

DELTA AIR LINES INC /DE/
Form 10-Q
October 24, 2014

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

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

For the quarterly period ended September 30, 2014

Or

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

Commission File Number 001-5424

DELTA AIR LINES, INC.

(Exact name of registrant as specified in its charter)

State of Incorporation: Delaware

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

Post Office Box 20706, Atlanta, Georgia 30320-6001

Telephone: (404) 715-2600

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

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

Yes No

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

Large accelerated Accelerated Non-accelerated filer Smaller reporting
filer filer 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

Number of shares outstanding by each class of common stock, as of September 30, 2014:

Common Stock, \$0.0001 par value - 836,941,362 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.

FORWARD-LOOKING STATEMENTS

Statements in this Form 10-Q (or otherwise made by us or on our behalf) that are not historical facts, including statements about our estimates, expectations, beliefs, intentions, projections or strategies for the future, may be “forward-looking statements” as defined in the Private Securities Litigation Reform Act of 1995. Forward-looking statements involve risks and uncertainties that could cause actual results to differ materially from historical experience or our present expectations. Known material risk factors applicable to Delta are described in “Item 1A. Risk Factors” of our Annual Report on Form 10-K for the fiscal year ended December 31, 2013 (“Form 10-K”), other than risks that could apply to any issuer or offering. All forward-looking statements speak only as of the date made, and we undertake no obligation to publicly update or revise any forward-looking statements to reflect events or circumstances that may arise after the date of this report.

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

(in millions, except share data)	September 30, 2014	December 31, 2013
ASSETS		
Current Assets:		
Cash and cash equivalents	\$2,510	\$ 2,844
Short-term investments	1,852	959
Restricted cash, cash equivalents and short-term investments	149	122
Accounts receivable, net of an allowance for uncollectible accounts of \$20 and \$23 at September 30, 2014 and December 31, 2013, respectively	2,135	1,609
Fuel inventory	602	706
Expendable parts and supplies inventories, net of an allowance for obsolescence of \$113 and \$118 at September 30, 2014 and December 31, 2013, respectively	340	357
Deferred income taxes, net	2,187	1,736
Prepaid expenses and other	1,220	1,318
Total current assets	10,995	9,651
Property and Equipment, Net:		
Property and equipment, net of accumulated depreciation and amortization of \$8,959 and \$7,792 at September 30, 2014 and December 31, 2013, respectively	21,722	21,854
Other Assets:		
Goodwill	9,794	9,794
Identifiable intangibles, net of accumulated amortization of \$782 and \$738 at September 30, 2014 and December 31, 2013, respectively	4,614	4,658
Deferred income taxes, net	3,696	4,992
Other noncurrent assets	1,119	1,303
Total other assets	19,223	20,747
Total assets	\$51,940	\$ 52,252
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Current maturities of long-term debt and capital leases	\$1,169	\$ 1,547
Air traffic liability	4,992	4,122
Accounts payable	2,577	2,300
Accrued salaries and related benefits	2,299	1,926
Frequent flyer deferred revenue	1,584	1,861
Taxes payable	687	673
Fuel card obligation	603	602
Other accrued liabilities	902	1,121
Total current liabilities	14,813	14,152
Noncurrent Liabilities:		
Long-term debt and capital leases	8,970	9,795
Pension, postretirement and related benefits	11,529	12,392
Frequent flyer deferred revenue	2,386	2,559
Other noncurrent liabilities	1,946	1,711

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Total noncurrent liabilities	24,831	26,457
Commitments and Contingencies		
Stockholders' Equity:		
Common stock at \$0.0001 par value; 1,500,000,000 shares authorized, 856,710,375 and 869,484,981 shares issued at September 30, 2014 and December 31, 2013, respectively	—	—
Additional paid-in capital	13,464	13,982
Retained earnings	4,244	3,049
Accumulated other comprehensive loss	(5,100	) (5,130
Treasury stock, at cost, 19,769,013 and 18,041,848 shares at September 30, 2014 and December 31, 2013, respectively	(312	) (258
Total stockholders' equity	12,296	11,643
Total liabilities and stockholders' equity	\$ 51,940	\$ 52,252

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

DELTA AIR LINES, INC.

