

DELTA AIR LINES INC /DE/

Form 10-Q

July 24, 2009

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q**

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

**For the quarterly period ended June 30, 2009
Or**

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

**Commission File Number 1-5424
DELTA AIR LINES, INC.
State of Incorporation: Delaware
I.R.S. Employer Identification No.: 58-0218548
Post Office Box 20706, Atlanta, Georgia 30320-6001
Telephone: (404) 715-2600**

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

Indicate by check mark whether the registrant 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 June 30, 2009:
Common Stock, \$0.0001 par value 777,644,595 shares outstanding

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

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Unless otherwise indicated, Delta Air Lines, Inc. and our wholly-owned subsidiaries are collectively referred to as Delta, we, us, and our. Prior to October 30, 2008, these references do not include Northwest Airlines Corporation and its wholly-owned subsidiaries, including Northwest Airlines, Inc.

FORWARD-LOOKING STATEMENTS

Statements in this Form 10-Q (or otherwise made by us or on our behalf) that are not historical facts, including statements about our estimates, expectations, beliefs, intentions, projections or strategies for the future, may be forward-looking statements as defined in the Private Securities Litigation Reform Act of 1995. Forward-looking statements involve risks and uncertainties that could cause actual results to differ materially from historical experience or our present expectations. For examples of such risks and uncertainties, please see the cautionary statements contained in Item 1A. Risk Factors of our Annual Report on Form 10-K for the fiscal year ended December 31, 2008 (Form 10-K) and Part II, Item 1A. Risk Factors in the Form 10-Q. All forward-looking statements speak only as of the date made, and we undertake no obligation to publicly update or revise any forward-looking statements to reflect events or circumstances that may arise after the date of this report.

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DELTA AIR LINES, INC.
Consolidated Balance Sheets
Unaudited

(in millions, except share data)	June 30, 2009	December 31, 2008
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 4,851	\$ 4,255
Short-term investments	91	212
Restricted cash and cash equivalents	361	429
Accounts receivable, net of an allowance for uncollectible accounts of \$42 at June 30, 2009 and December 31, 2008, respectively	1,410	1,443
Hedge margin receivable		1,139
Expendable parts and supplies inventories, net of an allowance for obsolescence of \$47 and \$32 at June 30, 2009 and December 31, 2008, respectively	372	388
Deferred income taxes, net	316	401
Prepaid expenses and other	898	637
Total current assets	8,299	8,904
Property and Equipment, Net:		
Property and equipment, net of accumulated depreciation and amortization of \$2,243 and \$1,558 at June 30, 2009 and December 31, 2008, respectively	20,916	20,627
Other Assets:		
Goodwill	9,737	9,731
Identifiable intangibles, net of accumulated amortization of \$402 and \$354 at June 30, 2009 and December 31, 2008, respectively	4,888	4,944
Other noncurrent assets	640	808
Total other assets	15,265	15,483
Total assets	\$ 44,480	\$ 45,014
LIABILITIES AND STOCKHOLDERS EQUITY		
Current Liabilities:		
Current maturities of long-term debt and capital leases	\$ 1,824	\$ 1,160
Air traffic liability	3,852	3,315
Accounts payable	1,580	1,604
Frequent flyer deferred revenue	1,580	1,624
Accrued salaries and related benefits	1,019	972
Hedge derivatives liability	150	1,247
Taxes payable	673	565
Other accrued liabilities	471	535

Total current liabilities	11,149	11,022
Noncurrent Liabilities:		
Long-term debt and capital leases	14,774	15,411
Pension, postretirement and related benefits	11,101	10,895
Frequent flyer deferred revenue	3,367	3,489
Deferred income taxes, net	1,886	1,981
Other noncurrent liabilities	1,223	1,342
Total noncurrent liabilities	32,351	33,118
Commitments and Contingencies		
Stockholders Equity:		
Common stock at \$0.0001 par value; 1,500,000,000 shares authorized, 787,148,627 and 702,685,427 shares issued at June 30, 2009 and December 31, 2008, respectively		
Additional paid-in capital	13,765	13,714
Accumulated deficit	(9,659)	(8,608)
Accumulated other comprehensive loss	(2,963)	(4,080)
Treasury stock, at cost, 9,504,032 and 7,548,543 shares at June 30, 2009 and December 31, 2008, respectively	(163)	(152)
Total stockholders equity	980	874
Total liabilities and stockholders equity	\$ 44,480	\$ 45,014

