DELTA AIR LINES INC /DE/
Form 10-Q
April 23, 2009

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

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

For the quarterly period ended March 31, 2009

Or

o **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 þ No o

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 o No o

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 þ	Accelerated filer o	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

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

Yes o No þ

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 þ No o

Number of shares outstanding by each class of common stock, as of March 31, 2009:

Common Stock, $0.0001 par value 771,645,975 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 a 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). 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)	March 31, 2009	December 31, 2008
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 4,441	$ 4,255
Short-term investments	67	212
Restricted cash and cash equivalents	387	429
Accounts receivable, net of an allowance for uncollectible accounts of $44 and $42 at March 31, 2009 and December 31, 2008, respectively	1,419	1,443
Hedge margin receivable	404	1,139
Expendable parts and supplies inventories, net of an allowance for obsolescence of $39 and $32 at March 31, 2009 and December 31, 2008, respectively	380	388
Deferred income taxes, net	332	401
Prepaid expenses and other	627	637
Total current assets	8,057	8,904
Property and Equipment, Net:		
Property and Equipment, net of accumulated depreciation and amortization of $1,898 and $1,558 at March 31, 2009 and December 31, 2008, respectively	20,896	20,627
Other Assets:		
Goodwill	9,729	9,731
Identifiable intangibles, net of accumulated amortization of $379 and $354 at March 31, 2009 and December 31, 2008, respectively	4,918	4,944
Other noncurrent assets	795	808
Total other assets	15,442	15,483
Total assets	$ 44,395	$ 45,014
LIABILITIES AND STOCKHOLDERS EQUITY		
Current Liabilities:		
Current maturities of long-term debt and capital leases	$ 1,853	$ 1,160
Air traffic liability	3,625	3,315
Accounts payable	1,648	1,604
Frequent flyer deferred revenue	1,605	1,624
Accrued salaries and related benefits	1,004	972
Hedge derivatives liability	662	1,247

Taxes payable	591	565
Other accrued liabilities	539	535
Total current liabilities	11,527	11,022
Noncurrent Liabilities:		
Long-term debt and capital leases	14,743	15,411
Pension, postretirement and related benefits	11,005	10,895
Frequent flyer deferred revenue	3,428	3,489
Deferred income taxes, net	1,901	1,981
Other noncurrent liabilities	1,272	1,342
Total noncurrent liabilities	32,349	33,118
Commitments and Contingencies		
Stockholders Equity:		
Common stock at $0.0001 par value; 1,500,000,000 shares authorized, 779,743,607 and 702,685,427 shares issued at March 31, 2009 and December 31, 2008, respectively		
Additional paid-in capital	13,738	13,714
Accumulated deficit	(9,402)	(8,608)
Accumulated other comprehensive loss	(3,663)	(4,080)
Treasury stock, at cost, 8,097,632 and 7,548,543 shares at March 31, 2009 and December 31, 2008, respectively	(154)	(152)
Total stockholders equity	519	874
Total liabilities and stockholders equity	$ 44,395	$ 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 March 31, 2009	March 31, 2008
Operating Revenue:		
Passenger:		
Mainline	$ 4,367	$ 3,061
Regional carriers	1,234	1,039
Total passenger revenue	5,601	4,100
Cargo	185	134
Other, net	898	532
Total operating revenue	6,684	4,766
Operating Expense:		
Aircraft fuel and related taxes	1,893	1,422
Salaries and related costs	1,867	1,091
Contract carrier arrangements	908	928
Contracted services	458	254
Aircraft maintenance materials and outside repairs	424	268
Depreciation and amortization	384	297
Passenger commissions and other selling expenses	356	225
Landing fees and other rents	316	167
Passenger service	135	84
Aircraft rent	121	64
Impairment of goodwill		6,100
Restructuring and merger-related items	99	16
Other	206	111
Total operating expense	7,167	11,027
Operating Loss	(483)	(6,261)
Other (Expense) Income:		
Interest expense	(308)	(147)
Interest income	10	27
Miscellaneous, net	(13)	(9)
Total other expense, net	(311)	(129)
Loss Before Income Taxes	(794)	(6,390)

Income Taxes		
Net Loss	$ (794)	$ (6,390)
Basic and Diluted Loss per Share	$ (0.96)	$ (16.15)

