DELTA AIR LINES INC /DE/
Form 10-Q
April 22, 2010

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**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, 2010**

**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 | Smaller reporting company o |
|---|---|---|---|
| | | (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 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, 2010:

Common Stock, $0.0001 par value 787,388,868 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, the terms Delta, we, us, and our refer to Delta Air Lines, Inc. and its subsidiaries. Pr
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 Part I, Item 1A. Risk Factors of our Annual Report on Form 10-K for the fiscal year ended December 31, 2009 ( Form 10-K ) and in Part II, Item 1A. Risk Factors in this Form 10-Q. All forward-looking statements speak only as of the date made, and we undertake no obligation to publicly update or revise any forward-looking statements to reflect events or circumstances that may arise after the date of this report.

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

| (in millions, except share data) | March 31, 2010 | December 31, 2009 |
|---|---|---|
| **ASSETS** | | |
| **Current Assets:** | | |
| Cash and cash equivalents | $ 4,913 | $ 4,607 |
| Short-term investments | | 71 |
| Restricted cash and cash equivalents | 456 | 423 |
| Accounts receivable, net of an allowance for uncollectible accounts of $49 and $47 at March 31, 2010 and December 31, 2009, respectively | 1,533 | 1,353 |
| Expendable parts and supplies inventories, net of an allowance for obsolescence of $85 and $75 at March 31, 2010 and December 31, 2009, respectively | 319 | 327 |
| Deferred income taxes, net | 164 | 107 |
| Prepaid expenses and other | 976 | 853 |
| Total current assets | 8,361 | 7,741 |
| **Property and Equipment, Net:** | | |
| Property and equipment, net of accumulated depreciation and amortization of $3,247 and $2,924 at March 31, 2010 and December 31, 2009, respectively | 20,481 | 20,433 |
| **Other Assets:** | | |
| Goodwill | 9,794 | 9,787 |
| Identifiable intangibles, net of accumulated amortization of $475 and $451 at March 31, 2010 and December 31, 2009, respectively | 4,805 | 4,829 |
| Other noncurrent assets | 898 | 749 |
| Total other assets | 15,497 | 15,365 |
| Total assets | $ 44,339 | $ 43,539 |
| **LIABILITIES AND STOCKHOLDERS EQUITY** | | |
| **Current Liabilities:** | | |
| Current maturities of long-term debt and capital leases | $ 1,665 | $ 1,533 |
| Air traffic liability | 3,992 | 3,074 |
| Frequent flyer deferred revenue | 1,602 | 1,614 |
| Accounts payable | 1,505 | 1,249 |
| Accrued salaries and related benefits | 1,010 | 1,037 |
| Taxes payable | 705 | 525 |
| Other accrued liabilities | 745 | 765 |
| Total current liabilities | 11,224 | 9,797 |

| | | | | |
|---|---|---|---|---|
| **Noncurrent Liabilities:** | | | | |
| Long-term debt and capital leases | | 15,251 | | 15,665 |
| Pension, postretirement and related benefits | | 11,614 | | 11,745 |
| Frequent flyer deferred revenue | | 3,128 | | 3,198 |
| Deferred income taxes, net | | 1,731 | | 1,667 |
| Other noncurrent liabilities | | 1,319 | | 1,222 |
| Total noncurrent liabilities | | 33,043 | | 33,497 |
| **Commitments and Contingencies** | | | | |
| **Stockholders Equity:** | | | | |
| Common stock at $0.0001 par value; 1,500,000,000 shares authorized, 798,952,757 and 794,873,058 shares issued at March 31, 2010 and December 31, 2009, respectively | | | | |
| Additional paid-in capital | | 13,856 | | 13,827 |
| Accumulated deficit | | (10,101) | | (9,845) |
| Accumulated other comprehensive loss | | (3,502) | | (3,563) |
| Treasury stock, at cost, 11,563,889 and 10,918,274 shares at March 31, 2010 and December 31, 2009, respectively | | (181) | | (174) |
| Total stockholders equity | | 72 | | 245 |
| Total liabilities and stockholders equity | $ | 44,339 | $ | 43,539 |

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, 2010 | Three Months Ended March 31, 2009 |
|---|---|---|
| **Operating Revenue:** | | |
| Passenger: | | |
| Mainline | $ 4,486 | $ 4,367 |
| Regional carriers | 1,320 | 1,234 |
| Total passenger revenue | 5,806 | 5,601 |
| Cargo | 176 | 185 |
| Other, net | 866 | 898 |
| Total operating revenue | 6,848 | 6,684 |
| **Operating Expense:** | | |
| Aircraft fuel and related taxes | 1,683 | 1,893 |
| Salaries and related costs | 1,672 | 1,706 |
| Contract carrier arrangements | 917 | 908 |
| Contracted services | 392 | 432 |
| Depreciation and amortization | 385 | 384 |
| Aircraft maintenance materials and outside repairs | 374 | 424 |
| Passenger commissions and other selling expenses | 364 | 356 |
| Landing fees and other rents | 313 | 316 |
| Passenger service | 138 | 135 |
| Aircraft rent | 112 | 121 |
| Restructuring and merger-related items | 54 | 99 |
| Other | 376 | 393 |
| Total operating expense | 6,780 | 7,167 |
| **Operating Income (Loss)** | 68 | (483) |
| **Other (Expense) Income:** | | |
| Interest expense | (326) | (308) |
| Interest income | 20 | 10 |
| Miscellaneous, net | (8) | (13) |
| Total other expense, net | (314) | (311) |
| **Loss Before Income Taxes** | (246) | (794) |

| | | | | |
|---|---|---|---|---|
| **Income Tax Provision** | | (10) | | |
| **Net Loss** | $ | (256) | $ | (794) |
| **Basic and Diluted Loss per Share** | $ | (0.31) | $ | (0.96) |

