (the "Guarantors"). The Senior Secured Credit Facilities and the related guarantees are secured by liens on certain of our and the Guarantors' assets, including accounts receivable, inventory, flight equipment, ground property and equipment, non-Pacific international routes and domestic slots (the "Collateral").

The Senior Secured Credit Facilities include affirmative, negative and financial covenants that restrict our ability to, among other things, make investments, sell or otherwise dispose of Collateral if we are not in compliance with the collateral coverage ratio tests described below, pay dividends or repurchase stock. These covenants require us to maintain:

a minimum fixed charge coverage ratio (defined as the ratio of (1) earnings before interest, taxes, depreciation, amortization and aircraft rent, and other adjustments to (2) the sum of gross cash interest expense (including the interest portion of our capitalized lease obligations) and cash aircraft rent expense, for successive trailing 12-month periods ending at each quarter-end date through the last maturity date of the Senior Secured Credit Facilities), which minimum ratio is 1.20:1;

not less than \$1.0 billion of unrestricted cash, cash equivalents and permitted investments and maintain \$2.0 billion of unrestricted cash, cash equivalents and permitted investments plus unused commitments available under the Revolving Credit Facility and any other revolving credit facilities;

a minimum total collateral coverage ratio (defined as the ratio of (1) certain of the Collateral that meets specified eligibility standards to (2) the sum of the aggregate outstanding obligations under the Senior Secured Credit Facilities and the aggregate amount of certain hedging obligations then outstanding (the "Total Obligations")) of 1.67:1 at all times; and

a minimum non-route collateral coverage ratio (defined as the ratio of (1) certain of the Collateral that meets specified eligibility standards other than non-Pacific international routes to (2) the Total Obligations) of 0.75:1 at all times.

If either of the collateral coverage ratios is not maintained, we must either provide additional collateral to secure our obligations, or we must repay the loans under the Senior Secured Credit Facilities by an amount necessary to maintain compliance with the collateral coverage ratios.

The Senior Secured Credit Facilities contain events of default customary for similar financings, including cross-defaults to other material indebtedness and certain change of control events. The Senior Secured Credit Facilities also include events of default specific to our business, including the suspension of all or substantially all of our flights and operations for more than five consecutive days (other than as a result of a Federal Aviation Administration suspension due to extraordinary events similarly affecting other major U.S. air carriers). Upon the occurrence of an event of default, the outstanding obligations under the Senior Secured Credit Facilities may be accelerated and become due and payable immediately.

#### Future Maturities

The following table summarizes scheduled maturities of our debt, including current maturities, at September 30, 2011:

| Years Ending December 31,<br>(in millions) | Total Secured<br>and Unsecured<br>Debt | Amortization of<br>Debt Discount,<br>net |
|--------------------------------------------|----------------------------------------|------------------------------------------|
| Three months ending December 31, 2011      | \$432                                  | \$(53)                                   |
| 2012                                       | 1,848                                  | (201)                                    |

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|            |           |        |           |
|------------|-----------|--------|-----------|
| 2013       | 1,578     | (165   | )         |
| 2014       | 2,417     | (111   | )         |
| 2015       | 1,439     | (76    | )         |
| Thereafter | 6,829     | (187   | )         |
| Total      | \$ 14,543 | \$(793 | )\$13,750 |

Covenants

We were in compliance with all covenants in our financing agreements at September 30, 2011.



## NOTE 5. PURCHASE COMMITMENTS AND CONTINGENCIES

## Aircraft Purchase Commitments

The following table summarizes our aircraft purchase commitments at September 30, 2011:

Years Ending December 31,

(in millions)

|                                       |         |
|---------------------------------------|---------|
| Three months ending December 31, 2011 | \$30    |
| 2012                                  | 215     |
| 2013                                  | 530     |
| 2014                                  | 745     |
| 2015                                  | 760     |
| 2016                                  | 760     |
| Thereafter                            | 3,810   |
| Total                                 | \$6,850 |

During the September 2011 quarter, we entered into an agreement with The Boeing Company to purchase 100 B-737-900ER aircraft with deliveries beginning in 2013 and continuing through 2018. We have obtained committed long-term financing for a substantial portion of the purchase price of these aircraft.

Our aircraft purchase commitments at September 30, 2011 relate to 100 B-737-900ER aircraft, 18 B-787-8 aircraft and 11 previously owned MD-90 aircraft. Our aircraft purchase commitments do not include orders for five A319-100 aircraft and two A320-200 aircraft because we have the right to cancel these orders.

## Contract Carrier Agreements

During the nine months ended September 30, 2011, we had contract carrier agreements with nine contract carriers, including our wholly-owned subsidiary, Comair. For additional information about our contract carrier agreements, see Note 7 of the Notes to the Consolidated Financial Statements in our Form 10-K.

## Contingencies Related to Termination of Contract Carrier Agreements

We may terminate without cause the Chautauqua agreement at any time and the Shuttle America agreement at any time after January 2016 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 aircraft 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. Because these contingencies depend on our termination of the agreements without cause prior to their expiration dates, no obligation exists unless such termination occurs.

We estimate that the total fair values, determined as of September 30, 2011, of the aircraft 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 \$140 million and \$430 million, respectively. The actual

amount we may be required to pay in these circumstances may be materially different from these estimates. If the Put Right is exercised, we must also pay 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 \$25 million and \$52 million, respectively.

## Legal Contingencies

We are involved in various legal proceedings related to employment practices, environmental issues, antitrust matters 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.

## Credit Card Processing Agreements

Our VISA/MasterCard and American Express credit card processing agreements provide that no cash reserve ("Reserve") is required, and no withholding of payment related to receivables collected will occur, except in certain circumstances, including when we do not maintain a required level of unrestricted cash. In circumstances in which the credit card processor can establish a Reserve or withhold payments, the amount of the Reserve or payments that may be withheld would be equal to the potential liability of the credit card processor for tickets purchased with VISA/MasterCard or American Express credit cards, as applicable, that had not yet been used for travel. There was no Reserve or amounts withheld as of September 30, 2011 or December 31, 2010.

## Other Contingencies

### 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, occupancy or construction 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 or their willful misconduct.

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 use or operation of the aircraft or such other equipment.

We believe that our insurance would cover most of our exposure to liabilities and related indemnities associated with the commercial real estate leases and aircraft and other equipment lease and financing agreements described above. While our insurance does not typically cover environmental liabilities, we have certain insurance policies in place as required by applicable environmental laws.

Certain of our aircraft and other financing transactions include provisions that 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 September 30, 2011, we had approximately 79,700 full-time equivalent employees. Approximately 16% of these employees were represented by unions.

In connection with efforts to resolve union representation for employee groups where representation has not been resolved following our merger with Northwest Airlines Corporation ("Northwest"), the National Mediation Board ("NMB") held elections during 2010 for certain employee groups, including flight attendants and fleet service, stores, and passenger service employees. In each case, the employee groups rejected representation by the unions and the unions filed claims with the NMB alleging that we interfered with the elections. While we are vigorously challenging the interference claims, we cannot predict when or how these matters will be resolved for each workgroup.

## War-Risk Insurance Contingency

As a result of the terrorist attacks on September 11, 2001, aviation insurers significantly (1) reduced the maximum amount of insurance coverage available to commercial air carriers for liability to persons (other than employees or passengers) for claims from acts of terrorism, war or similar events and (2) 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 U.S. Secretary of Transportation has extended coverage through September 30, 2012, and we expect the coverage to be further extended. 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 expense or may not be obtainable at all, resulting in an interruption to our operations.

## 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.

## NOTE 6. EMPLOYEE BENEFIT PLANS

The following table shows the components of net periodic cost:

| (in millions)                         | Pension Benefits |       | Other Postretirement and Postemployment Benefits |       |
|---------------------------------------|------------------|-------|--------------------------------------------------|-------|
|                                       | 2011             | 2010  | 2011                                             | 2010  |
| Three Months Ended September 30       |                  |       |                                                  |       |
| Service cost                          | \$—              | \$—   | \$13                                             | \$14  |
| Interest cost                         | 242              | 245   | 45                                               | 49    |
| Expected return on plan assets        | (181             | )(169 | )(22                                             | )(22  |
| Amortization of prior service benefit | —                | —     | (1                                               | )(1   |
| Recognized net actuarial loss (gain)  | 14               | 12    | (3                                               | )(1   |
| Settlements                           | —                | 4     | —                                                | —     |
| Net periodic cost                     | \$75             | \$92  | \$32                                             | \$39  |
| Nine Months Ended September 30        |                  |       |                                                  |       |
| Service cost                          | \$—              | \$—   | \$39                                             | \$44  |
| Interest cost                         | 726              | 737   | 135                                              | 147   |
| Expected return on plan assets        | (543             | )(508 | )(67                                             | )(68  |
| Amortization of prior service benefit | —                | —     | (2                                               | )(3   |
| Recognized net actuarial loss (gain)  | 42               | 36    | (9                                               | )(3   |
| Settlements                           | —                | 10    | —                                                | —     |
| Net periodic cost                     | \$225            | \$275 | \$96                                             | \$117 |