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)	Three Months Ended March 31, 2009	March 31, 2008
Net cash provided by operating activities	$ 643	$ 283
Cash Flows From Investing Activities:		
Property and equipment additions:		
Flight equipment, including advance payments	(386)	(527)
Ground property and equipment, including technology	(49)	(59)
Decrease in restricted cash and cash equivalents	18	4
Decrease in short-term investments	72	
Proceeds from sales of flight equipment	74	25
Other, net	(1)	7
Net cash used in investing activities	(272)	(550)
Cash Flows From Financing Activities:		
Payments on long-term debt and capital lease obligations	(538)	(615)
Proceeds from long-term obligations	356	733
Other, net	(3)	(7)
Net cash (used in) provided by financing activities	(185)	111
Net Increase (Decrease) in Cash and Cash Equivalents	186	(156)
Cash and cash equivalents at beginning of period	4,255	2,648
Cash and cash equivalents at end of period	$ 4,441	$ 2,492
Non-cash transactions:		
Flight equipment	$ 201	$

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
March 31, 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 the period from January 1 to March 31, 2009.

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 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 and other factors, operating results for the three months ended March 31, 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.

NOTE 2. FAIR VALUE MEASUREMENTS

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.

<u>Assets and Liabilities Measured at Fair Value on a Recurring Basis</u>

	March 31,	**Quoted Prices in Active Markets for Identical Assets**	**Significant Other Observable Inputs**	**Significant Unobservable Inputs**

(in millions)	**2009**	**(Level 1)**	**(Level 2)**	**(Level 3)**
Cash equivalents	$4,180	$ 4,180	$	$
Short-term investments	67			67
Restricted cash equivalents	382	382		
Long-term investments	194			194
Hedge derivatives liability, net	(426)		(43)	(383)

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

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

(in millions)	Short-term Investments	Long-term Investments	Hedge Derivatives Liability, Net
Balance at December 31, 2008	$ 212	$ 121	$ (1,091)
Reclassification	(73)	73	
Change in fair value included in earnings			(574)
Change in fair value included in other comprehensive income			421
Purchases and settlements, net	(72)		861
Balance at March 31, 2009	$ 67	$ 194	$ (383)

Gains (losses) included in earnings above for the three months ended March 31, 2009 are recorded on our Consolidated Statement of Operations as follows:

(in millions)	Fuel Expense and Related Taxes	Other (Expense) Income
Total gains (losses) included in earnings	$ (574)	$ 2
Change in unrealized losses relating to assets still held at March 31, 2009	$ (2)	$

NOTE 3. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

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.

Derivative Financial Instruments

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 March 31, 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:

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		Impact of Unrealized Gains and Losses	
Derivative Instrument[1]	**Hedged Risk**	**Consolidated Balance Sheets Effective Portion**	**Consolidated 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	Foreign currency exchange rate fluctuations	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	

(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.

(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.

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:

		Impact of Unrealized Gains and Losses	
Derivative Instrument	**Hedged Risk**	**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

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Hedge Position

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

	March 31, 2009							
(in millions, unless otherwise stated)	**Notional Balance**	**Maturity Date**	**Prepaid Expenses and Other Assets**	**Other Noncurrent Assets**	**Accounts Payable**	**Hedge Derivatives Liability**	**Other Noncurrent Liabilities**	**Hedge Margin Receivable(4)**
Designated under SFAS 133								
Fuel hedge swaps, collars and call options(1)	2.0 billion gallons crude oil, heating oil, jet fuel	April 2009 - December 2010	$ 72	$ 29	$ (125)	$ (539)	$	
Interest rate swaps designated as fair value hedges(2)	$1,000	September 2011 - July 2012	71					
Interest rate swaps and call options designated as cash flow hedges(3)	$1,700	December 2009 - May 2019				(33)	(50)	
Foreign currency exchange forwards and collars(3)	82.4 billion Japanese Yen	April 2009 - December 2011	3	10		(6)		
Total designated under SFAS 133			146	39	(125)	(578)	(50)	
Not designated under SFAS 133								
Fuel hedge swaps and collars(3)	45 million gallons crude oil	April - June 2009			(89)	(84)		
Total not designated under SFAS 133					(89)	(84)		

Total derivative instruments	$ 146	$ 39	$ (214)	$ (662)	$ (50)	$ 404

(1) Includes $58 million in hedges assumed from Northwest in the Merger.

(2) In accordance with fair value hedge accounting, the carrying value of our long-term debt at March 31, 2009 included $71 million of fair value adjustments.

(3) Represents derivative contracts assumed from Northwest in the Merger.

(4) Represents the net margin postings we provided to counterparties that are associated with the open position of our hedge derivative contracts.

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	December 31, 2008							
(in millions, unless otherwise stated)	Notional Balance	Maturity Date	Prepaid Expenses and Other Assets	Other Noncurrent Assets	Accounts Payable	Hedge Derivatives Liability	Other Noncurrent Liabilities	Hedge Margin Receivable(4)
Designated under SFAS 133								