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)**

| | Three Months Ended March 31, | |
|---|---|---|
| (in millions) | **2010** | **2009** |
| **Net cash provided by operating activities** | $ 966 | $ 643 |
| **Cash Flows From Investing Activities:** | | |
| Property and equipment additions: | | |
| Flight equipment, including advance payments | (286) | (386) |
| Ground property and equipment, including technology | (42) | (49) |
| (Increase) decrease in restricted cash and cash equivalents | (26) | 18 |
| Redemption of short-term investments | 73 | 72 |
| Proceeds from sales of flight equipment | 5 | 74 |
| Other, net | (17) | (1) |
| Net cash used in investing activities | (293) | (272) |
| **Cash Flows From Financing Activities:** | | |
| Payments on long-term debt and capital lease obligations | (368) | (538) |
| Proceeds from long-term obligations | | 356 |
| Other, net | 1 | (3) |
| Net cash used in financing activities | (367) | (185) |
| **Net Increase in Cash and Cash Equivalents** | 306 | 186 |
| Cash and cash equivalents at beginning of period | 4,607 | 4,255 |
| Cash and cash equivalents at end of period | $ 4,913 | $ 4,441 |
| **Non-cash transactions:** | | |
| Aircraft delivered under seller financing | $ 21 | $ 132 |
| Flight equipment | 2 | 69 |
| Flight equipment under capital leases | 120 | |
| Debt discount on American Express Agreement | 110 | |

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, 2010**
**(Unaudited)**

## NOTE 1. BACKGROUND AND BASIS OF PRESENTATION

***Background***

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, Northwest Airlines Corporation and its wholly-owned subsidiaries, including Northwest Airlines, Inc. (collectively, Northwest ), became wholly-owned subsidiaries of Delta.

On December 31, 2009, Northwest Airlines, Inc. merged with and into Delta. As a result of this merger, Northwest Airlines, Inc. ceased to exist as a separate entity.

***Basis of Presentation***

The accompanying unaudited Condensed Consolidated 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.

Our Condensed Consolidated Financial Statements include the accounts of Delta Air Lines, Inc. and our wholly-owned subsidiaries.

Management believes the accompanying unaudited Condensed Consolidated Financial Statements reflect all adjustments, including 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 months ended March 31, 2010 are not necessarily indicative of operating results for the entire year.

Based upon adjustments recorded at December 31, 2009, certain immaterial prior period amounts have been reclassified to conform to our current period presentation. The adjustments to the Consolidated Statements of Operations do not impact total operating expense or net income.

We reclassified travel and incidental expenses, primarily crew meals and lodging expenses, from salaries and related costs to other operating expense. These expenses total $117 million for the three months ended March 31, 2009. We also adjusted our Consolidated Statements of Operations for certain costs incurred to provide services to our contract carriers, excluding Comair, Inc. ( Comair ), Compass Airlines, Inc. ( Compass ) and Mesaba Aviation, Inc. ( Mesaba ); these costs are recorded as a reduction to salaries and related costs and contracted services, as appropriate, rather than as a reduction to other operating expense. These costs total $70 million for the three months ended March 31, 2009.

We evaluated the financial statements for subsequent events through the date of the filing of this Form 10-Q, which is the date the financial statements were issued.

***Recently Issued Accounting Pronouncements***

In September 2009, the Financial Accounting Standards Board issued Revenue Arrangements with Multiple Deliverables. The standard revises guidance on (1) the determination of when individual deliverables may be treated as separate units of accounting and (2) the allocation of transaction consideration among separately identified deliverables. It also expands disclosure requirements regarding an entity s multiple element revenue arrangements. The standard is effective for fiscal years beginning on or after June 15, 2010, with early adoption permitted. We are currently evaluating the impact that the adoption of this standard will have on our Consolidated Financial Statements.

**NOTE 2. FAIR VALUE MEASUREMENTS**

Fair value is defined as 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. Fair value is a market-based measurement that is determined based on assumptions that market participants would use in pricing an asset or liability. A three-tier fair value hierarchy is used to prioritize the inputs in measuring fair value as follows:

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

*Level 2*. Inputs, other than 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 are based on one or more of three valuation techniques identified in the tables below. Where more than one technique is noted, individual assets or liabilities were valued using one or more of the noted techniques. The valuation techniques are as follows:

(a) *Market approach*. Prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities;

(b) *Cost approach.* Amount that would be required to replace the service capacity of an asset (replacement cost); and

(c) *Income approach.* Techniques to convert future amounts to a single present amount based on market expectations (including present value techniques, option-pricing and excess earnings models).

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

| (in millions) | March 31, 2010 | Quoted Prices In Active Markets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Valuation Technique |
|---|---|---|---|---|---|
| Cash equivalents | $4,629 | $ 4,629 | $ | $ | (a) |
| Restricted cash equivalents | 468 | 468 | | | (a) |
| Long-term investments | 129 | | | 129 | (c) |
| Hedge derivatives | | | | | |
| Aircraft fuel derivatives | $ 395 | $ | $ 395 | $ | (a)(c) |
| Interest rate derivatives | (55) | | (55) | | (a)(c) |
| Foreign currency derivatives | (21) | | (21) | | (a) |
| Hedge derivatives asset, net | $ 319 | $ | $ 319 | $ | |

| (in millions) | December 31, 2009 | Quoted Prices In Active Markets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Valuation Technique |
|---|---|---|---|---|---|
| Cash equivalents | $ 4,335 | $ 4,335 | $ | $ | (a) |
| Short-term investments | 71 | | | 71 | (c) |
| Restricted cash equivalents | 435 | 435 | | | (a) |
| Long-term investments | 129 | | | 129 | (c) |
| Hedge derivatives | | | | | |
| Aircraft fuel derivatives | $ 176 | $ | $ 176 | $ | (a)(c) |
| Interest rate derivatives | (45) | | (45) | | (a)(c) |
| Foreign currency derivatives | (23) | | (23) | | (a) |
| Hedge derivatives asset, net | $ 108 | $ | $ 108 | $ | |

*Cash Equivalents.* Short-term, highly liquid investments with maturities of three months or less when purchased, which primarily consist of money market funds and treasury bills, are classified as cash equivalents. These investments are recorded in cash and cash equivalents on our Consolidated Balance Sheets at cost, which approximates fair value.

*Restricted Cash Equivalents.* Restricted short-term, highly liquid investments with maturities of three months or less when purchased, which primarily consist of money market funds and time deposits, are classified as restricted cash equivalents. At March 31, 2010 and December 31, 2009, we recorded $452 million and $419 million, respectively, in restricted cash and cash equivalents and $16 million in other noncurrent assets on our Consolidated Balance Sheets. These investments are recorded at cost, which approximates fair value.