## NOTE 7. ACCUMULATED OTHER COMPREHENSIVE LOSS

The following table shows the components of accumulated other comprehensive loss:

| (in millions)                  | Pension and<br>Other<br>Benefits<br>Liabilities | Derivative<br>Instruments <sup>(1)</sup> | Valuation<br>Allowance | Total     |
|--------------------------------|-------------------------------------------------|------------------------------------------|------------------------|-----------|
| Balance at December 31, 2010   | \$(2,053)                                       | \$(312)                                  | \$(1,213)              | \$(3,578) |
| Changes in fair value          | —                                               | 214                                      | —                      | 214       |
| Reclassification into earnings | 10                                              | (49)                                     | —                      | (39)      |
| Tax effect                     | (4)                                             | (61)                                     | 65                     | —         |
| Balance at March 31, 2011      | \$(2,047)                                       | \$(208)                                  | \$(1,148)              | \$(3,403) |
| Changes in fair value          | —                                               | (135)                                    | —                      | (135)     |
| Reclassification into earnings | 8                                               | (63)                                     | —                      | (55)      |
| Tax effect                     | (3)                                             | 73                                       | (70)                   | —         |
| Balance at June 30, 2011       | \$(2,042)                                       | \$(333)                                  | \$(1,218)              | \$(3,593) |
| Changes in fair value          | —                                               | (106)                                    | —                      | (106)     |
| Reclassification into earnings | 12                                              | (37)                                     | —                      | (25)      |
| Tax effect                     | (5)                                             | 54                                       | (49)                   | —         |
| Balance at September 30, 2011  | \$(2,035)                                       | \$(422)                                  | \$(1,267)              | \$(3,724) |

Includes \$321 million of deferred income tax expense that will remain in accumulated other comprehensive loss until all amounts in accumulated other comprehensive loss that relate to fuel derivatives which were designated as accounting hedges are recognized in the Consolidated Statement of Operations. For additional information see Note 9.

Total comprehensive income for the three months ended September 30, 2011 and 2010 was \$418 million and \$500 million, respectively. Total comprehensive income for the nine months ended September 30, 2011 and 2010 was \$283 million and \$421 million, respectively.

## NOTE 8. RESTRUCTURING AND OTHER ITEMS

The following table shows charges recorded in restructuring and other items on the Consolidated Statements of Operations:

| (in millions)                       | Three Months Ended<br>September 30, |       | Nine Months Ended<br>September 30, |       |
|-------------------------------------|-------------------------------------|-------|------------------------------------|-------|
|                                     | 2011                                | 2010  | 2011                               | 2010  |
| Severance and related costs         | \$3                                 | \$7   | \$83                               | \$15  |
| Facilities and fleet                | —                                   | 146   | 71                                 | 182   |
| Merger-related items                | —                                   | 53    | —                                  | 145   |
| Total restructuring and other items | \$3                                 | \$206 | \$154                              | \$342 |

Severance and related costs. During the nine months ended September 30, 2011, we offered voluntary workforce reduction programs to align staffing with expected future capacity. Charges primarily represent severance costs related to employees who elected to participate in the voluntary programs.

Facilities and fleet. During the nine months ended September 30, 2011, we recorded charges related to our facilities consolidation and fleet assessments. During the nine months ended September 30, 2010, we recorded asset impairment charges related to the Comair fleet reduction initiative and retired dedicated freighter aircraft. For

additional information about our Comair fleet reduction initiative and a discussion of the methodology used to estimate the current fair values of these aircraft, see Note 2.

Merger-related items. Merger-related items are costs associated with Northwest and the integration of Northwest operations into Delta.

The following table shows the balances and activity for restructuring charges:

| (in millions)                    | Severance and<br>Related Costs | Facilities and<br>Other | Total |
|----------------------------------|--------------------------------|-------------------------|-------|
| Balance as of December 31, 2010  | \$20                           | \$85                    | \$105 |
| Additional cost and expenses     | 83                             | —                       | 83    |
| Payments                         | (14)                           | (18)                    | (32)  |
| Balance as of September 30, 2011 | \$89                           | \$67                    | \$156 |

#### NOTE 9. INCOME TAXES

We recorded an income tax benefit of \$77 million for the nine months ended September 30, 2011, primarily related to the recognition of alternative minimum tax refunds received for 2008 and 2009.

We consider all income sources, including other comprehensive income, in determining the amount of tax benefit allocated to continuing operations (the "Income Tax Allocation"). For the year ended December 31, 2009, as a result of the Income Tax Allocation, we recorded a non-cash income tax benefit of \$321 million on the loss from continuing operations, with an offsetting non-cash income tax expense of \$321 million on other comprehensive income. The deferred income tax expense will remain in accumulated other comprehensive loss until all amounts in accumulated other comprehensive loss that relate to fuel derivatives which were designated as accounting hedges are recognized in the Consolidated Statement of Operations.

#### NOTE 10. EARNINGS PER SHARE

We calculate basic earnings per share by dividing the net income by the weighted average number of common shares outstanding. Shares issuable upon the satisfaction of certain conditions are considered outstanding and included in the computation of basic earnings per share.

The following table shows the computation of basic and diluted earnings per share:

| (in millions, except per share data)                                           | Three Months<br>Ended September<br>30, |        | Nine Months<br>Ended September<br>30, |        |
|--------------------------------------------------------------------------------|----------------------------------------|--------|---------------------------------------|--------|
|                                                                                | 2011                                   | 2010   | 2011                                  | 2010   |
| Net income                                                                     | \$549                                  | \$363  | \$429                                 | \$574  |
| Basic weighted average shares outstanding                                      | 838                                    | 835    | 838                                   | 834    |
| Dilutive effects of share based awards                                         | 6                                      | 7      | 6                                     | 8      |
| Diluted weighted average shares outstanding                                    | 844                                    | 842    | 844                                   | 842    |
| Basic earnings per share                                                       | \$0.66                                 | \$0.43 | \$0.51                                | \$0.69 |
| Diluted earnings per share                                                     | \$0.65                                 | \$0.43 | \$0.51                                | \$0.68 |
| Antidilutive common stock equivalents excluded from diluted earnings per share | 26                                     | 25     | 25                                    | 23     |

During the nine months ended September 30, 2011, we issued nine million and one million shares of common stock to settle the remaining bankruptcy claims under Delta's and Northwest's Plans of Reorganization, respectively. Delta and Northwest emerged from Chapter 11 in 2007.





## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

### September 2011 Quarter Financial Highlights

We reported net income of \$549 million for the September 2011 quarter, compared to net income of \$363 million for the September 2010 quarter. Total operating revenue increased 10%, or \$866 million, primarily due to higher passenger revenues as we were able to adjust ticket prices in response to higher fuel prices, on a 1% decline in capacity. Including our contract carriers under capacity purchase agreements, fuel expense increased \$1 billion due to higher fuel prices, compared to the September 2010 quarter. Other expense, net decreased \$324 million primarily due to a non-cash loss on extinguishment of debt recorded in the September 2010 quarter. Our operating margin for the September 2011 quarter was 9%. We ended the September 2011 quarter with \$5.1 billion in unrestricted liquidity, consisting of cash and cash equivalents, short-term investments and availability under credit facilities.

Our consolidated operating cost per available seat mile ("CASM") for the September 2011 quarter increased to 14.16 cents compared to 12.48 cents in the September 2010 quarter, primarily reflecting higher fuel prices. For the September 2011 quarter, CASM-Ex (a non-GAAP financial measure as defined in "Supplemental Information" below) was 8.10 cents, or 3.3% higher than the September 2010 quarter, primarily reflecting higher revenue-related expenses, higher salaries and related costs, and foreign exchange impact. Including fuel hedge activity, our average fuel price for the September 2011 quarter was \$3.29 per gallon, compared to \$2.29 per gallon for the September 2010 quarter. Our average fuel price adjusted for mark-to-market adjustments for fuel hedges recorded in periods other than the settlement period (a non-GAAP financial measure as defined in "Supplemental Information" below) was \$3.09 per gallon for the September 2011 quarter.

Increases in jet fuel prices and other cost pressures adversely affected our financial results. As previously announced, we are taking the following actions which are intended to mitigate the impact of higher fuel prices on our financial results and to reduce our non-fuel unit costs:

- Adjusting fares in response to higher fuel prices and continuing to grow our revenues by providing new products and services, such as our new Economy Comfort product;

- Reducing December 2011 quarter system capacity by 4-5% year-over-year, focused in markets where revenues do not cover higher fuel costs. Domestic capacity is expected to decrease 3-5%, which includes the retirement of less efficient aircraft. Our transatlantic capacity is expected to decrease 10-12%, as we work with our joint venture partners, AirFrance-KLM and Alitalia, to reduce our combined fourth quarter transatlantic capacity;

- Retiring our least efficient aircraft, including the DC9-50 and regional turboprop fleets and 50-seat regional jets;

- Resizing our workforce through voluntary workforce reduction programs. Approximately 2,000 employees elected to participate in those programs; and

- Consolidating facilities in Atlanta, Minneapolis, Cincinnati and Memphis.