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

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

(in millions, except per share data)	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
Operating Revenue:				
Passenger:				
Mainline	\$ 4,564	\$ 3,627	\$ 8,931	\$ 6,688
Regional carriers	1,339	1,143	2,573	2,182
Total passenger revenue	5,903	4,770	11,504	8,870
Cargo	173	160	358	294
Other, net	924	569	1,822	1,101
Total operating revenue	7,000	5,499	13,684	10,265
Operating Expense:				
Salaries and related costs	1,891	1,092	3,758	2,183
Aircraft fuel and related taxes	1,812	1,678	3,705	3,100
Contract carrier arrangements	965	967	1,873	1,895
Contracted services	376	257	834	511
Aircraft maintenance materials and outside repairs	392	295	816	563
Depreciation and amortization	383	302	767	599
Passenger commissions and other selling expenses	329	248	685	473
Landing fees and other rents	315	173	631	340
Passenger service	161	105	296	189
Aircraft rent	119	67	240	131
Impairment of goodwill and other intangible assets		1,196		7,296
Restructuring and merger-related items	58	104	157	120
Other	198	102	404	213
Total operating expense	6,999	6,586	14,166	17,613
Operating Income (Loss)	1	(1,087)	(482)	(7,348)
Other (Expense) Income:				
Interest expense	(324)	(141)	(632)	(288)
Interest income	9	25	19	52
Miscellaneous, net	61	40	48	31
Total other expense, net	(254)	(76)	(565)	(205)
Loss Before Income Taxes	(253)	(1,163)	(1,047)	(7,553)

Income Tax (Provision) Benefit	(4)	119	(4)	119
Net Loss	\$ (257)	\$ (1,044)	\$ (1,051)	\$ (7,434)
Basic and Diluted Loss per Share	\$ (0.31)	\$ (2.64)	\$ (1.27)	\$ (18.79)

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 Flow
(Unaudited)

(in millions)	Six Months Ended June 30,	
	2009	2008
Net cash provided by operating activities	\$ 1,477	\$ 1,272
Cash Flows From Investing Activities:		
Property and equipment additions:		
Flight equipment, including advance payments	(498)	(793)
Ground property and equipment, including technology	(113)	(113)
Redemption of short-term investments	121	
Proceeds from sales of flight equipment	76	83
Decrease in restricted cash and cash equivalents	10	6
Other, net		8
Net cash used in investing activities	(404)	(809)
Cash Flows From Financing Activities:		
Payments on long-term debt and capital lease obligations	(853)	(712)
Proceeds from long-term obligations	390	848
Other, net	(14)	(8)
Net cash (used in) provided by financing activities	(477)	128
Net Increase in Cash and Cash Equivalents	596	591
Cash and cash equivalents at beginning of period	4,255	2,648
Cash and cash equivalents at end of period	\$ 4,851	\$ 3,239
Non-cash transactions:		
Flight equipment	\$ 385	\$

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

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DELTA AIR LINES, INC.
Notes to the Condensed Consolidated Financial Statements
June 30, 2009
(Unaudited)

NOTE 1. BASIS OF PRESENTATION

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

On October 29, 2008 (the Closing Date), a wholly-owned subsidiary of Delta merged (the Merger) with and into Northwest Airlines Corporation. On the Closing Date, (1) Northwest Airlines Corporation and its wholly-owned subsidiaries, including Northwest Airlines, Inc. (collectively, Northwest), became wholly-owned subsidiaries of Delta and (2) each share of Northwest common stock outstanding on the Closing Date or issuable under Northwest s Plan of Reorganization (as defined in Note 9) was converted into the right to receive 1.25 shares of Delta common stock.

Our Condensed Consolidated Financial Statements include the accounts of Delta Air Lines, Inc. and our wholly-owned subsidiaries. As a result of the Merger, the accounts of Northwest are included for all periods subsequent to the Closing Date.

Management believes that the accompanying unaudited Condensed Consolidated Financial Statements reflect all adjustments, including adjustments required by purchase accounting, normal recurring items and restructuring and merger-related 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 six months ended June 30, 2009 are not necessarily indicative of operating results for the entire year.

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

We have evaluated the financial statements for subsequent events through the date of the filing of this Form 10-Q.