Condensed Consolidated Statements of Operations and Comprehensive Income
(Unaudited)

(in millions, except per share data)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Operating Revenue:				
Passenger:				
Mainline	\$8,144	\$7,566	\$21,950	\$20,222
Regional carriers	1,632	1,688	4,769	4,846
Total passenger revenue	9,776	9,254	26,719	25,068
Cargo	244	229	691	699
Other	1,158	1,007	3,305	2,930
Total operating revenue	11,178	10,490	30,715	28,697
Operating Expense:				
Aircraft fuel and related taxes	2,952	2,291	7,612	7,175
Salaries and related costs	2,069	1,976	6,084	5,809
Regional carrier expense	1,353	1,459	4,033	4,302
Aircraft maintenance materials and outside repairs	440	474	1,354	1,437
Depreciation and amortization	440	418	1,333	1,238
Contracted services	459	429	1,326	1,239
Passenger commissions and other selling expenses	476	447	1,289	1,212
Landing fees and other rents	393	378	1,089	1,060
Profit sharing	384	249	823	387
Passenger service	227	214	615	575
Aircraft rent	65	47	172	162
Restructuring and other items	570	106	649	242
Other	515	439	1,302	1,160
Total operating expense	10,343	8,927	27,681	25,998
Operating Income	835	1,563	3,034	2,699
Other (Expense) Income:				
Interest expense, net	(140	) (176	) (460	) (526
Amortization of debt discount, net	(14	) (37	) (53	) (120
Loss on extinguishment of debt	(134	) —	(263) —
Miscellaneous, net	32	13	(46	) (1
Total other expense, net	(256	) (200	) (822	) (647
Income Before Income Taxes	579	1,363	2,212	2,052
Income Tax (Provision) Benefit	(222	) 6	(841	) 9
Net Income	\$357	\$1,369	\$1,371	\$2,061
Basic Earnings Per Share	\$0.43	\$1.61	\$1.63	\$2.42
Diluted Earnings Per Share	\$0.42	\$1.59	\$1.61	\$2.40

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Cash Dividends Declared Per Share	\$0.09	\$0.06	\$0.21	\$0.06
Comprehensive Income	\$394	\$1,376	\$1,401	\$2,314

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

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DELTA AIR LINES, INC.
Condensed Consolidated Statements of Cash Flows
(Unaudited)

(in millions)	Nine Months Ended September 30,	
	2014	2013
Net Cash Provided by Operating Activities	\$4,365	\$3,373
Cash Flows From Investing Activities:		
Property and equipment additions:		
Flight equipment, including advance payments	(1,179)	(1,276)
Ground property and equipment, including technology	(410)	(340)
Purchase of Virgin Atlantic shares	—	(360)
Purchase of short-term investments	(1,642)	(719)
Redemption of short-term investments	748	869
Other, net	58	18
Net cash used in investing activities	(2,425)	(1,808)
Cash Flows From Financing Activities:		
Payments on long-term debt and capital lease obligations	(2,485)	(968)
Repurchase of common stock	(600)	(93)
Cash dividends	(176)	(51)
Proceeds from long-term obligations	980	68
Fuel card obligation	1	90
Other, net	6	(9)
Net cash used in financing activities	(2,274)	(963)
Net (Decrease) Increase in Cash and Cash Equivalents	(334)	602
Cash and cash equivalents at beginning of period	2,844	2,416
Cash and cash equivalents at end of period	\$2,510	\$3,018
Non-Cash Transactions:		
Flight equipment under capital leases	\$28	\$—
SkyMiles used pursuant to advance purchase under American Express Agreements	—	250
Build-to-suit leased facilities	6	103

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

DELTA AIR LINES, INC.

Notes to the Condensed Consolidated Financial Statements
(Unaudited)

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying unaudited Condensed Consolidated Financial Statements include the accounts of Delta Air Lines, Inc. and our wholly-owned subsidiaries. These financial statements have been prepared in accordance with accounting principles generally accepted in the United States ("GAAP") for interim financial information. Consistent with these requirements, this Form 10-Q does not include all the information required by GAAP for complete financial statements. As a result, this Form 10-Q should be read in conjunction with the Consolidated Financial Statements and accompanying Notes in our Form 10-K. Unless otherwise noted, all amounts disclosed are stated before consideration of income taxes.

Management believes the accompanying unaudited Condensed Consolidated Financial Statements reflect all adjustments, including normal recurring items and restructuring and other items, considered necessary for a fair statement of results for the interim periods presented.

Due to seasonal variations in the demand for air travel, the volatility of aircraft fuel prices, changes in global economic conditions and other factors, operating results for the three and nine months ended September 30, 2014 and September 30, 2013 are not necessarily indicative of operating results for the entire year.

Recent Accounting Standards

Revenue from Contracts with Customers

In May 2014, the Financial Accounting Standards Board issued Accounting Standards Update No. 2014-09, "Revenue from Contracts with Customers." While the standard supersedes existing revenue recognition guidance, it closely aligns with current GAAP. Under the new standard, revenue is recognized at the time a good or service is transferred to a customer for the amount of consideration received for that specific good or service. It is effective for annual reporting periods beginning after December 15, 2016, including interim reporting periods, and early adoption is not permitted. Entities may use a full retrospective approach or report the cumulative effect as of the date of adoption. We are currently evaluating the impact, if any, the adoption of this standard will have on our Consolidated Financial Statements.

NOTE 2. OIL REFINERY

Fuel expense is our single largest expense. In recent years, global demand for jet fuel and related products has increased while jet fuel refining capacity has decreased in the United States (particularly in the Northeast), resulting in increases in the refining margin reflected in the prices we paid for jet fuel. In June 2012, we purchased an oil refinery as part of our strategy to mitigate the increasing cost of the refining margin we pay.