*Short-Term Investments.* During the March 2010 quarter, we received $73 million from The Reserve Primary Fund (the Primary Fund ), $71 million of which was recorded in short-term investments on our Consolidated Balance Sheet at December 31, 2009. The Primary Fund is a money market fund that is undergoing an orderly liquidation. We recorded this investment as an available-for-sale security at fair value. Combined with previous distributions from the Primary Fund, we have now received 99% of our original investment.

*Long-Term Investments.* Our long-term investments are comprised of student loan backed auction rate securities and insured auction rate securities. We record our investments in student loan backed auction rate securities as available-for-sale securities at fair value. At March 31, 2010 and December 31, 2009, the fair value and cost of our student loan backed auction rate securities was $44 million and $45 million, respectively.

We record our investments in insured auction rate securities as trading securities at fair value. At March 31, 2010 and December 31, 2009, the fair value of our insured auction rate securities was $83 million. The cost of these investments was $110 million.

Due to the protracted failure in the auction process and contractual maturities averaging 31 years for our student loan backed auction rate securities and 26 years for our insured auction rate securities, we have classified our auction rate securities as long-term in other noncurrent assets on our Consolidated Balance Sheets.

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 consider 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 results of operations are significantly 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 derivative instruments, including fuel, interest rate and foreign currency hedges. These derivative instruments are 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).

> *Aircraft Fuel Derivatives.* Our aircraft fuel derivative instruments generally consist of crude oil, heating oil and jet fuel swap, collar, and call option contracts and are valued under the income approach using a discounted cash flow model or an option pricing model based on data either readily observable or derived from public markets.
>
> *Interest Rate Derivatives.* Our interest rate derivative instruments consist of swap and call option 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.

Our fair value assessments include open derivative positions and exclude contracts that have been closed, but not settled. For additional information regarding the classification of our derivative instruments on our Consolidated Balance Sheets, see Note 3.

***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. The following table presents information about our debt:

| (in millions) | **March 31, 2010** | **December 31, 2009** |
| --- | --- | --- |
| Total debt at par value | $17,735 | $ 18,068 |
| Unamortized discount, net | (1,450) | (1,403) |
| Net carrying amount | $16,285 | $ 16,665 |
| Fair value[1] | $15,683 | $ 15,427 |

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

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## NOTE 3. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

Our results of operations are significantly 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 derivative instruments, including fuel, interest rate and foreign currency hedges.

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 March 31, 2010, we believe our derivative instruments designated as hedges will continue to be highly effective in offsetting changes in cash flow attributable to the hedged risk.

***Hedge Position***

The following tables reflect the estimated fair value asset (liability) position of our hedge contracts:

| | | | March 31, 2010 | | | | |
|---|---|---|---|---|---|---|---|
| (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 Payable, net** |
| **Designated as hedges** | | | | | | | |
| Fuel hedge swaps, collars and call options | 1.7 billion gallons - crude oil, jet fuel | April 2010 - September 2011 | $ 311 | $ 85 | $ (89) | $ | |
| Interest rate swaps and call options | $ 1,433 | September 2010 - May 2019 | | 1 | (37) | (19) | |
| Foreign currency exchange forwards | 49.3 billion Japanese Yen; 332 million Canadian Dollars | April 2010 - October 2012 | | 2 | (14) | (9) | |
| **Total derivative instruments** | | | $ 311 | $ 88 | $ (140) | $ (28) | $ (60) |

| December 31, 2009 | | |
|---|---|---|
| **Other** | **Other** | **Hedge** |

| (in millions, unless otherwise stated) | Notional Balance | Maturity Date | Assets | Accrued Liabilities | Noncurrent Liabilities | Margin Payable, net |
|---|---|---|---|---|---|---|
| **Designated as hedges** | | | | | | |
| Fuel hedge swaps, collars and call options | 795 million gallons - crude oil, heating oil, jet fuel | January 2010 - December 2010 | $180 | $ (89) | $ | |
| Interest rate swaps and call options | $1,478 | September 2010 - May 2019 | 2 | (38) | (9) | |
| Foreign currency exchange forwards | 55.8 billion Japanese Yen; 295 million Canadian Dollars | January 2010 - September 2012 | 1 | (12) | (12) | |
| **Total derivative instruments** | | | $183 | $ (139) | $ (21) | $ (10) |

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As of March 31, 2010, our open fuel hedge position is as follows:

| (in millions, unless otherwise stated) | Percentage of Projected Fuel Requirements Hedged | Fair Value at March 31, 2010 |
|---|---|---|
| Nine months ending December 31, 2010 | 42% | $ 265 |
| Year ending December 31, 2011 | 12 | 130 |
| Total | | $ 395 |

***Hedge Gains (Losses)***

Gains (losses) recorded on our Condensed Consolidated Financial Statements related to our hedge contracts are as follows:

| (in millions) | Effective Portion Recognized in Accumulated Other Comprehensive Loss Three Months Ended March 31, | | Effective Portion Reclassified from Accumulated Other Comprehensive Loss to Earnings Three Months Ended March 31, | | Ineffective Portion Recognized in Other (Expense) Income Three Months Ended March 31, | |
|---|---|---|---|---|---|---|
| | 2010 | 2009 | 2010 | 2009 | 2010 | 2009 |
| **Designated as hedges** | | | | | | |
| Fuel hedge swaps, collars and call options[(1)] | $ 59 | $ 346 | $ (12) | $ (663) | $ 9 | $ (9) |
| Interest rate swaps and call options[(2)] | (11) | 12 | | | | |
| Foreign currency exchange forwards and collars[(3)] | 2 | 55 | (5) | 4 | | |
| **Total designated** | $ 50 | $ 413 | $ (17) | $ (659) | $ 9 | $ (9) |

(1) Gains and (losses) on fuel hedge contracts reclassified from accumulated other comprehensive

loss are recorded in aircraft fuel and related taxes.

(2) Gains and (losses) on interest rate swaps and call options reclassified from accumulated other comprehensive loss are recorded in interest expense.

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

We recorded a loss of $23 million in aircraft fuel and related taxes on our Consolidated Statement of Operations for the three months ended March 31, 2009 related to Northwest derivative contracts that were not designated as hedges. As of March 31, 2010, we recorded in accumulated other comprehensive loss on our Consolidated Balance Sheet $67 million of net gains on our hedge contracts scheduled to settle in the next 12 months.