### Fleet Strategy

During the September 2011 quarter, we entered into an agreement with The Boeing Company ("Boeing") to purchase 100 B-737-900ER aircraft with deliveries beginning in 2013 and continuing through 2018. This order will enable us to add 100 fuel-efficient, state-of-the-art 180-seat aircraft to our fleet, replacing on a capacity-neutral basis older, less efficient aircraft that will be retired from our fleet. We have obtained committed long-term financing for a substantial

portion of the purchase price of these aircraft. After giving effect to this order, we have total aircraft purchase commitments of \$6.9 billion, including \$30 million for the three months ending December 31, 2011, \$215 million in 2012, \$530 million in 2013, \$745 million in 2014, \$760 million in 2015, \$760 million in 2016 and \$3.8 billion after 2016.

During 2010 and in the first nine months of 2011, we purchased or leased 28 previously owned MD-90 aircraft. Over the next two to three years, we expect to bring into service 30 to 40 previously owned MD-90 aircraft (including the 28 aircraft described above) to offset a portion of our planned retirement of less efficient aircraft. We believe the retirement of these less efficient aircraft will result in maintenance savings.

We continue to focus on investing in our existing fleet, including investments to: (1) add winglets to increase fuel efficiency and (2) expand the first class cabin on certain of our domestic mainline fleet in response to business customer demand. We are also investing in our international transoceanic aircraft to enhance our product by featuring (1) full flat bed seats in BusinessElite, (2) our Economy Comfort product and (3) in-seat audio and video in all cabins. In addition, we are making investments in our regional aircraft product to create a consistent experience to offer first class cabins and Wi-Fi on our 70 and 76 seat regional jets.

#### New York Strategy

Strengthening our position in New York City is an important part of our network strategy. As discussed below, key components of this strategy are operating a domestic hub at New York's LaGuardia Airport and creating a state-of-the-art facility at New York's John F. Kennedy International Airport ("JFK").

In May 2011, we entered into an amended agreement with US Airways under which (1) Delta would acquire 132 pairs of takeoff and landing rights (each, a "slot pair") at LaGuardia from US Airways and (2) US Airways would acquire from Delta 42 slot pairs at Reagan National; the rights to operate additional daily service to Sao Paulo, Brazil in 2015; and \$66.5 million in cash. The completion of the transaction is subject to certain conditions, including government and regulatory approvals. Our amended agreement replaced a 2009 agreement that was approved by the U.S. Department of Transportation ("DOT"), but under terms not acceptable to Delta and US Airways, and never completed. On October 11, 2011, the DOT issued a final order approving with conditions the joint waiver request of Delta and US Airways from the existing Federal Aviation Administration ("FAA") prohibition on purchasing slots at LaGuardia. The DOT order requires the divestiture of 16 slot pairs at LaGuardia and eight slot pairs at Reagan National to airlines with limited or no service at those airports. Under our agreement with US Airways, we have agreed to divest the required slot pairs at both LaGuardia and Reagan National. On October 12, 2011, Delta and US Airways notified the FAA of our intention to proceed with the transaction on the terms and conditions contained in the DOT order. We expect the transaction to be consummated in early December 2011.

At JFK, we currently operate domestic flights primarily at Terminal 2, and international flights at Terminal 3 and, to a lesser extent, Terminal 4. During the December 2010 quarter, we began a redevelopment project at JFK that includes the (1) enhancement and expansion of Terminal 4, including the construction of nine new international gates; (2) construction of a passenger connector between Terminal 2 and Terminal 4; (3) demolition of the outdated Terminal 3, which was constructed in 1960; and (4) development of the Terminal 3 site for aircraft parking positions. We estimate this project will cost approximately \$1.2 billion and will be completed in stages over five years. Construction at Terminal 4 has commenced and is scheduled to be completed in 2013. Upon completion of the Terminal 4 expansion, we will relocate our operations from Terminal 3 to Terminal 4; proceed with the demolition of Terminal 3; and thereafter conduct coordinated flight operations from Terminals 2 and 4. Once our project is complete, we expect that passengers will benefit from an enhanced customer experience and improved operational performance, including reduced taxi times and better on-time performance. For additional information, see Note 8 of the Notes to the Consolidated Financial Statements in our Form 10-K.

## Results of Operations - September 2011 and 2010 Quarters

## Operating Revenue

| (in millions)           | Three Months Ended<br>September 30, |         | Increase | % Increase |   |
|-------------------------|-------------------------------------|---------|----------|------------|---|
|                         | 2011                                | 2010    |          |            |   |
| Passenger:              |                                     |         |          |            |   |
| Mainline                | \$6,857                             | \$6,204 | \$653    | 11         | % |
| Regional carriers       | 1,711                               | 1,571   | 140      | 9          | % |
| Total passenger revenue | 8,568                               | 7,775   | 793      | 10         | % |
| Cargo                   | 257                                 | 227     | 30       | 13         | % |
| Other                   | 991                                 | 948     | 43       | 5          | % |
| Total operating revenue | \$9,816                             | \$8,950 | \$866    | 10         | % |

Increase (Decrease)  
vs. Three Months Ended September 30, 2010

| (in millions)           | Three Months<br>Ended<br>September 30,<br>2011 | Passenger<br>Revenue | RPMs <sup>(1)</sup><br>(Traffic) | ASMs <sup>(2)</sup><br>(Capacity) | Passenger<br>Mile Yield | PRASM <sup>(3)</sup> | Load Factor |
|-------------------------|------------------------------------------------|----------------------|----------------------------------|-----------------------------------|-------------------------|----------------------|-------------|
| Domestic                | \$3,536                                        | 10                   | % (1                             | )% (2                             | )% 10                   | % 12                 | % 1.2 pts   |
| Atlantic                | 1,796                                          | 6                    | % (4                             | )% (4                             | )% 10                   | % 10                 | % 0.3 pts   |
| Pacific                 | 1,073                                          | 22                   | % 9                              | % 14                              | % 12                    | % 7                  | % (4.4 )pts |
| Latin America           | 452                                            | 14                   | % 1                              | % 1                               | % 12                    | % 13                 | % 0.5 pts   |
| Total Mainline          | 6,857                                          | 11                   | % —                              | % —                               | % 11                    | % 11                 | % 0.1 pts   |
| Regional carriers       | 1,711                                          | 9                    | % (1                             | )% (3                             | )% 10                   | % 12                 | % 1.3 pts   |
| Total passenger revenue | \$8,568                                        | 10                   | % —                              | % (1                              | )% 11                   | % 11                 | % 0.2 pts   |

<sup>(1)</sup> Revenue passenger miles (“RPMs”)

<sup>(2)</sup> Available seat miles (“ASMs”)

<sup>(3)</sup> Passenger revenue per ASM (“PRASM”)

**Mainline Passenger Revenue.** Mainline passenger revenue increased primarily from an improvement in the passenger mile yield due to fare increases implemented in response to higher fuel prices and from higher revenue under corporate travel contracts.

**Domestic.** Domestic mainline passenger revenue increased 10% due to a 12% improvement in PRASM on a 2% decline in capacity. The improvement in PRASM reflects a higher passenger mile yield driven by fare increases and an approximate \$70 million benefit from the suspension of the FAA excise taxes for a short period during the September 2011 quarter.

**International.** International mainline passenger revenue increased 12% due to a 10% improvement in PRASM on a 2% capacity increase. Passenger mile yield increased 11%, reflecting increased business and leisure travel and increased fares, including fuel surcharges. Atlantic passenger revenue increased 6% due to a 10% improvement in passenger mile yield on a 4% decline in capacity. We intend to continue reducing capacity in the Atlantic market during the December 2011 quarter to align with expected demand. Pacific passenger revenue increased 22% due to an improvement in passenger mile yield and a stronger revenue environment, partially offset by the continuing effects of the March 2011 events in Japan. Latin America passenger revenue increased 14% from a stronger revenue environment for both business and leisure travel with higher PRASM and passenger mile yield driven by fare increases.

Regional carriers. Passenger revenue from regional carriers increased 9% due to a 12% improvement in PRASM on a 3% decline in capacity. Passenger mile yield increased 10%, reflecting fare increases we implemented in response to increased fuel prices.

Cargo. Cargo revenue increased 13% due to a 10% improvement in yield and a 3% increase in volume.

Other. Other revenue increased due to a higher volume of engines repaired for third parties by our aircraft maintenance, repair and overhaul ("MRO") services business, partially offset by lower baggage fee revenue.