Refinery Operations and Strategic Agreements

The refinery's production consists of jet fuel, as well as gasoline, diesel and other refined products ("non-jet fuel products"). We use several counterparties to exchange gas and diesel the refinery produces for jet fuel consumed in our airline operations. The gross fair value of the products exchanged under these agreements during the three and

nine months ended September 30, 2014 was \$1.4 billion and \$3.9 billion, respectively, compared to \$1.5 billion and \$4.2 billion during the three and nine months ended September 30, 2013, respectively. A multi-year product exchange agreement with a significant counterparty, BP Products North America, Inc., was terminated early effective July 1, 2014, and replaced with another counterparty.

Segment Reporting

Segment results are prepared based on our internal accounting methods described below, with reconciliations to consolidated amounts in accordance with GAAP. Our segments are not designed to measure operating income or loss directly related to the products and services included in each segment on a stand-alone basis.

(in millions)	Airline	Refinery	Intersegment Sales/Other	Consolidated
Three Months Ended September 30, 2014				
Operating revenue:	\$ 11,114	\$ 1,836		\$ 11,178
Sales to airline segment			\$(345)) ⁽¹⁾
Exchanged products			(1,393)) ⁽²⁾
Sales of refined products to third parties			(34)) ⁽³⁾
Operating income ⁽⁴⁾	816	19	—	835
Interest expense, net	140	—	—	140
Depreciation and amortization	433	7	—	440
Total assets, end of period	50,648	1,292	—	51,940
Capital expenditures	449	8	—	457
Three Months Ended September 30, 2013				
Operating revenue:	\$ 10,490	\$ 1,892		\$ 10,490
Sales to airline segment			\$(320)) ⁽¹⁾
Exchanged products			(1,504)) ⁽²⁾
Sales of refined products to third parties			(68)) ⁽³⁾
Operating income ⁽⁴⁾	1,560	3	—	1,563
Interest expense, net	176	—	—	176
Depreciation and amortization	413	5	—	418
Total assets, end of period	44,823	1,174	—	45,997
Capital expenditures	618	13	—	631

Represents transfers, valued on a market price basis, from the refinery to the airline segment for use in airline

- (1) operations. We determine market price by reference to the market index for the primary delivery location, which is New York Harbor, for jet fuel from the refinery.
- (2) Represents value of products delivered under our strategic agreements, as discussed above, determined on a market price basis.
- (3) Represents sales of refined products to third parties. These sales were at or near cost; accordingly, the margin on these sales is de minimis.
- (4) Includes the impact of pricing arrangements between the airline segment and refinery segment with respect to the refinery's inventory price risk.

(in millions)	Airline	Refinery	Intersegment Sales/Other	Consolidated
Nine Months Ended September 30, 2014				
Operating revenue:	\$30,651	\$5,317		\$30,715
Sales to airline segment			\$(981)) ⁽¹⁾
Exchanged products			(3,920)) ⁽²⁾
Sales of refined products to third parties			(352)) ⁽³⁾
Operating income (loss) ⁽⁴⁾	3,043	(9)	—	3,034
Interest expense, net	460	—	—	460
Depreciation and amortization	1,315	18	—	1,333
Capital expenditures	1,552	37	—	1,589
Nine Months Ended September 30, 2013				
Operating revenue:	\$28,697	\$5,487		\$28,697
Sales to airline segment			\$(927)) ⁽¹⁾
Exchanged products			(4,172)) ⁽²⁾
Sales of refined products to third parties			(388)) ⁽³⁾
Operating income (loss) ⁽⁴⁾	2,769	(70)	—	2,699
Interest expense, net	526	—	—	526
Depreciation and amortization	1,225	13	—	1,238
Capital expenditures	1,591	25	—	1,616

- Represents transfers, valued on a market price basis, from the refinery to the airline segment for use in airline operations. We determine market price by reference to the market index for the primary delivery location, which is New York Harbor, for jet fuel from the refinery.
- (2) Represents value of products delivered under our strategic agreements, as discussed above, determined on a market price basis.
- (3) Represents sales of refined products to third parties. These sales were at or near cost; accordingly, the margin on these sales is de minimis.
- (4) Includes the impact of pricing arrangements between the airline segment and refinery segment with respect to the refinery's inventory price risk.

NOTE 3. FAIR VALUE MEASUREMENTS

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

(in millions)	September 30, 2014	Level 1	Level 2
Cash equivalents	\$ 1,700	\$1,700	\$—
Short-term investments			
U.S. government and agency securities	619	503	116
Asset- and mortgage-backed securities	368	—	368
Corporate obligations	841	—	841
Other fixed income securities	24	—	24
Restricted cash equivalents and investments	128	128	—
Long-term investments	115		