***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 also monitor the market position of these programs and our relative market position with each counterparty.

Due to the estimated fair value position of our fuel hedge contracts, we received $62 million in fuel hedge margin from counterparties and provided $2 million in interest rate hedge margin to counterparties as of March 31, 2010.

## NOTE 4. DEBT

*American Express Agreement*. In March 2010, we and American Express modified our December 2008 agreement under which we received $1.0 billion from American Express for their advance purchase of SkyMiles. This advance payment is classified as long-term debt on our Consolidated Balance Sheets. It will be satisfied by American Express use of SkyMiles over a specified period ( SkyMiles Usage Period ) rather than by cash payments from us. The March 2010 modification provides, among other things, that we will enhance card member benefits through June 2013 for certain American Express card members in exchange for (1) a change in the SkyMiles Usage Period to a three-year period beginning in December 2011 from a two-year period beginning in December 2010 and (2) giving American Express the option to extend the agreement for one year. These changes deferred $31 million and $480 million of debt maturities for the nine months ending December 31, 2010 and year ending December 31, 2011, respectively.

***Covenants***

We were in compliance with all covenants in our financing agreements at March 31, 2010.

***Future Maturities***

The following table summarizes scheduled maturities of our debt, including current maturities, at March 31, 2010:

| **Years Ending December 31,**<br>(in millions) | **Total** |
|---|---|
| Nine months ending December 31, 2010 | $ 1,325 |
| 2011 | 2,096 |
| 2012 | 3,307 |
| 2013 | 1,719 |
| 2014 | 3,181 |
| Thereafter | 6,107 |
| | 17,735 |
| Unamortized discount, net | (1,450) |
| Total | $16,285 |

## NOTE 5. PURCHASE COMMITMENTS AND CONTINGENCIES

***Aircraft Commitments***

Future aircraft purchase commitments at March 31, 2010 are estimated to total approximately $600 million through December 31, 2010. Approximately $500 million of the $600 million is associated with the purchase of 13 B-737-800 aircraft for which we have entered into definitive agreements to sell to third parties immediately following delivery of those aircraft to us by the manufacturer. We have not received any notice that these parties have defaulted on their purchase obligations. The remaining commitments relate to the purchase of two B-737-800 aircraft and seven previously owned MD-90 aircraft. We have no aircraft purchase commitments after December 31, 2010.

As of March 31, 2010, we have commitments from third parties to finance or, with respect to the 13 B-737-800 aircraft referred to above, definitive agreements to sell, all aircraft subject to purchase commitments, except for seven previously owned MD-90 aircraft. Under these financing commitments, third parties have agreed to finance on a long-term basis a substantial portion of the purchase price of the covered aircraft.

Our aircraft purchase commitments described above do not include our orders for:

- 18 B-787-8 aircraft. The Boeing Company ( Boeing ) has informed us that Boeing will be unable to meet the contractual delivery schedule for these aircraft. We are in discussions with Boeing regarding this situation.

- five A319-100 aircraft and two A320-200 aircraft. We have the right to cancel these orders.

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***Contract Carrier Agreements***

During the March 2010 quarter, we had contract carrier agreements with 10 contract carriers, including our wholly-owned subsidiaries, Comair, Compass and Mesaba. For additional information about our contract carrier agreements, see Note 8 of the Notes to the Consolidated Financial Statements in our Form 10-K.

*Contingencies Related to Termination of Contract Carrier Agreements*

We may terminate the Chautauqua and Shuttle America contract carrier agreements without cause at any time after May 2010 and January 2016, respectively, by providing certain advance notice. If we terminate either the Chautauqua or Shuttle America agreements without cause, Chautauqua or Shuttle America, respectively, has the right to (1) assign to us leased aircraft that the airline operates for us, provided we are able to continue the leases on the same terms the airline had prior to the assignment and (2) require us to purchase or lease any of the aircraft that the airline owns and operates for us at the time of the termination. If we are required to purchase aircraft owned by Chautauqua or Shuttle America, the purchase price would be equal to the amount necessary to (1) reimburse Chautauqua or Shuttle America for the equity it provided to purchase the aircraft and (2) repay in full any debt outstanding at such time that is not being assumed in connection with such purchase. If we are required to lease aircraft owned by Chautauqua or Shuttle America, the lease would have (1) a rate equal to the debt payments of Chautauqua or Shuttle America for the debt financing of the aircraft calculated as if 90% of the aircraft was debt financed by Chautauqua or Shuttle America and (2) other specified terms and conditions.

We estimate that the total fair values, determined as of March 31, 2010, of the aircraft that Chautauqua or Shuttle America could assign to us or require that we purchase if we terminate without cause our contract carrier agreements with those airlines (the Put Right ) are approximately $200 million and $440 million, respectively. The actual amount that we may be required to pay in these circumstances may be materially different from these estimates. If the Chautauqua or Shuttle America Put Right is exercised, we must also pay 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, bankruptcy matters, 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***

*Visa/MasterCard Processing Agreement*

Our Visa/MasterCard credit card processing agreement provides that no cash reserve ( Reserve ) is required except in certain circumstances, including when we do not maintain a required level of unrestricted cash. In circumstances in which the processor can establish a Reserve, the amount of the Reserve would be equal to the potential liability of the credit card processor for tickets purchased with Visa or MasterCard that had not yet been used for travel. There was no Reserve as of March 31, 2010 or December 31, 2009.

*American Express*

Our American Express credit card processing agreement provides that 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 American Express is permitted to withhold payment related to receivables collected, the amount that can be withheld is an amount up to American Express potential liability for tickets purchased with the American Express credit card that had not yet been used for travel. No amounts were withheld as of March 31, 2010 or December 31, 2009.

***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 or occupancy of the leased premises. This type of indemnity would typically make us responsible to indemnified parties for liabilities arising out of the conduct of, among others, contractors, licensees and invitees at, or in connection with, the use or occupancy of the leased premises. This indemnity often extends to related liabilities arising from the negligence of the indemnified parties, but usually excludes any liabilities caused by either their sole or gross negligence and their willful misconduct.

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

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

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

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

*Employees Under Collective Bargaining Agreements*

At March 31, 2010, we had 81,096 full-time equivalent employees. Approximately 38% of these employees were represented by unions.