## Operating Expense

| (in millions)                                      | Three Months Ended<br>September 30, |         | Increase<br>(Decrease) | % Increase<br>(Decrease) |    |
|----------------------------------------------------|-------------------------------------|---------|------------------------|--------------------------|----|
|                                                    | 2011                                | 2010    |                        |                          |    |
| Aircraft fuel and related taxes                    | \$2,881                             | \$2,023 | \$858                  | 42                       | %  |
| Salaries and related costs                         | 1,717                               | 1,669   | 48                     | 3                        | %  |
| Contract carrier arrangements                      | 1,432                               | 1,236   | 196                    | 16                       | %  |
| Aircraft maintenance materials and outside repairs | 428                                 | 405     | 23                     | 6                        | %  |
| Passenger commissions and other selling expenses   | 480                                 | 404     | 76                     | 19                       | %  |
| Contracted services                                | 419                                 | 398     | 21                     | 5                        | %  |
| Depreciation and amortization                      | 384                                 | 375     | 9                      | 2                        | %  |
| Landing fees and other rents                       | 342                                 | 331     | 11                     | 3                        | %  |
| Passenger service                                  | 207                                 | 190     | 17                     | 9                        | %  |
| Aircraft rent                                      | 72                                  | 92      | (20)                   | (22)                     | )% |
| Profit sharing                                     | 167                                 | 185     | (18)                   | (10)                     | )% |
| Restructuring and other items                      | 3                                   | 206     | (203)                  | (99)                     | )% |
| Other                                              | 424                                 | 433     | (9)                    | (2)                      | )% |
| Total operating expense                            | \$8,956                             | \$7,947 | \$1,009                | 13                       | %  |

Aircraft fuel and related taxes. Aircraft fuel and related taxes increased \$858 million, reflecting an \$833 million increase due to higher average unhedged fuel prices and a \$47 million increase in net fuel hedge losses. During the September 2011 quarter, our net fuel hedge losses included \$208 million of losses for mark-to-market adjustments recorded in periods other than the settlement period.

Salaries and related costs. Salaries and related costs increased due to a 3% average increase in headcount and employee pay increases.

Contract carrier arrangements. Contract carrier arrangements expense increased primarily due to higher average fuel prices, which increased fuel costs \$165 million.

Passenger commissions and other selling expenses. Passenger commissions and other selling expenses increased primarily due to higher revenue-related expenses, such as credit card and sales commissions.

Aircraft rent. Aircraft rent decreased primarily due to the renegotiation of certain existing leases.

Restructuring and other items. During the September 2010 quarter, we recorded a \$206 million charge primarily related to the Comair fleet reduction initiative and merger-related items associated with Northwest and the integration of Northwest operations into Delta.

## Other (Expense) Income

Other expense, net for the September 2011 quarter was \$313 million compared to \$637 million for the September 2010 quarter. This change is attributable to the following:

| (in millions)                                                                 | Favorable<br>(Unfavorable) vs.<br>Three Months Ended<br>September 30, 2010 |   |
|-------------------------------------------------------------------------------|----------------------------------------------------------------------------|---|
| Interest expense, net                                                         | \$20                                                                       |   |
| Amortization of debt discount, net                                            | 5                                                                          |   |
| Loss on extinguishment of debt <sup>(1)</sup>                                 | 355                                                                        |   |
| Mark-to-market adjustments on the ineffective portion of fuel hedge contracts | (12)                                                                       | ) |
| Foreign currency exchange rates                                               | (34)                                                                       | ) |
| Other                                                                         | (10)                                                                       | ) |
| Total other expense, net                                                      | \$324                                                                      |   |

<sup>(1)</sup> During the September 2010 quarter, we recorded a \$360 million loss on the extinguishment of debt.

## Income Taxes

We did not record an income tax provision for U.S federal income tax purposes as a result of our income in the September 2011 and 2010 quarters since our deferred tax assets are fully reserved by a valuation allowance.



## Results of Operations - Nine Months Ended September 30, 2011 and 2010

## Operating Revenue

| (in millions)           | Nine Months Ended<br>September 30, |          | Increase | % Increase |   |
|-------------------------|------------------------------------|----------|----------|------------|---|
|                         | 2011                               | 2010     |          |            |   |
| Passenger:              |                                    |          |          |            |   |
| Mainline                | \$18,198                           | \$16,170 | \$2,028  | 13         | % |
| Regional carriers       | 4,836                              | 4,420    | 416      | 9          | % |
| Total passenger revenue | 23,034                             | 20,590   | 2,444    | 12         | % |
| Cargo                   | 771                                | 614      | 157      | 26         | % |
| Other                   | 2,911                              | 2,762    | 149      | 5          | % |
| Total operating revenue | \$26,716                           | \$23,966 | \$2,750  | 11         | % |

Increase (Decrease)  
vs. Nine Months Ended September 30, 2010

| (in millions)           | Nine Months<br>Ended<br>September 30,<br>2011 | Passenger<br>Revenue | RPMs<br>(Traffic) | ASMs<br>(Capacity) | Passenger<br>Mile<br>Yield | PRASM | Load<br>Factor |
|-------------------------|-----------------------------------------------|----------------------|-------------------|--------------------|----------------------------|-------|----------------|
| Domestic                | \$9,912                                       | 11                   | % —               | % —                | % 11                       | % 11  | %(0.2 )pts     |
| Atlantic                | 4,364                                         | 11                   | % 2               | % 5                | % 9                        | % 6   | %(2.9 )pts     |
| Pacific                 | 2,549                                         | 22                   | % 7               | % 14               | % 14                       | % 8   | %(4.8 )pts     |
| Latin America           | 1,373                                         | 14                   | %(2               | %(1                | %(16                       | % 15  | %(0.9 )pts     |
| Total Mainline          | 18,198                                        | 13                   | % 1               | % 3                | % 11                       | % 9   | %(1.5 )pts     |
| Regional carriers       | 4,836                                         | 9                    | %(3               | %(2                | %(12                       | % 12  | %(0.4 )pts     |
| Total passenger revenue | \$23,034                                      | 12                   | % 1               | % 2                | % 11                       | % 9   | %(1.3 )pts     |

**Mainline Passenger Revenue.** Mainline passenger revenue increased primarily due to an improvement in the passenger mile yield from fare increases implemented in response to higher fuel prices and from higher revenue under corporate travel contracts.

**Domestic.** Domestic mainline passenger revenue increased 11% due to an 11% improvement in PRASM while capacity remained flat. The improvement in PRASM reflects higher passenger mile yield driven by fare increases and a \$70 million benefit from the suspension of the FAA excise taxes for a short period during the September 2011 quarter.

**International.** International mainline passenger revenue increased 15% due to an 8% improvement in PRASM on a 6% capacity increase. Passenger mile yield increased 12%, reflecting increased business and leisure travel and increased fares, including fuel surcharges. Atlantic passenger revenue increased 11% while PRASM increased 6%. We and the industry faced overcapacity, particularly in the March 2011 quarter, which prevented us from increasing ticket prices sufficiently to cover higher fuel prices. We intend to continue reducing capacity in the Atlantic market during the December 2011 quarter to align with expected demand. Pacific passenger revenue increased 22% as a result of an improvement in passenger mile yield and a stronger revenue environment, partially offset by the negative impact from the March 2011 events in Japan. Latin America passenger revenue benefited from higher passenger mile yield driven by fare increases.

**Regional carriers.** Passenger revenue from regional carriers increased 9% due to a 12% improvement in PRASM on a 2% decline in capacity. Passenger mile yield increased 12%, reflecting fare increases we implemented in response to increased fuel prices.

Cargo. Cargo revenue increased 26% due to a 14% improvement in yield and an 11% increase in volume.

Other. Other revenue increased due to a higher volume of engines repaired for third parties by our MRO services business, partially offset by lower baggage fee revenue.

## Operating Expense

| (in millions)                                      | Nine Months Ended<br>September 30, |          | Increase<br>(Decrease) | % Increase<br>(Decrease) |    |
|----------------------------------------------------|------------------------------------|----------|------------------------|--------------------------|----|
|                                                    | 2011                               | 2010     |                        |                          |    |
| Aircraft fuel and related taxes                    | \$7,710                            | \$5,666  | \$2,044                | 36                       | %  |
| Salaries and related costs                         | 5,183                              | 5,043    | 140                    | 3                        | %  |
| Contract carrier arrangements                      | 4,142                              | 3,125    | 1,017                  | 33                       | %  |
| Aircraft maintenance materials and outside repairs | 1,398                              | 1,174    | 224                    | 19                       | %  |
| Passenger commissions and other selling expenses   | 1,289                              | 1,145    | 144                    | 13                       | %  |
| Contracted services                                | 1,259                              | 1,156    | 103                    | 9                        | %  |
| Depreciation and amortization                      | 1,141                              | 1,139    | 2                      | —                        | %  |
| Landing fees and other rents                       | 975                                | 968      | 7                      | 1                        | %  |
| Passenger service                                  | 552                                | 493      | 59                     | 12                       | %  |
| Aircraft rent                                      | 224                                | 305      | (81)                   | (27)                     | )% |
| Profit sharing                                     | 175                                | 275      | (100)                  | (36)                     | )% |
| Restructuring and other items                      | 154                                | 342      | (188)                  | (55)                     | )% |
| Other                                              | 1,265                              | 1,212    | 53                     | 4                        | %  |
| Total operating expense                            | \$25,467                           | \$22,043 | \$3,424                | 16                       | %  |

On July 1, 2010, we sold Compass and Mesaba to Trans States and Pinnacle, respectively. Upon the closing of these transactions, we entered into new or amended long-term capacity purchase agreements with Compass, Mesaba, and Pinnacle. Prior to these sales, expenses related to Compass and Mesaba as our wholly-owned subsidiaries were reported in the applicable expense line items. Subsequent to these sales, expenses related to Compass and Mesaba are reported as contract carrier arrangements expense.