New Accounting Standards

In March 2008, the Financial Accounting Standards Board (the FASB) issued SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities an amendment to FASB Statement No. 133 (SFAS 161). SFAS 161 changes the disclosure requirements for derivative instruments and hedging activities. Entities are required to provide enhanced disclosures about (1) how and why an entity uses derivative instruments, (2) how derivative instruments and related hedged items are accounted for under SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities (SFAS 133), and (3) how derivative instruments and related hedged items affect an entity s financial position, financial performance and cash flows. SFAS 161 is effective for fiscal years and interim periods. We adopted SFAS 161 on January 1, 2009.

In April 2009, the FASB issued FASB Staff Position (FSP) 107-1 and Accounting Principles Board (APB) Opinion No. 28-1, Interim Disclosures about Fair Value of Financial Instruments (FSP 107-1 and APB 28-1). FSP 107-1 and APB 28-1 amend FASB Statement No. 107, Disclosures about Fair Values of Financial Instruments, to require disclosures about the fair value of financial instruments in interim financial statements as well as in annual financial statements. It also amends APB Opinion No. 28, Interim Financial Reporting, to require those disclosures in all interim financial statements. We adopted FSP 107-1 and APB 28-1 effective April 1, 2009.

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SFAS No. 157, Fair Value Measurements (SFAS 157), defines fair value, establishes a consistent framework for measuring fair value and expands disclosure for each major asset and liability category measured at fair value on either a recurring or nonrecurring basis. SFAS 157 clarifies that fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. Accordingly, fair value is a market-based measurement that is determined based on assumptions that market participants would use in pricing an asset or liability. As a basis for considering such assumptions, SFAS 157 establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value as follows:

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

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

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

Assets and Liabilities Measured at Fair Value on a Recurring Basis

(in millions)	June 30, 2009	Quoted Prices in Active Markets (Level 1)	Significant	
			Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash equivalents	\$4,583	\$ 4,583	\$	\$
Short-term investments	91			91
Restricted cash equivalents	338	338		
Long-term investments	128			128
Hedge derivatives asset, net	196		79	117

We record our cash equivalents and short-term investments at estimated fair value. The estimated fair values of other financial instruments, including derivative instruments, have been determined using available market information and valuation methodologies, primarily discounted cash flow analyses and an option-pricing model.

Valuation techniques for assets and liabilities in the Level 3 fair value hierarchy are based on the income approach using (1) a discounted cash flow model for investments and (2) an option-pricing model for fuel hedge option contracts. In addition, interest rate cash flow hedges are valued using a market and income approach using a discounted cash flow model.

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

(in millions)	Hedge Derivatives Asset, Net
Balance at December 31, 2008	\$ (1,091)
Change in fair value included in earnings	(920)
Change in fair value included in other comprehensive income	929
Purchases and settlements, net	1,199
Balance at June 30, 2009	\$ 117

(Losses) gains included in earnings above for the six months ended June 30, 2009 are recorded on our Consolidated Statement of Operations as follows:

(in millions)	Fuel Expense and Related Taxes	Other (Expense) Income
Total (losses) gains included in earnings	\$ (940)	\$ 20
Change in unrealized gains relating to assets and liabilities still held at June 30, 2009	\$	\$ 17

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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. The following table presents information about our debt at June 30, 2009 and December 31, 2008:

(in millions)	June 30, 2009	December 31, 2008
Carrying amount	\$ 16,078	\$ 16,006
Fair value ⁽¹⁾	\$ 14,953	\$ 12,695

(1) The aggregate fair value of debt was based primarily on reported market values and recently completed market transactions.

NOTE 3. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS***Aircraft Fuel Price Risk***

Our results of operations are materially 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 periodically enter into various derivative instruments, including fuel, interest rate and foreign currency hedges. In accordance with SFAS 133, we are required to recognize all derivative instruments as either assets or liabilities at fair value on our Consolidated Balance Sheets and to recognize certain changes in the fair value of derivative instruments on our Consolidated Statements of Operations.

We perform, at least quarterly, both a prospective and retrospective assessment of the effectiveness of our hedge contracts, 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 June 30, 2009, we believe our hedge contracts will continue to be highly effective in offsetting changes in cash flow or fair value attributable to the hedged risk.