*War-Risk Insurance Contingency*

As a result of the terrorist attacks on September 11, 2001, aviation insurers significantly reduced the maximum amount of insurance coverage available to commercial air carriers for liability to persons (other than employees or passengers) for claims resulting from acts of terrorism, war or similar events. At the same time, aviation insurers significantly increased the premiums for such coverage and for aviation insurance in general. Since September 24, 2001, the U.S. government has been providing U.S. airlines with war-risk insurance to cover losses, including those resulting from terrorism, to passengers, third parties (ground damage) and the aircraft hull. The U.S. Secretary of Transportation has extended coverage through August 31, 2010, 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.

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## NOTE 6. EMPLOYEE BENEFIT PLANS

*Net periodic cost*

The following table shows the components of net periodic cost:

| (in millions) | Pension Benefits Three Months Ended March 31, 2010 | 2009 | Other Postretirement and Postemployment Benefits Three Months Ended March 31, 2010 | 2009 |
|---|---|---|---|---|
| Service cost | $ | $ | $ 15 | $ 13 |
| Interest cost | 246 | 251 | 49 | 51 |
| Expected return on plan assets | (169) | (154) | (23) | (19) |
| Amortization of prior service benefit | | | (1) | |
| Recognized net actuarial loss (gain) | 12 | 8 | (1) | (1) |
| Special termination and settlements | 2 | 2 | | 6 |
| Net periodic cost | $ 91 | $ 107 | $ 39 | $ 50 |

## NOTE 7. ACCUMULATED OTHER COMPREHENSIVE LOSS

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

| (in millions) | Unrecognized Pension and Other Benefits Liability | Derivative Instruments | Marketable Equity Securities | Valuation Allowance | Total |
|---|---|---|---|---|---|
| Balance at December 31, 2009 | $ (2,012) | $ (345) | $ 1 | $ (1,207) | $ (3,563) |
| Pension and other benefit adjustments | 11 | | | | 11 |
| Changes in fair value | | 33 | | | 33 |
| Reclassification to earnings | | 17 | | | 17 |
| Tax effect | (4) | (19) | | 23 | |
| Balance at March 31, 2010 | $ (2,005) | $ (314) | $ 1 | $ (1,184) | $ (3,502) |

## NOTE 8. RESTRUCTURING AND MERGER-RELATED ITEMS

The following table shows charges recorded in restructuring and merger-related items on our Consolidated Statements of Operations:

| (in millions) | Three Months Ended March 31, 2010 | 2009 |
|---|---|---|
| Severance and related costs | $ 8 | $ 50 |

| | | |
|---|---|---|
| Merger-related items | 46 | 49 |
| Total restructuring and merger-related items | $54 | $99 |

Severance and related costs primarily relate to voluntary workforce reduction programs for U.S. employees. During the three months ended March 31, 2010, we recorded an $8 million severance charge for one of our wholly-owned subsidiaries primarily associated with the consolidation of operations at the Cincinnati/Northern Kentucky International Airport. During the three months ended March 31, 2009, we recorded $50 million primarily associated with voluntary workforce reduction programs, including $6 million of special termination benefits related to retiree healthcare.

Merger-related items relate to costs associated with integrating the operations of Northwest into Delta, including costs related to information technology, employee relocation and training, and re-branding of aircraft and stations.

The following table shows the balances for restructuring charges as of March 31, 2010, and the activity for the three months then ended:

| (in millions) | Liability Balance at December 31, 2009 | Additional Costs and Expenses | Payments | Liability Balance at March 31, 2010 |
|---|---|---|---|---|
| Severance and related costs | $ 69 | $ 8 | $(13) | $ 64 |
| Facilities and other | 74 | | (7) | 67 |
| Total | $ 143 | $ 8 | $(20) | $131 |

**NOTE 9. BANKRUPTCY CLAIMS RESOLUTION**

In September 2005, we and substantially all of our subsidiaries (the Delta Debtors ) filed voluntary petitions for reorganization under Chapter 11 of the U.S. Bankruptcy Code. On April 30, 2007, the Delta Debtors emerged from bankruptcy. Under the Delta Debtors Joint Plan of Reorganization ( Delta s Plan of Reorganization ), most holders of allowed general, unsecured claims against the Delta Debtors received or will receive Delta common stock in satisfaction of their claims. Delta s Plan of Reorganization contemplates the distribution of 400 million shares of common stock, consisting of 386 million shares to holders of allowed, general, unsecured claims and 14 million shares to eligible non-contract, non-management employees. As of March 31, 2010, under Delta s Plan of Reorganization, we have (1) distributed 333 million shares of common stock to holders of $14.0 billion of allowed general, unsecured claims, (2) issued 14 million shares of common stock to eligible non-contract, non-management employees and (3) reserved 53 million shares of common stock for issuance to holders of allowed general, unsecured claims.

In September 2005, Northwest Airlines Corporation and substantially all of its subsidiaries (the Northwest Debtors ) filed voluntary petitions for reorganization under Chapter 11 of the Bankruptcy Code. On May 31, 2007, the Northwest Debtors emerged from bankruptcy. The Northwest Debtors First Amended Joint and Consolidated Plan of Reorganization ( Northwest s Plan of Reorganization ) generally provides for the distribution of Northwest common stock to the Northwest Debtors creditors, employees and others in satisfaction of allowed general, unsecured claims. Pursuant to the Merger, each outstanding share of Northwest common stock (including shares issuable pursuant to Northwest s Plan of Reorganization) was converted into the right to receive 1.25 shares of Delta common stock. As of March 31, 2010, five million shares of Delta common stock were reserved for issuance in exchange for shares of Northwest common stock that, but for the Merger, would have been issued under Northwest s Plan of Reorganization.

The Delta Debtors and the Northwest Debtors will continue to settle claims and file objections with the bankruptcy courts regarding claims. In light of the substantial number and amount of claims filed, we expect the claims resolution process will take additional time to complete. We believe there will be no further material impact to the Consolidated Statements of Operations from the settlement of claims because the holders of such claims will receive under Delta s and Northwest s Plan of Reorganization, as the case may be, only their pro rata share of the distributions of common stock contemplated by the applicable Plan of Reorganization.