**Aircraft fuel and related taxes.** Aircraft fuel and related taxes increased \$2.0 billion, reflecting a \$2.3 billion increase due to higher average unhedged fuel prices and \$136 million of capacity-related consumption increases. These increases were partially offset by a \$193 million improvement in net fuel hedge results and by the change in reporting described above due to the transactions involving Compass and Mesaba. During the nine months ended September 30, 2011, our net fuel hedge gains included \$190 million of losses for mark-to-market adjustments recorded in periods other than the settlement period.

**Salaries and related costs.** Salaries and related costs increased due to a 4% average increase in headcount and employee pay increases, partially offset by the change in reporting described above due to the transactions involving Compass and Mesaba.

**Contract carrier arrangements.** Contract carrier arrangements expense increased as a result of the change in reporting described above due to the transactions involving Compass and Mesaba and \$455 million in increased fuel costs from higher average fuel prices.

**Aircraft maintenance materials and outside repairs.** Aircraft maintenance materials and outside repairs increased primarily due to a higher volume of engines repaired for third parties by our MRO services business. This increased volume is also reflected in other revenue as described above.

**Passenger commissions and other selling expenses.** Passenger commissions and other selling expenses increased primarily due to higher revenue-related expenses, such as credit card and sales commissions.

**Contracted services.** Contracted services increased primarily due to revenue-related volume increases. The increase in contracted services was partially offset by the change in reporting described above due to the transactions involving

Compass and Mesaba.

Aircraft rent. Aircraft rent decreased primarily due to the change in reporting described above due to the transactions involving Compass and Mesaba and the renegotiation of certain existing leases.

Restructuring and other items. Restructuring and other items decreased \$188 million, primarily due to the following:

During the nine months ended September 30, 2011, we recorded an \$83 million charge primarily related to severance costs associated with voluntary workforce reduction programs offered to align staffing with planned capacity reductions and a \$71 million charge related to our facilities consolidation and fleet assessments.

During the nine months ended September 30, 2010, we recorded \$182 million in asset impairment charges related to the Comair fleet reduction initiative and retired dedicated freighter aircraft and a \$145 million charge for merger-related items associated with Northwest and the integration of Northwest operations into Delta.

#### Other (Expense) Income

Other expense, net for the nine months ended September 30, 2011 was \$897 million compared to \$1.3 billion for the nine months ended September 30, 2010. This change is attributable to the following:

| (in millions)                                                                 | Favorable<br>(Unfavorable) vs. Nine<br>Months Ended<br>September 30, 2010 |
|-------------------------------------------------------------------------------|---------------------------------------------------------------------------|
| Interest expense, net                                                         | \$67                                                                      |
| Amortization of debt discount, net                                            | 29                                                                        |
| Loss on extinguishment of debt <sup>(1)</sup>                                 | 322                                                                       |
| Mark-to-market adjustments on the ineffective portion of fuel hedge contracts | 15                                                                        |
| Foreign currency exchange rates                                               | 8                                                                         |
| Other                                                                         | (3)                                                                       |
| Total other expense, net                                                      | \$438                                                                     |

<sup>(1)</sup> During the nine months ended September 30, 2010, we recorded a \$360 million loss on the extinguishment of debt.

#### Income Taxes

During the nine months ended September 30, 2011, we recorded an income tax benefit of \$77 million, primarily related to the recognition of alternative minimum tax refunds received for 2008 and 2009. During the nine months ended September 30, 2010, we recorded an income tax provision of \$14 million, primarily related to international and state income taxes. We did not record an income tax provision for U.S. federal income tax purposes as a result of our income for the nine months ended September 30, 2011 and 2010 since our deferred tax assets are fully reserved by a valuation allowance.

## Operating Statistics

The following table sets forth our operating statistics:

|                                                        | Three Months Ended<br>September 30, |         |   | Nine Months Ended<br>September 30, |         |   |
|--------------------------------------------------------|-------------------------------------|---------|---|------------------------------------|---------|---|
|                                                        | 2011                                | 2010    |   | 2011                               | 2010    |   |
| Consolidated <sup>(1)</sup> :                          |                                     |         |   |                                    |         |   |
| Revenue passenger miles (millions)                     | 54,497                              | 54,675  |   | 147,792                            | 146,936 |   |
| Available seat miles (millions)                        | 63,262                              | 63,658  |   | 179,622                            | 175,657 |   |
| Passenger mile yield                                   | 15.72                               | ¢ 14.22 | ¢ | 15.59                              | ¢ 14.01 | ¢ |
| Passenger revenue per available seat mile              | 13.54                               | ¢ 12.21 | ¢ | 12.82                              | ¢ 11.72 | ¢ |
| Operating cost per available seat mile                 | 14.16                               | ¢ 12.48 | ¢ | 14.18                              | ¢ 12.55 | ¢ |
| Passenger load factor                                  | 86.1                                | % 85.9  | % | 82.3                               | % 83.6  | % |
| Fuel gallons consumed (millions)                       | 1,044                               | 1,051   |   | 2,955                              | 2,887   |   |
| Average price per fuel gallon <sup>(2)</sup>           | \$3.29                              | \$2.29  |   | \$3.14                             | \$2.28  |   |
| Average price per fuel gallon, adjusted <sup>(3)</sup> | \$3.09                              | \$2.29  |   | \$3.07                             | \$2.28  |   |
| Full-time equivalent employees, end of period          | 79,709                              | 79,005  |   | 79,709                             | 79,005  |   |
| Mainline:                                              |                                     |         |   |                                    |         |   |
| Revenue passenger miles (millions)                     | 47,881                              | 47,984  |   | 129,247                            | 127,913 |   |
| Available seat miles (millions)                        | 55,107                              | 55,276  |   | 155,967                            | 151,528 |   |
| Operating cost per available seat mile                 | 13.13                               | ¢ 11.29 | ¢ | 13.06                              | ¢ 11.45 | ¢ |
| Fuel gallons consumed (millions)                       | 853                                 | 856     |   | 2,406                              | 2,335   |   |
| Average price per fuel gallon <sup>(2)</sup>           | \$3.29                              | \$2.29  |   | \$3.11                             | \$2.28  |   |
| Average price per fuel gallon, adjusted <sup>(3)</sup> | \$3.05                              | \$2.29  |   | \$3.03                             | \$2.28  |   |

(1) Includes the operations of our contract carriers under capacity purchase agreements, except full-time equivalent employees which excludes employees of contract carriers that we do not own.

(2) Includes the impact of fuel hedge activity.

(3) Adjusted for mark-to-market adjustments for fuel hedges recorded in periods other than the settlement period (a non-GAAP financial measure as defined in "Supplemental Information" below).

## Fleet Information

Our active aircraft fleet, commitments and options at September 30, 2011 are summarized in the following table:

| Aircraft Type  | Current Fleet <sup>(1)(2)</sup> |               |                 | Total | Average Age | Commitments <sup>(3)</sup> | Options <sup>(4)</sup> |
|----------------|---------------------------------|---------------|-----------------|-------|-------------|----------------------------|------------------------|
|                | Owned                           | Capital Lease | Operating Lease |       |             |                            |                        |
| B-737-700      | 10                              | —             | —               | 10    | 2.7         | —                          | —                      |
| B-737-800      | 73                              | —             | —               | 73    | 10.7        | —                          | —                      |
| B-737-900ER    | —                               | —             | —               | —     | —           | 100                        | 30                     |
| B-747-400      | 4                               | 8             | 3               | 15    | 18.3        | —                          | —                      |
| B-757-200      | 90                              | 37            | 33              | 160   | 18.5        | —                          | —                      |
| B-757-300      | 16                              | —             | —               | 16    | 8.6         | —                          | —                      |
| B-767-300      | 10                              | 2             | 4               | 16    | 20.7        | —                          | —                      |
| B-767-300ER    | 50                              | 3             | 4               | 57    | 15.4        | —                          | 4                      |
| B-767-400ER    | 21                              | —             | —               | 21    | 10.6        | —                          | 8                      |
| B-777-200ER    | 8                               | —             | —               | 8     | 11.7        | —                          | —                      |
| B-777-200LR    | 10                              | —             | —               | 10    | 2.5         | —                          | 14                     |
| B-787-8        | —                               | —             | —               | —     | —           | 18                         | —                      |
| A319-100       | 55                              | —             | 2               | 57    | 9.7         | —                          | —                      |
| A320-200       | 41                              | —             | 28              | 69    | 16.6        | —                          | —                      |
| A330-200       | 11                              | —             | —               | 11    | 6.5         | —                          | —                      |
| A330-300       | 21                              | —             | —               | 21    | 6.1         | —                          | —                      |
| MD-88          | 66                              | 51            | —               | 117   | 21.2        | —                          | —                      |
| MD-90          | 28                              | —             | —               | 28    | 14.9        | 11                         | 7                      |
| DC9-50         | 27                              | —             | —               | 27    | 33.3        | —                          | —                      |
| CRJ-100        | 16                              | 11            | 17              | 44    | 13.6        | —                          | —                      |
| CRJ-200        | —                               | —             | 2               | 2     | 16.4        | —                          | —                      |
| CRJ-700        | 15                              | —             | —               | 15    | 7.9         | —                          | —                      |
| CRJ-900        | 13                              | —             | —               | 13    | 3.8         | —                          | —                      |
| Embraer 175    | —                               | —             | —               | —     | —           | —                          | 36                     |
| Total Aircraft | 585                             | 112           | 93              | 790   | 15.5        | 129                        | 99                     |

- (1) Excludes all grounded aircraft, including 15 CRJ-100/200, 12 DC9, ten SAAB 340B+, eight B-757-200, one B-747-400 and one B-767-300ER aircraft that were grounded during the nine months ended September 30, 2011. Excludes 179 CRJ-200, 51 CRJ-900, 40 Embraer 170/175, 14 SAAB 340+ and 12 CRJ-700 aircraft, which we own
- (2) or lease and which are operated by third party contract carriers on our behalf. These aircraft are included in the third party contract carriers table below.
- (3) Excludes our orders for five A319-100 and two A320-200 aircraft because we have the right to cancel these orders.
- (4) Aircraft options have scheduled delivery slots.