Cash flow hedges

For derivative instruments that are designated and qualify as cash flow hedges under SFAS 133, the effective portion of the gain or loss on the derivative is reported as a component of accumulated other comprehensive income and reclassified into earnings in the same period during which the hedged transaction affects earnings. The effective portion of the derivative represents the change in fair value of the hedge that offsets the change in fair value of the hedged item. To the extent the change in the fair value of the hedge does not perfectly offset the change in the fair value of the hedged item, the ineffective portion of the hedge is immediately recognized in other (expense) income on our Consolidated Statements of Operations. The following table summarizes the accounting treatment and classification of our cash flow hedges on our Condensed Consolidated Financial Statements:

Impact of Unrealized Gains and Losses	Consolidated	Consolidated
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Derivative Instrument⁽¹⁾	Hedged Risk	Balance Sheets Effective Portion	Income Statements Ineffective Portion
Designated under SFAS 133:			
Fuel hedges consisting of crude oil, heating oil, and jet fuel swaps, collars and call options ⁽²⁾	Volatility in jet fuel prices	Effective portion of hedge is recorded in accumulated other comprehensive income	Excess, if any, over effective portion of hedge is recorded in other (expense) income
Interest rate swaps and call options	Changes in interest rates	Entire hedge is recorded in accumulated other comprehensive income	Expect hedge to fully offset hedged risk; no ineffectiveness recorded
Foreign currency forwards and collars	Fluctuations in foreign currency exchange rates	Entire hedge is recorded in accumulated other comprehensive income	Expect hedge to fully offset hedged risk; no ineffectiveness recorded

Not qualifying or not designated under SFAS 133:

Fuel hedges consisting of crude oil, heating oil and jet fuel extendable swaps and three-way collars	Volatility in jet fuel prices	Entire amount of change in fair value of hedge is recorded in aircraft fuel expense and related taxes	
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(1) In the Merger, we assumed Northwest's outstanding hedge contracts, which include fuel, interest rate and foreign currency cash flow hedges. On the Closing Date, we designated certain of these contracts as hedges in accordance with SFAS 133. The remaining Northwest

derivative contracts that were not designated under SFAS 133 did not qualify for hedge accounting. All contracts assumed in the Merger that did not qualify for hedge accounting settled as of June 30, 2009.

- (2) Ineffectiveness on our fuel hedge option contracts is calculated using a perfectly effective hypothetical derivative, which acts as a proxy for the fair value of the change in expected cash flows from the purchase of aircraft fuel.

Table of Contents*Fair value hedges*

For derivative instruments that are designated and qualify as a fair value hedge under SFAS 133, the gain or loss on the derivative and the offsetting loss or gain on the hedged item attributable to the hedged risk are recognized in current earnings. We include the gain or loss on the hedged item in the same account as the offsetting loss or gain on the related derivative instrument, resulting in no impact to our Consolidated Statements of Operations. The following table summarizes the accounting treatment and classification of our fair value hedges on our Condensed Consolidated Financial Statements:

Derivative Instrument	Hedged Risk	Impact of Unrealized Gains and Losses	
		Consolidated Balance Sheets Effective Portion	Consolidated Income Statements Ineffective Portion
Designated under SFAS 133:			
Interest rate swaps	Changes in interest rates	Entire fair value of hedge is recorded in long-term debt and capital leases	Expect hedge to be perfectly effective at offsetting changes in fair value of the related debt; no ineffectiveness recorded

During the June 2009 quarter, we terminated our interest rate swaps designated as fair value hedges, resulting in \$65 million in cash proceeds from counterparties. As a result of the termination, we have a deferred \$44 million gain, which will be amortized over the remaining life of the debt using an effective-interest method and recorded to interest expense.

Hedge Position

The following tables reflect the estimated fair value gain (loss) position of our hedge contracts at June 30, 2009 and December 31, 2008:

(in millions, unless otherwise stated)	Notional Balance	Maturity Date	June 30, 2009					
			Prepaid Expenses and Other Assets	Other Noncurrent Assets	Accounts Payable	Hedge Derivative Liability	Other Noncurrent Liabilities	Hedge Margin Payable ⁽²⁾
Fuel hedge swaps, collars and call options	1.2 billion gallons - crude oil, heating oil, jet fuel	July 2009 - December 2010	\$ 243	\$ 8	\$ (89)	\$ (89)	\$	
			\$ 1,700	1		(36)	(14)	

Interest rate swaps and caps
designated as cash flow hedges⁽¹⁾

December
2009 -
May
2019

Foreign currency exchange caps and
collars