**NOTE 10. LOSS PER SHARE**

We calculate basic loss per share by dividing the net loss 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 loss per share. Accordingly, the calculation of basic loss per share for the three months ended March 31, 2010 and 2009 assumes there was outstanding at the beginning of each of these periods (1) all 386 million shares of Delta common stock contemplated by Delta s Plan of Reorganization to be distributed to holders of allowed general, unsecured claims and (2) nine million shares of Delta common stock reserved for issuance in exchange for

shares of Northwest common stock that, but for the Merger, would have been issued under Northwest s Plan of Reorganization. Similarly, the calculation of basic loss per share for the three months ended March 31, 2009 assumes there was outstanding at the beginning of the period 50 million shares of Delta common stock we agreed to issue on behalf of Delta and Northwest pilots in connection with the Merger.

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The following table shows the reconciliation of actual shares issued and outstanding to those considered outstanding for purposes of the calculation of basic loss per share as of March 31, 2010:

| (in millions) | Shares[1] |
|---|---|
| Common stock issued and outstanding | 787 |
| Less: | |
| Unvested restricted stock | (13) |
| Add: | |
| Shares reserved for future issuance under Delta s Plan of Reorganization | 53 |
| Shares reserved for future issuance relating to Northwest s Plan of Reorganization, after giving effect to the 1.25 exchange ratio | 5 |
| Common stock considered outstanding for purposes of loss per share calculation | 832 |

(1) These shares have not been weighted to reflect the period of time they were considered outstanding.

The following table shows our computation of basic and diluted loss per share:

| | Three Months Ended March 31, | |
|---|---|---|
| (in millions, except per share data) | 2010 | 2009 |
| **Basic and diluted:** | | |
| Net loss | $ (256) | $ (794) |
| Weighted average shares outstanding | 832[1] | 825[2] |
| Basic and diluted loss per share | $(0.31) | $(0.96) |

(1) Excludes 35 million common stock equivalents because their effect was anti-dilutive.

(2) Excludes 45 million common stock equivalents because their

effect was
anti-dilutive.

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

### General Information

We provide scheduled air transportation for passengers and cargo throughout the United States ( U.S. ) and around the world. On October 29, 2008 (the Closing Date ), a wholly-owned subsidiary of ours merged (the Merger ) with and into Northwest Airlines Corporation. On the Closing Date, Northwest Airlines Corporation and its wholly-owned subsidiaries, including Northwest Airlines, Inc. (collectively, Northwest ), became wholly-owned subsidiaries of Delta.

On December 31, 2009, Northwest Airlines, Inc. merged with and into Delta. As a result of this merger, Northwest Airlines, Inc. ceased to exist as a separate entity.

We believe the Northwest merger better positions us to manage through economic cycles and volatile fuel prices, invest in our fleet, improve services for customers and achieve our strategic objectives. We also believe the merger will generate approximately $2 billion in annual revenue and cost synergies by 2012 from more effective aircraft utilization, a more comprehensive and diversified route system, reduced overhead and improved operational efficiency.

***March 2010 Quarter Financial Highlights***

We reported a net loss of $256 million in the March 2010 quarter, compared to a net loss of $794 million in the March 2009 quarter. The $538 million improvement primarily reflects (1) a strengthening of the airline industry revenue environment due to improving economic conditions; and (2) lower fuel expense due to a decline in fuel hedge losses, which was partially offset by higher fuel prices in the March 2010 quarter.

Total operating revenue increased $164 million, or 2%, in the March 2010 quarter on a 4% decrease in capacity, or available seat miles ( ASMs ), compared to the March 2009 quarter. Passenger revenue per available seat mile ( PRASM ) improved 8% on a 5% increase in passenger mile yield, reflecting an increase in demand for air travel and an overall increase in fares. During the March 2009 quarter, the global recession had a significant negative impact on our operating revenue.

Volatile fuel prices continue to represent a significant risk to our business and the airline industry as a whole. Including our contract carriers under capacity purchase agreements, our unhedged fuel price increased 46% to $2.22 per gallon compared to the March 2009 quarter. Our fuel price, including the impact of our fuel hedge contracts, was $2.23 per gallon for the March 2010 quarter compared to $2.26 for the March 2009 quarter. We recorded $12 million in net fuel hedge costs in the March 2010 quarter, compared to $686 million in fuel hedge losses in the March 2009 quarter. In an on-going effort to manage fuel price risk, we enter into derivative instruments to hedge a portion of our projected aircraft fuel requirements. As of March 31, 2010, we have hedged approximately 50% and 42% (with the intent to increase to 50%) of our projected fuel requirements for the June 2010 quarter and nine months ended December 31, 2010, respectively. Our current hedge portfolio primarily utilizes call options, which help us to mitigate the risk of aircraft fuel price increases, while allowing us downside participation through market purchases should aircraft fuel prices decline.

Our net loss for the March 2010 quarter includes a $64 million charge, which consists of $46 million of merger-related integration costs; a $10 million charge due to Venezuela s devaluation of its currency; and an $8 million severance charge for one of our wholly-owned subsidiaries primarily associated with the consolidation of operations at Cincinnati/Northern Kentucky International Airport.

Our net loss for the March 2009 quarter includes a $101 million charge, which consists of a $50 million severance charge in connection with voluntary workforce reduction programs; $49 million of merger-related integration costs; and a $2 million charge for mark-to-market adjustments related to fuel hedge contracts settling in future periods.

Our consolidated operating cost per ASM ( CASM ), excluding special items and fuel expense (a non-GAAP financial measure as defined in Supplemental Information below), was 8.72 cents, reflecting a 1% increase on 4% lower capacity compared to the March 2009 quarter. The 1% increase is primarily due to (1) higher revenue-related expenses and (2) planned and weather-related capacity reductions. We continue to focus on maintaining a competitive cost structure through disciplined spending, productivity initiatives and accelerating merger synergies.

At March 31, 2010, we had $4.9 billion in cash and cash equivalents, and $690 million in undrawn revolving credit facilities. During the March 2010 quarter, cash provided by operating activities was $966 million. During that period, we invested $328 million in property and equipment, including the purchase of two B-777-200LR aircraft. We contributed $225 million to our defined benefit pension plans in the March 2010 quarter and an additional $440 million to those plans in April 2010. As a result of these contributions, we satisfied, on an accelerated basis, our minimum required contributions for our defined benefit pension plans for 2010.