During the nine months ended September 30, 2011 we:

Entered into an agreement with Boeing to purchase 100 B-737-900ER aircraft;

Purchased ten previously owned MD-90 aircraft and one leased B-767-300 aircraft; and

Leased six MD-90 aircraft and one B-757-200 aircraft.

The MD-90 aircraft and B-757-200 aircraft are not included in the table above because they were not yet in service as of September 30, 2011.



The following table summarizes the aircraft fleet operated by third party contract carriers on our behalf at September 30, 2011:

| Carrier                           | Fleet Type |         |         |         |             |             |           | Total |
|-----------------------------------|------------|---------|---------|---------|-------------|-------------|-----------|-------|
|                                   | CRJ-200    | CRJ-700 | CRJ-900 | ERJ-145 | Embraer 170 | Embraer 175 | SAAB 340+ |       |
| Atlantic Southeast Airlines, Inc. | 99         | 46      | 10      | —       | —           | —           | —         | 155   |
| Pinnacle                          | 122        | —       | 16      | —       | —           | —           | —         | 138   |
| SkyWest Airlines, Inc.            | 58         | 18      | 21      | —       | —           | —           | —         | 97    |
| Chautauqua Airlines, Inc.         | —          | —       | —       | 24      | —           | —           | —         | 24    |
| Compass                           | —          | —       | —       | —       | 3           | 36          | —         | 39    |
| Mesaba                            | 19         | —       | 41      | —       | —           | —           | 14        | 74    |
| Shuttle America Corporation       | —          | —       | —       | —       | 11          | 16          | —         | 27    |
| Total                             | 298        | 64      | 88      | 24      | 14          | 52          | 14        | 554   |

### Financial Condition and Liquidity

We expect to meet our cash needs for the next 12 months from cash flows from operations and our existing cash and cash equivalents, short-term investments and financing arrangements. As of September 30, 2011, we had \$5.1 billion in unrestricted liquidity, including \$1.8 billion in undrawn availability under credit facilities. At September 30, 2011, total debt and capital leases, including current maturities, was \$14.5 billion, a \$758 million reduction from December 31, 2010.

During the September 2011 quarter, we entered into an agreement with Boeing to purchase 100 B-737-900ER aircraft. We have obtained committed long-term financing for a substantial portion of the purchase price of these aircraft. Our ability to obtain additional financing, if needed, on acceptable terms could be adversely affected by the fact that substantially all of our assets are subject to liens.

### Liquidity and Financing Events

Liquidity and financing events during 2011 included the following (see also Note 4 to the Condensed Consolidated Financial Statements for additional information):

- 2010-1B EETC. We completed a \$100 million offering of Pass Through Certificates, Series 2010-1B (the "2010-1B EETC"), through a pass through trust. The 2010-1B EETC, which is secured by 24 aircraft, bears interest at a fixed rate of 6.375% per year and has a final maturity in January 2016.
- 2010-2A EETC. We used \$204 million in proceeds previously held in escrow under our Pass Through Certificates, Series 2010-2A EETC (the "2010-2A EETC"), to refinance 16 aircraft.

2010-2B EETC. We completed a \$135 million offering of Pass Through Certificates, Series 2010-2B (the "2010-2B EETC"), through a pass through trust. The 2010-2B EETC, which is secured by 28 aircraft, bears interest at a fixed rate of 6.75% per year and has a final maturity in November 2015.

2011-1A EETC. We completed a \$293 million offering of Pass Through Certificates, Series 2011-1A (the "2011-1A EETC"), through a pass through trust. The 2011-1A EETC, which is secured by 26 aircraft, bears interest at a fixed rate of 5.3% per year and has a final maturity in April 2019.

2011-1B EETC. We completed a \$102 million offering of Pass Through Certificates, Series 2011-1B (the "2011-1B EETC"), through a pass through trust. The 2011-1B EETC, which is secured by 26 aircraft, bears interest at a fixed rate

of 7.125% per year and has a final maturity in October 2014.

- 2001-1 EETC. We paid \$746 million to retire the outstanding principal amount under the Pass Through Certificates, Series 2001-1 EETC ("the "2001-1 EETC"), which resulted in the release of 36 aircraft that had secured the 2001-1 EETC. We used 10 of those aircraft as security for the 2010-2 EETC and the remaining 26 aircraft to secure the 2011-1 EETC.

Pacific Routes Term Loan Facility. We amended our \$250 million first-lien term loan facility (the "Pacific Routes Term Loan Facility") to, among other things, reduce the interest rate and extend the maturity date from September 2013 to March 2016. At September 30, 2011, the Pacific Routes Term Loan Facility had an interest rate of 4.25% per annum.

Senior Secured Credit Facilities. We entered into senior secured first-lien credit facilities (the "Senior Secured Credit Facilities") to borrow up to \$2.6 billion. In connection with entering into the Senior Secured Credit Facilities, we retired outstanding loans under our \$2.5 billion senior secured exit financing facilities and terminated those facilities and an existing \$100 million revolving credit facility. The Senior Secured Credit Facilities bear interest at a variable rate equal to LIBOR (subject to a 1.25% floor) or another index rate, in each case plus a specified margin and have final maturities in April 2016 and 2017. At September 30, 2011, the outstanding balances under the Senior Secured Credit Facilities had an interest rate of 5.5% per annum.

## Sources and Uses of Cash

### Cash Flows From Operating Activities

Cash provided by operating activities totaled \$1.7 billion for the nine months ended September 30, 2011, primarily reflecting (1) \$2.3 billion in net income after adjusting for items such as depreciation and amortization and (2) a \$417 million increase in advance ticket sales due to seasonal variations in the demand for air travel and higher passenger mile yield. Cash provided by operating activities for the nine months ended September 30, 2011 was reduced by \$313 million in profit sharing payments for 2010 and decreases in accounts payable and other accrued liabilities.

Cash provided by operating activities totaled \$2.5 billion for the nine months ended September 30, 2010, primarily reflecting (1) \$1.9 billion in net income after adjusting for items such as depreciation and amortization, (2) a \$693 million increase in advance ticket sales primarily due to seasonal variations in the demand for air travel and (3) a \$470 million increase in accounts payable and accrued liabilities primarily related to increased operations due to seasonality. Cash provided by operating activities for the nine months ended September 30, 2010 was partially offset by (1) a \$286 million decrease in frequent flyer liability and (2) a \$206 million increase in accounts receivable associated with advance ticket sales and the timing of settlements.

### Cash Flows From Investing Activities

Cash used in investing activities totaled \$1.1 billion for the nine months ended September 30, 2011, primarily reflecting investments of (1) \$676 million for flight equipment, primarily aircraft modifications, including investments in full flat bed seats in BusinessElite and in-seat audio and video entertainment systems, parts and advance deposits related to our order to purchase 100 B-737-900ER aircraft, (2) \$216 million in net purchases of short-term investments and (3) \$210 million for ground property and equipment. Included in flight equipment acquisitions are 10 previously owned MD-90 aircraft and one leased B-767-300 aircraft.

Cash used in investing activities totaled \$1.4 billion for the nine months ended September 30, 2010, primarily reflecting investments of (1) \$753 million for flight equipment, (2) \$353 million related to short-term investments and (3) \$168 million for ground property and equipment. Included in flight equipment acquisitions are 10 leased B-767-300 aircraft, nine previously owned MD-90 aircraft, four leased B-757-200 aircraft, three leased MD-88 aircraft, two B-777-200LR aircraft, two B-737-800 aircraft and one leased B-767-300ER aircraft.

### Cash Flows From Financing Activities

Cash used in financing activities totaled \$1.2 billion for the nine months ended September 30, 2011, reflecting the repayment of \$2.0 billion in long-term debt and capital lease obligations, partially offset by \$1.0 billion in proceeds from aircraft and other aircraft-related financing. We also refinanced our \$2.5 billion senior secured exit financing facilities as discussed above.

Cash used in financing activities totaled \$2.3 billion for the nine months ended September 30, 2010, reflecting the repayment of \$2.5 billion in long-term debt and capital lease obligations, including the prepayment of \$914 million of our Exit Revolving Facility. Cash used in financing activities is partially offset by \$223 million in proceeds from aircraft financing including the 2010-1A EETC.

## Critical Accounting Policies and Estimates

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

## Recent Accounting Standards

### Revenue Arrangements with Multiple Deliverables

In October 2009, the Financial Accounting Standards Board ("FASB") issued "Revenue Arrangements with Multiple Deliverables." The standard (1) revises guidance on when individual deliverables may be treated as separate units of accounting, (2) establishes a selling price hierarchy for determining the selling price of a deliverable, (3) eliminates the residual method for revenue recognition and (4) provides guidance on allocating consideration among separate deliverables. It applies only to contracts entered into or materially modified after December 31, 2010. We adopted this standard on a prospective basis beginning January 1, 2011. The adoption of this standard did not have a material impact on the timing of revenue recognition or its classification.

We determined that the only revenue arrangements impacted by the adoption of this standard are those associated with our frequent flyer program (the "SkyMiles Program"). The SkyMiles Program includes two types of transactions that are considered revenue arrangements with multiple deliverables. As discussed below, these are (1) passenger ticket sales earning mileage credits and (2) the sale of mileage credits to participating companies with which we have marketing agreements. Mileage credits are a separate unit of accounting as they can be redeemed by customers in future periods for air travel on Delta and participating airlines, membership in our Sky Club and other program awards.

**Passenger Ticket Sales Earning Mileage Credits.** The SkyMiles Program allows customers to earn mileage credits by flying on Delta, regional air carriers with which we have contract carrier agreements and airlines that participate in the SkyMiles Program. We applied the new standard to passenger ticket sales earning mileage credits under our SkyMiles Program because we provide customers with two deliverables: (1) mileage credits earned and (2) air transportation. The new guidance requires us to value each component of the arrangement on a standalone basis. Our estimate of the standalone selling price of a mileage credit is based on an analysis of our sales of mileage credits to other airlines. We use established ticket prices to determine the standalone selling price of air transportation. Under the new guidance, we allocate the total amount collected from passenger ticket sales between the deliverables based on their relative selling prices.

We continue to defer revenue from the mileage credit component of passenger ticket sales and recognize it as passenger revenue when miles are redeemed and services are provided. We also continue to record the portion of the passenger ticket sales for air transportation in air traffic liability and recognize these amounts in passenger revenue when we provide transportation or when the ticket expires unused.

**Sale of Mileage Credits.** Customers may earn mileage credits through participating companies such as credit card companies, hotels and car rental agencies with which we have marketing agreements to sell mileage credits. Our contracts to sell mileage credits under these marketing agreements have two deliverables: (1) the mileage credits sold and (2) the marketing component. Our most significant contract to sell mileage credits relates to our co-brand credit card relationship with American Express. The guidance does not apply to our existing contract with American Express or other contracts to sell mileage credits unless those contracts are materially modified. Therefore, we continue to use the residual method for revenue recognition and value only the mileage credits. Under the residual method, the portion of the revenue from the mileage component is deferred and recognized as passenger revenue when miles are redeemed

and services are provided. The portion of the revenue received in excess of the fair value of mileage credits sold is recognized in income as other revenue when the related marketing services are provided. We determine the value of a mileage credit based on an analysis of our sales of mileage credits to other airlines.

If we enter into new contracts or materially modify existing contracts to sell mileage credits related to our SkyMiles Program, we will value the standalone selling price of the marketing component and allocate the revenue from the contract based on the relative selling price of the mileage credits and the marketing component. A material modification of an existing contract could impact our deferral rate or cause an adjustment to our deferred revenue balance, which could materially impact our future financial results.

#### Fair Value Measurement and Disclosure Requirements

In May 2011, the FASB issued "Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs." The standard revises guidance for fair value measurement and expands the disclosure requirements. It is effective prospectively for fiscal years beginning after December 15, 2011. We are currently evaluating the impact the adoption of this standard will have on our Consolidated Financial Statements.

#### Presentation of Comprehensive Income

In June 2011, the FASB issued "Presentation of Comprehensive Income." The standard revises the presentation and prominence of the items reported in other comprehensive income. It is effective retrospectively for fiscal years beginning after December 15, 2011, with early adoption permitted. We will adopt this standard in the March 2012 quarter. The adoption of this standard will not have a material impact on our Consolidated Financial Statements.

#### Testing Goodwill for Impairment

In September 2011, the FASB issued "Testing Goodwill for Impairment." The standard revises the way in which entities test goodwill for impairment. It is effective prospectively for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011, with early adoption permitted. We intend to adopt this standard and apply the provisions to our annual goodwill impairment test in the December 2011 quarter. The adoption of this standard will not have a material impact on our Consolidated Financial Statements.

#### Disclosures about an Employer's Participation in a Multiemployer Plan

In September 2011, the FASB issued "Disclosures about an Employer's Participation in a Multiemployer Plan." The standard revises the way in which entities disclose participation in a multiemployer plan. It is effective retrospectively for fiscal years ending after December 15, 2011. The adoption of this standard will not have a material impact on our Consolidated Financial Statements.

## Supplemental Information

We sometimes use information that is derived from the Condensed Consolidated Financial Statements, but that is not presented in accordance with accounting principles generally accepted in the U.S. ("GAAP"). Certain of this information are considered to be "non-GAAP financial measures" under the U.S. Securities and Exchange Commission rules. The non-GAAP financial measures should be considered in addition to results prepared in accordance with GAAP, but should not be considered a substitute for or superior to GAAP results.

The following tables show reconciliations of non-GAAP financial measures to the corresponding GAAP financial measures. We exclude the following items from CASM:

• **Aircraft fuel and related taxes.** Management believes the volatility in fuel prices impacts the comparability of year-over-year financial performance.

• **Ancillary businesses.** Ancillary businesses are not related to the generation of a seat mile. These businesses include aircraft maintenance and staffing services we provide to third parties and our vacation wholesale operations.

• **Mark-to-market ("MTM") adjustments for fuel hedges recorded in periods other than the settlement period.** Management believes the adjustment of this item is helpful to evaluate our financial results in the period shown.

• **Profit sharing.** Management believes the exclusion of this item provides a more meaningful comparison of our results to the airline industry and our prior year results.

• **Restructuring and other items.** Management believes the exclusion of this item is helpful to investors to evaluate our recurring operational performance.

|                                                                                      | Three Months Ended<br>September 30, |   |       |   |
|--------------------------------------------------------------------------------------|-------------------------------------|---|-------|---|
|                                                                                      | 2011                                |   | 2010  |   |
| CASM                                                                                 | 14.16                               | ¢ | 12.48 | ¢ |
| Items excluded:                                                                      |                                     |   |       |   |
| Aircraft fuel and related taxes                                                      | (5.09                               | ) | (3.77 | ) |
| Ancillary businesses                                                                 | (0.38                               | ) | (0.26 | ) |
| MTM adjustments for fuel hedges recorded in periods other than the settlement period | (0.33                               | ) | —     |   |
| Profit sharing                                                                       | (0.26                               | ) | (0.29 | ) |
| Restructuring and other items                                                        | —                                   |   | (0.32 | ) |
| CASM-Ex                                                                              | 8.10                                | ¢ | 7.84  | ¢ |

The following table reconciles average price per fuel gallon to average price per fuel gallon adjusted for MTM adjustments for fuel hedges recorded in periods other than the settlement period.

|                                                                                      | Three Months Ended<br>September 30, |        | Nine Months Ended<br>September 30, |        |
|--------------------------------------------------------------------------------------|-------------------------------------|--------|------------------------------------|--------|
|                                                                                      | 2011                                | 2010   | 2011                               | 2010   |
| Consolidated <sup>(1)</sup> :                                                        |                                     |        |                                    |        |
| Average price per fuel gallon <sup>(2)</sup>                                         | \$3.29                              | \$2.29 | \$3.14                             | \$2.28 |
| MTM adjustments for fuel hedges recorded in periods other than the settlement period | (0.20                               | ) —    | (0.07                              | ) —    |
| Average price per fuel gallon, adjusted                                              | \$3.09                              | \$2.29 | \$3.07                             | \$2.28 |
| Mainline:                                                                            |                                     |        |                                    |        |
| Average price per fuel gallon <sup>(2)</sup>                                         | \$3.29                              | \$2.29 | \$3.11                             | \$2.28 |



|                                                                                      |        |        |        |        |
|--------------------------------------------------------------------------------------|--------|--------|--------|--------|
| MTM adjustments for fuel hedges recorded in periods other than the settlement period | (0.24  | )—     | (0.08  | )—     |
| Average price per fuel gallon, adjusted                                              | \$3.05 | \$2.29 | \$3.03 | \$2.28 |

(1) Includes fuel expense incurred under contract carriers arrangements.

(2) Includes the impact of fuel hedge activity.

## ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There have been no material changes in market risk from the information provided in “Item 7A. Quantitative and Qualitative Disclosures About Market Risk” in our Form 10-K, other than those discussed below.

The following sensitivity analysis does not consider the effects of a change in demand for air travel, the economy as a whole or actions we may take to seek to mitigate our exposure to a particular risk. For these and other reasons, the actual results of changes in these prices or rates may differ materially from the following hypothetical results.