***Business Overview***

*Recent Initiatives.* In 2009, we implemented a joint venture with Air France-KLM that strengthens our transatlantic network, expanded our alliance agreement with Alaska Airlines and Horizon Air to enhance our West coast presence, and received U.S. Department of Transportation approval for a codesharing agreement with Virgin Blue, which will expand our network between the U.S. and Australia and the South Pacific. We believe our global network, hub structure and alliances with other airlines enables us to offer our customers an improved global reach compared to other domestic and international airlines.

Expanding our support for New York City through increased corporate sales, improved facilities and increased and new service from New York is a key component of our network strategy. We continue to make investments in our international operation at New York-JFK and explore long-term options to upgrade the facility. In August 2009, we announced our intention to make New York s LaGuardia Airport a domestic hub through a slot transaction with US Airways. The agreement called for US Airways to transfer 125 operating slot pairs to us at LaGuardia and for us to transfer 42 operating slot pairs to US Airways at Reagan National Airport in Washington, D.C. We also plan to swap gates at LaGuardia to consolidate all of our operations (including the Delta Shuttle) into an expanded main terminal facility with 11 additional gates. The U.S. Department of Transportation issued a tentative order on the transaction that would require the divestiture of 20 slot pairs at LaGuardia and 14 slot pairs at Reagan National. In March 2010, we and US Airways announced an agreement, which is subject to government approvals, to transfer to four airlines 12% of the operating slots involved in the previously announced slot transaction. With the new six-way agreement, we would (1) operate an additional 110 operating slot pairs at LaGuardia and transfer five operating slot pairs each to AirTran Airways, Spirit Airlines, Inc. and WestJet Airlines Ltd. US Airways would operate an additional 37 operating slot pairs at Reagan National and transfer five operating slot pairs to JetBlue Airways Corporation.

We are investing $1 billion through mid-2013 to improve the customer experience and the efficiency of our aircraft fleet. Planned enhancements include installing full flat-bed seats in BusinessElite on 90 trans-oceanic aircraft, adding in-seat audio and video throughout Economy Class on 68 widebody aircraft, adding First Class cabins to 66 CRJ-700 aircraft and installing winglets on more than 170 aircraft to extend aircraft range and increase fuel efficiency.

*Merger Synergies.* We achieved more than $700 million in merger synergy benefits in 2009. We are targeting an additional $600 million in merger synergy benefits in 2010, consisting of $350 million of revenue benefits and $250 million in cost reductions. In 2009, we completed a significant portion of our merger integration, including combining frequent flyer programs, consolidating and rebranding all airport facilities and achieving a single operating certificate from the Federal Aviation Administration. In January 2010, we completed the integration of the Northwest reservations system, including the transition of Northwest flights and passenger reservations into the Delta system. We recently completed the migration of the Northwest fleet into Delta s flight planning system.

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***Healthcare Reform***

During the March 2010 quarter, Congress passed and the President signed new healthcare legislation. While the new law may impact certain of our healthcare plans, we currently believe this impact will not be material. We will continue to review the impact of the new law as governmental agencies issue interpretations regarding its meaning and scope.

**Results of Operations March 2010 and 2009 Quarters**

***Operating Revenue***

| (in millions) | Three Months Ended March 31, 2010 | Three Months Ended March 31, 2009 | vs. Three Months Ended March 31, 2009 Increase (Decrease) | % Increase (Decrease) |
|---|---|---|---|---|
| **Operating Revenue:** | | | | |
| Passenger: | | | | |
| Mainline | $ 4,486 | $ 4,367 | $ 119 | 3% |
| Regional carriers | 1,320 | 1,234 | 86 | 7% |
| Total passenger revenue | 5,806 | 5,601 | 205 | 4% |
| Cargo | 176 | 185 | (9) | (5)% |
| Other, net | 866 | 898 | (32) | (4)% |
| Total operating revenue | $ 6,848 | $ 6,684 | $ 164 | 2% |

| (in millions) | Three Months Ended March 31, 2010 | Increase (Decrease) vs. Three Months Ended March 31, 2009 Passenger Revenue | RPMs (Traffic) | ASMs (Capacity) | Passenger Mile Yield | PRASM | Load Factor |
|---|---|---|---|---|---|---|---|
| **Passenger Revenue:** | | | | | | | |
| Domestic | $ 2,668 | 4% | (1)% | (2)% | 5% | 6% | 0.5 pts |
| Atlantic | 858 | 1% | (7)% | (14)% | 8% | 17% | 6.1 pts |
| Latin America | 395 | % | 2% | % | (2)% | % | 1.7 pts |
| Pacific | 565 | 2% | 4% | 2% | (1)% | % | 1.4 pts |
| Total Mainline | 4,486 | 3% | (2)% | (5)% | 5% | 8% | 2.2 pts |
| Regional carriers | 1,320 | 7% | 1% | (4)% | 6% | 11% | 3.7 pts |
| Total passenger revenue | $ 5,806 | 4% | (1)% | (4)% | 5% | 8% | 2.4 pts |

*Mainline Passenger Revenue.* Mainline passenger revenue increased in the March 2010 quarter compared to the March 2009 quarter primarily due to increased business demand for air travel, partially offset by planned and weather-related capacity reductions. Passenger mile yield and PRASM increased 5% and 8%, respectively. During the March 2009 quarter, the global recession had a significant negative impact on our mainline passenger revenue.

*Domestic Passenger Revenue*. Domestic passenger revenue increased 4% from a 6% increase in PRASM on a 2% decline in capacity. The passenger mile yield increased 5%, reflecting an increase in business travel and an overall increase in fares.

*International Passenger Revenue*. International passenger revenue increased 1% from a 4.3 point increase in load factor and a 9% increase in PRASM on a 7% decline in capacity. The passenger mile yield increased 3%, reflecting (1) a slight increase in business and leisure travel and (2) an increase in fares. The Atlantic market realized an 8% increase in passenger mile yield, due to improved economic conditions after having experienced the largest decline in passenger mile yield compared to our other international regions during the March 2009 quarter due to the global recession.

*Regional carriers*. Passenger revenue of regional carriers increased 7% from a 3.7 point increase in load factor and an 11% increase in PRASM on a 4% decline in capacity. The passenger mile yield increased 6%, reflecting an increase in demand for air travel and an increase in fares.