## Aircraft Fuel Price Risk

Our results of operations are materially impacted by changes in aircraft fuel prices. We actively manage our fuel price risk through a hedging program intended to provide an offset against increases in jet fuel prices that we do not expect to be recoverable through passenger and cargo revenue increases. The fuel hedging program utilizes several different instrument and commodity types, which are used together to create a risk mitigating hedge portfolio. The economic effectiveness of this hedge portfolio is frequently tested against the company's financial targets and rebalanced according to market conditions.

Our hedge portfolio generally consists of (1) single and multi-structured option contracts, (2) swap contracts and (3) futures contracts. Heating oil, crude oil and jet fuel are the underlying commodities for these instruments. Our fuel hedge contracts contain margin funding requirements, which are driven by changes in the price of the underlying commodity and the instruments used. Our margin funding requirements may require us to post margin to counterparties or may require counterparties to post margin to us as market prices in the underlying hedge items change. If fuel prices increase or decrease significantly from the levels existing at the time we enter into fuel hedging contracts, we may be required to post a significant amount of margin.

For the nine months ended September 30, 2011, aircraft fuel and related taxes, including our contract carriers under capacity purchase agreements, accounted for \$9.3 billion, or 36%, of our total operating expense, including \$103 million of net fuel hedge gains. Because jet fuel prices can fluctuate significantly in a relatively short period of time, we may adjust our hedge portfolio to address fuel price volatility and margin posting requirements.

The following table shows the projected cash impact to fuel cost, on both an unhedged and hedged basis, assuming a 20% increase or decrease in fuel prices. The hedge gain (loss) reflects the change in the projected cash settlement value of our open fuel hedge contracts at September 30, 2011 based on their contract settlement dates, assuming the same 20% changes.

| (in millions) | Three Months Ending December 31, 2011 |                       |            | Year Ending December 31, 2012 |                       |            | Fuel Hedge     |
|---------------|---------------------------------------|-----------------------|------------|-------------------------------|-----------------------|------------|----------------|
|               | Decrease                              |                       |            | Decrease                      |                       |            | Margin         |
|               | (Increase) to Hedge Gain              |                       |            | (Increase) to Hedge Gain      |                       |            | (Posted to)    |
|               | Unhedged                              | (Loss) <sup>(2)</sup> | Net Impact | Unhedged                      | (Loss) <sup>(2)</sup> | Net Impact | Received from  |
|               | Fuel Cost <sup>(1)</sup>              |                       |            | Fuel Cost <sup>(1)</sup>      |                       |            | Counterparties |
| + 20%         | \$(510                                | ) \$190               | \$(320 )   | \$(2,070                      | ) \$240               | \$(1,830 ) | \$ 60          |
| - 20%         | 510                                   | (390                  | ) 120      | 2,070                         | (330                  | ) 1,740    | (660 )         |

Projections based upon the (increase) decrease to unhedged fuel cost as compared to the jet fuel price per gallon of \$2.83, excluding transportation costs and taxes, at September 30, 2011 and estimated fuel consumption of 905 million and 3.8 billion gallons for the three months ending December 31, 2011 and year ending December 31, 2012, respectively.

(2)

Projections based on average futures prices by contract settlement month compared to futures prices at September 30, 2011.

For additional information regarding our fuel hedge portfolio, see Note 3 to the Notes to the Condensed Consolidated Financial Statements.

#### ITEM 4. CONTROLS AND PROCEDURES

Our management, including our Chief Executive Officer and Chief Financial Officer, performed an evaluation of our disclosure controls and procedures, which have been designed to permit us to effectively identify and timely disclose important information. Our management, including our Chief Executive Officer and Chief Financial Officer, concluded that the controls and procedures were effective as of September 30, 2011 to ensure that material information was accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

During the September 2011 quarter, we did not make any changes in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of  
Delta Air Lines, Inc.

We have reviewed the condensed consolidated balance sheet of Delta Air Lines, Inc. (the Company) as of September 30, 2011, and the related condensed consolidated statements of operations for the three-month and nine-month periods ended September 30, 2011 and 2010, and the condensed consolidated statements of cash flows for the nine-month periods ended September 30, 2011 and 2010. 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, 2010 and the related consolidated statements of operations, stockholders' equity, and cash flows for the year ended December 31, 2010 and in our report dated February 15, 2011, we expressed an unqualified opinion on those consolidated financial statements.

Atlanta, Georgia  
October 25, 2011

/s/ Ernst & Young LLP

## PART II. OTHER INFORMATION

## ITEM 1. LEGAL PROCEEDINGS

“Item 3. Legal Proceedings” of our Form 10-K includes a discussion of other legal proceedings. There have been no material changes from the legal proceedings described in our Form 10-K.

## ITEM 1A. RISK FACTORS

“Item 1A. Risk Factors” of our Form 10-K includes a discussion of our risk factors. There have been no material changes from the risk factors described in our Form 10-K.

## ITEM 2. ISSUER PURCHASES OF EQUITY SECURITIES

We withheld the following shares of common stock to satisfy tax withholding obligations during the September 2011 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.

|                      | Total Number of<br>Shares<br>Purchased <sup>(1)</sup> | Average Price<br>Paid Per<br>Share | Total Number of<br>Shares Purchased as<br>Part of Publicly<br>Announced Plans or<br>Programs <sup>(1)</sup> | Maximum Number (or<br>Approximate Dollar<br>Value) of Shares That<br>May Yet Be Purchased<br>Under the Plan or<br>Programs |
|----------------------|-------------------------------------------------------|------------------------------------|-------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------|
| July 1-31, 2011      | 4,800                                                 | \$8.53                             | 4,800                                                                                                       | (1)                                                                                                                        |
| August 1-31, 2011    | —                                                     | \$—                                | —                                                                                                           | (1)                                                                                                                        |
| September 1-30, 2011 | 5,339                                                 | \$7.51                             | 5,339                                                                                                       | (1)                                                                                                                        |
| Total                | 10,139                                                |                                    | 10,139                                                                                                      |                                                                                                                            |

<sup>(1)</sup> Shares were withheld from employees to satisfy certain tax withholding obligations due in connection with grants of stock under our 2007 Performance Compensation Plan. The 2007 Performance Compensation Plan provides for the withholding of shares to satisfy tax obligations. It does not specify a maximum number of shares that can be withheld for this purpose.

## ITEM 6. EXHIBITS

### (a) Exhibits

Note to Exhibits: Any representations and warranties of a party set forth in any agreement (including all exhibits and schedules thereto) filed with this Quarterly Report on Form 10-Q have been made solely for the benefit of the other party or parties to the agreement. Some of those representations and warranties were made only as of the date of the agreement or such other date as specified in the agreement, may be subject to a contractual standard of materiality different from what may be viewed as material to stockholders, or may have been used for the purpose of allocating risk between the parties rather than establishing matters as facts. Such agreements are included with this filing only to provide investors with information regarding the terms of the agreements, and not to provide investors with any other factual or disclosure information regarding the registrant or its business.

|         |                                                                                                                                                                                                                                                                                             |
|---------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 10.1    | Supplemental Agreement No. 13 to Purchase Agreement Number 2022, dated August 24, 2011, between The Boeing Company and Delta relating to Boeing Model 737NG Aircraft (the "B-737NG Purchase Agreement")*                                                                                    |
| 10.2    | Letter Agreements, dated August 24, 2011, relating to the B-737NG Purchase Agreement**                                                                                                                                                                                                      |
| 10.3(a) | Aircraft General Terms Agreement, dated October 21, 1997, between Boeing and Delta (filed as Exhibit 10.6 to Delta's Quarterly Report on Form 10-Q for the quarter ended December 31, 1997)* / **                                                                                           |
| 10.3(b) | Letter Agreement, dated August 24, 2011, relating to Revisions to Aircraft General Terms Agreement dated October 21, 1997 and the B-737NG Purchase Agreement**                                                                                                                              |
| 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 September 30, 2011                                                                                                                                    |
| 31.2    | Certification by Delta's Senior Vice President and Chief Financial Officer with respect to Delta's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2011                                                                                                          |
| 32      | Certification pursuant to Section 1350 of Chapter 63 of Title 18 of the United States Code by Delta's Chief Executive Officer and Senior Vice President and Chief Financial Officer with respect to Delta's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2011 |
| 101.INS | XBRL Instance Document                                                                                                                                                                                                                                                                      |
| 101.SCH | XBRL Taxonomy Extension Schema Document                                                                                                                                                                                                                                                     |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document                                                                                                                                                                                                                                       |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase Document                                                                                                                                                                                                                                        |
| 101.LAB | XBRL Taxonomy Extension Labels Linkbase Document                                                                                                                                                                                                                                            |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document                                                                                                                                                                                                                                      |

\* Incorporated by reference.

\*\* Portions of this exhibit have been omitted and filed separately with the Securities and Exchange Commission pursuant to requests for confidential treatment.

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)

/s/ HANK HALTER  
Hank Halter  
Senior Vice President and Chief Financial Officer  
(Principal Financial and Accounting Officer)

October 25, 2011