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*Cargo*. Cargo revenue decreased due to capacity reductions, partially offset by increased cargo yields and international volume. The results for the March 2009 quarter include the operations of dedicated freighter B-747-200F aircraft. During 2009, we retired our entire fleet of dedicated freighter B-747-200F aircraft.

*Other, net*. Other, net revenue decreased $32 million primarily due to a reduction in our aircraft maintenance and repair service and lower administrative service charges, partially offset by increased baggage fees.

***Operating Expense***

| (in millions) | Three Months Ended March 31, 2010 | Three Months Ended March 31, 2009 | vs. Three Months Ended March 31, 2009 Increase (Decrease) | % Increase (Decrease) |
|---|---|---|---|---|
| **Operating Expense:** | | | | |
| Aircraft fuel and related taxes | $ 1,683 | $ 1,893 | $(210) | (11)% |
| Salaries and related costs | 1,672 | 1,706 | (34) | (2)% |
| Contract carrier arrangements | 917 | 908 | 9 | 1% |
| Contracted services | 392 | 432 | (40) | (9)% |
| Depreciation and amortization | 385 | 384 | 1 | % |
| Aircraft maintenance materials and outside repairs | 374 | 424 | (50) | (12)% |
| Passenger commissions and other selling expenses | 364 | 356 | 8 | 2% |
| Landing fees and other rents | 313 | 316 | (3) | (1)% |
| Passenger service | 138 | 135 | 3 | 2% |
| Aircraft rent | 112 | 121 | (9) | (7)% |
| Restructuring and merger-related items | 54 | 99 | (45) | (45)% |
| Other | 376 | 393 | (17) | (4)% |
| Total operating expense | $ 6,780 | $ 7,167 | $(387) | (5)% |

*Aircraft fuel and related taxes*. Aircraft fuel and related taxes decreased $210 million primarily due to a reduction of (1) $674 million in fuel hedge losses and (2) $69 million from a 6% decline in fuel consumption due to capacity reductions. These decreases were partially offset by $533 million associated with higher average unhedged fuel prices. We recorded $12 million in net fuel hedge costs in the March 2010 quarter, compared to $686 million in fuel hedge losses in the March 2009 quarter. The fuel hedge losses in the March 2009 quarter were primarily from hedge contracts purchased in 2008 when fuel prices reached record highs and were expected to continue to rise.

*Salaries and related costs*. Salaries and related costs decreased $34 million primarily due to (1) lower pension expense primarily from an increase in the value of our defined benefit plan assets, (2) a 3% average decrease in staffing primarily related to voluntary workforce reduction programs and (3) capacity reductions.

*Contract carrier arrangements*. Contract carrier arrangements expense increased $9 million primarily due to an increase of $75 million associated with higher average fuel prices, partially offset by (1) lower overall expense from a reduction in capacity and (2) reduced contract carrier rates from the transfer of ground handling services to one of our wholly-owned subsidiaries and third party vendors.

*Aircraft maintenance materials and outside repairs.* Aircraft maintenance materials and outside repairs decreased $50 million primarily from capacity reductions.

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*Restructuring and merger-related items.* Restructuring and merger-related items decreased $45 million, primarily due to the following:

During the March 2010 quarter, we recorded (1) a $46 million charge for merger-related items associated with integrating the operations of Northwest into Delta, including costs related to information technology, employee relocation and training, and
re-branding of aircraft and stations and (2) an $8 million severance charge for one of our wholly-owned subsidiaries primarily associated with the consolidation of operations at the Cincinnati/Northern Kentucky International Airport.

During the March 2009 quarter, we recorded a $49 million charge for merger-related items and $50 million in severance charges in connection with voluntary workforce reduction programs.

***Other (Expense) Income***

Other expense, net for the March 2010 quarter was $314 million, compared to $311 million for the March 2009 quarter. This change is primarily attributable to an $18 million increase in interest expense, partially offset by an increase in interest income and a favorable change in miscellaneous, net due to the following:

| (in millions) | Favorable (Unfavorable) vs. Three Months Ended March 31, 2009 |
|---|---|
| Miscellaneous, net | |
| Mark-to-market adjustments on the ineffective portion of fuel hedge contracts | $ 18 |
| Loss associated with devaluation of Venezuelan currency | (10) |
| Other | (3) |
| Total miscellaneous, net | $ 5 |

***Income Taxes***

We did not record an income tax benefit as a result of our March 2010 and 2009 quarter losses. The deferred tax asset resulting from such net operating losses was fully reserved by a valuation allowance.

***Operating Statistics***

The following table sets forth our operating statistics:

| | Three Months Ended March 31, | |
|---|---|---|
| | **2010** | **2009** |
| **Consolidated[1]:** | | |
| Revenue passenger miles ( RPMs ) (millions) | 42,367 | 42,960 |
| ASMs (millions) | 53,301 | 55,740 |
| Passenger mile yield | 13.70¢ | 13.04¢ |
| PRASM | 10.89¢ | 10.05¢ |
| CASM | 12.72¢ | 12.86¢ |
| Passenger load factor | 79.5% | 77.1% |
| Fuel gallons consumed (millions) | 871 | 924 |
| Average price per fuel gallon, net of hedging activity | $ 2.23 | $ 2.26 |
| Full-time equivalent employees, end of period | 81,096 | 83,822 |
| **Mainline:** | | |
| RPMs (millions) | 36,531 | 37,201 |

| | | |
|---|---|---|
| ASMs (millions) | 45,610 | 47,764 |
| CASM | 11.62¢ | 12.14¢ |
| Fuel gallons consumed (millions) | 697 | 740 |
| Average price per fuel gallon, net of hedging activity | $ 2.22 | $ 2.43 |

(1) Except for full-time equivalent employees, includes the operations under capacity purchase agreements with our regional air carriers and wholly-owned subsidiaries Comair, Inc., Compass Airlines, Inc. and Mesaba Aviation, Inc.

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***Fleet Information***

Our active aircraft fleet, orders, options and rolling options at March 31, 2010 are summarized in the following table:

| | Current Fleet | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| **Aircraft Type** | **Owned** | **Capital Lease** | **Operating Lease** | **Total** | **Average Age** | **Orders[1]** | **Options[2]** | **Rolling Options[2]** |
| ***Passenger Aircraft:*** | | | | | | | | |
| B-737-700 | 10 | | | | | | | |